Hostmore plc

Half Year Results Investor Presentation Webcast on 2 October 2023

Transcript

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Stephen Welker, Chairman: Good morning and welcome to the Hostmore plc 2023 first-half results presentation. My name is Stephen Welker, I'm Chairman of the company and with me today are Julie McEwan, our CEO, and Matt Bibby, our interim CFO. As many of you will be aware, Matt recently was promoted to the position, so I want to be the first to publicly congratulate him on the appointment. So, congrats, Matt.

Matthew Bibby, CFO: Thank you, Stephen.

Stephen Welker, Chairman: Today, we'll take you through the presentation that can be found on the company's website and at the end, we'll open up for questions but before we get into the presentation, I want to highlight that the first half was one of significant change for the company, including changes to many senior leadership positions and a fundamental shift in strategy, all while there's a competitive landscape that's been changing at the same time. During the period, our colleagues at all levels, both at the stores and at corporate, have displayed unwavering determination to improve Hostmore and put it on the right path and we're now beginning to see the benefits of their efforts, so I want to thank everyone at the company for getting through this period together. So, with that, we can turn to the slides and if we start on the disclaimer page, just to take note of all the disclaimer language on this page, for all the statements that we might be making in the presentation and we can go to the next slide. Looking at the agenda, first, what we'll do is I'll have Matt introduce himself, just so everyone can get to know him a bit better. Then he'll take us through the statutory first-half results. Jules and I will take you through the update on the business and I'll wrap up with current trading, then we can take Q&A at the end. So, going to the next slide, Matt, if you'd like to introduce yourself.

Matthew Bibby, CFO: Thanks, Stephen. Yes, just a bit of background on myself, I've been with Hostmore for four years now. I was appointed as Finance Director in April 2022 and I'm delighted that I've been given the opportunity to step in as interim CFO, as of the 8th September this year. Before that, my background is I spent around fourteen years with Whitbread, in different financial roles there and progressed my career there.

Stephen Welker, Chairman: Great, and we're seeing here on this slide, Matt's picked up everything on the internal reporting and also on the results process seamlessly and I'd also like to thank his predecessor, Alan Clark, for helping in that transition, which has been very smooth. So I'll turn it back over to Matt to take us through the first-half results.

Matthew Bibby, CFO: Yes, so I'm just going to go through the financial results for the first half of 2023. So, on a like-for-like basis, our revenue projections were just 2% lower than last year, after we adjust for the VAT in that period of time. This is a really pleasing result in the context of the wider economy and the environment our consumers find themselves in with regards to their own disposable income.

The comparative EBITDA on both an IFRS and an FRS102 basis was lower but this isn't really representative of the expected EBITDA on the go-forward as many of the measures we put into place in the first half of the year were implemented during that period. We've called out on the left-hand side some beneficial impacts that had on the EBITDA. They include pricing, which has helped mitigate somewhat the impact of inflation that we've seen and improve our underlying margins. We've also started the initial stages of our cost-saving initiatives, which we presented last time, and these are starting to bear fruit through the first half and will have a positive impact in the second half and through 2024. On the more negative impacts, we've included that there was the impact of inflation, I guess, principally, utilities in that number, although the decision not to enter into hedging contracts during that period of time has been beneficial for the group. There's been a high level of overhead expenditure previously and we've reduced that through the first half of the year. We've also seen losses from recent openings, principally those from 2022, which we've carried into this year.

And on the comparative period, there was, of course, the lower VAT reduction that I mentioned, landlord concessions and government grants that we got in H1 2022. Our net debt has increased but that has increased in line with the expectations and at £31.3 million, it's lower than the previous guidance that we issued before. Next slide, please. For clarity, this slide's presented in an IFRS fashion. We tend to manage the business on an FRS102 basis but this is presented on the IFRS 16 basis. We continue to have positive cash flow from operating activities and the group is in a cash-generative position overall. Our improved working capital reflects the tight controls and our cash management through this period. Our previously announced capital allocation policy means our capital expenditure was limited to £2.1 million of routine maintenance and website development and £1.1 million to settle our new store openings from the prior year. Importantly, we've continued to meet our obligations under our banking facility and the repayment of our principal loan. Stephen will take you through a pro forma EBITDA and free cash flow later on, which looks forward and projects that forward. Next slide.

And then I've touched on our net debt position already but the reduction of this going forwards is a strategic focus for the group. In terms of our banking facilities, we completed an extension in April of this year through to 1st January 2025 and reset the covenants to align more with our group projections. Our revolving credit facility has been used as and when required to manage cash flow and this comprised £16.5 million drawn at the reporting date but this has reduced since the reporting date. Finally, we have commenced a refinancing process with new and existing lenders and we are going through that process now, with the aim to complete in Q1 2024. And I'll hand you back to Stephen.

Stephen Welker, Chairman: So if we go to page ten. Just as a reminder, the first half was a transitional period for the company and as I touched on at the beginning, many senior leadership roles have changed, so, for instance, the three of us weren't in our positions at the beginning of the year. We also had numerous cost reductions to better align our costs with our current revenue and address prior legacy higher expenses. And I think, importantly, we also implemented a new capital allocation policy, which is the filter through which we drive the entire business. So, what this slide is, is this is the identical slide that we presented to you in May at our full year results presentation and what's interesting is that it remains true today on all of these aspects of our policy. So what I'm going to do is use this as a guide for this update on the business to see how we're performing against these objectives. Then, the next slide, since we don't have any new store openings at the moment, I'm going to focus on existing stores. So, since that's the estate we have, we have to make sure that we get the most out of them that we can. I think, when we look at the estate, the estate broadly falls into three buckets. You have our very high-performing stores that have very good EBITDA, you have our, sort of, midrange stores that are okay and then you have the loss-making stores at the bottom. And just to give context, the twenty bottom loss-making stores, which is, principally, all of them, lost about £4 million of EBITDA in the twelve months to the end of June.

So we want all of our stores to be better and we look at all of our stores to try to incrementally improve them but the loss-makers are clearly where the most focus has to be had, just to get them in the right shape. So, looking at what we did and continue to do, sort of, the first place to look, most obviously, is looking at doing a CVA or a restructuring plan. So we've had advisors to look at that for us and when we looked at what the potential benefits might be from undertaking one versus the costs that it would take to implement it, the cost-benefit ratio did not make sense for the company, so, at the moment, we've decided not to pursue that process. The only thing I would say is that that remains an open thing in the future, if circumstances permit, but at the moment, it doesn't make sense for us. One thing that we do on a continual basis is look at renegotiating leases with our landlords. The only thing I would say about that is that's a very long process and I would say it, sort of, has scattered results but I think it's something that can benefit us incrementally, at certain stores, depending on the situation at the store. Probably the most important thing that we've done and continue to do is look at who's running the stores. So one of the things that we've done over the last six or nine months is evaluate the General Managers at our stores and we've taken an approach of both upgrading General Managers of various stores but also having some of our best-in-class General Managers provide further oversight to up-and-coming General Managers.

And, as Jules has highlighted in the past, we have a programme called Aspire that really is intended to cultivate a training programme for General Managers for everybody to be the best they can be. That's had some very good benefits for us. The other thing that we've done is looked at targeted price increases and what this means is, historically, TGI Fridays has had broad-brush bands of pricing at various stores and I think we've had probably three pricing bands across the whole of the country. What we're doing now is a bit more nuanced pricing, saying, 'Well, should this store really be at the same price as this store? Even if they may look similar on paper, there may be differences in the demographics or the trends at the store.' So we're trying to make the pricing match the store rather than just having a broad-brush approach. Along with the General Manager improvements, one of the things that we've tried to make sure is that our expense forecasting is appropriate for the store. So, in broad terms, every week, a General Manager will look at the week coming up, they'll have a target for revenue and all of our General Managers are very excited about getting the best revenue they can for the week but when they're planning out their forecasted labour, what had happened historically is they would forecast labour based on their targeted revenue rather than, perhaps, what's more realistic revenue. So what would happen is you'd get halfway through the week, you realise that your labour is too high and then it's impossible to pull back from that.

What we're doing now is we're having a greater focus on saying, 'Well, what is a realistic revenue that you're going to have for the week? Let's put your labour based on that.' And then if revenue comes in better than that, it's much easier to add labour than it is to subtract labour. So that's had a very positive impact on the performance of our stores, particularly the bottom stores. And then, finally, rather than doing a full-fledged CVA or restructuring plan to make disposals, what we're looking at is targeted disposals. So some of those are natural disposals at the end of lease. So, for instance, you've probably read about our closure of Manchester Piccadilly and others but, also opportunistic closures, where people have come to us and either we've marketed the store for closure or other potential people to lease the stores have asked to lease the store from us. So that would be, for instance, our Edinburgh 63rd+1st location. I would say that we're still in talks with several other locations that we have for opportunistic disposals as well as end-of-lease disposals but since they're not completed yet, we won't be talking about them yet but they're more in process. I think the important thing is that, as a result of all of these actions, the bottom twenty loss-makers have gone from losing about £4 million in the last 12 months to losing less than £1.5 million and closer to £1 million on a run rate basis currently. So that's

very good progress for us and adds a lot to our bottom line without, really, any incremental costs and we're continuing to look at these going forward. Many of them are actually profitable now.

If you go to the next page, looking at the cost reductions, in May, you'll recall that we announced a £5.9 million cost reduction and at the time, we'd said that all of the cost reductions announced had been completed, which was true. We'd also said that we were looking at more cost reductions and then, as and when those are completed, we would let you know. So this is just an update to say that we've added another couple million of cost reductions to get us to just over £8 million on an annualised basis. What the chart in the middle shows is a comparison so that everyone can see where these increased cost reductions have come from and what you'll see is that, predominantly, they've come in the cost of sales line. I think the important part here, the, sort of, easy thing for people in the casual dining space, is to do, what I think is called in the industry, shrinkage, where you have four chicken wings on a plate and you cut it down to three but you don't change the price and that improves your margins. I just want to be clear, that's not what this is. We've not done any of that. What this cost-saving represents is renegotiation of contracts, substitute products that are of equivalent quality but maybe with a different vendor. And so these are what I call natural cost reductions rather than playing around with the customer experience. As we discussed in May, the cost to complete these actions was about £600,000 and that was principally severance which was all paid in the first half. And now with this updated £8 million of annualised expense savings, we're expecting to realise about £4 million in the second half, and we did talk about it at the time, but previously, we had expected to have about two and a half million in the second half before. So it's quite a big improvement for the second half compared to where we were before. We still are looking for further cost opportunities, what I would say though, just to manage expectations, it's probably in the low single-digit millions rather than anything greater. So I wouldn't expect a lot more than where we are today, but we're still looking. And so I'll turn it over to Jules to take us through some of the customer-focused things.

Julie McEwan, CEO: Thank you, Stephen. I just thought I'd put some colour around the numbers. We continue the focus on the guest experience and it does remain a key priority with our teams who have been fantastic in leading this total guest experience transformation. The data over the past twelve months has clearly demonstrated that with the cost of living crisis and outgoings for our guests, eating out has become more of an occasion, and when they do spend they want value for money, as well as a memorable experience. Our repositioning of our proposition and being famous for celebrations is now our team's mantra. And over the eighteen-month period, the importance of feedback placed by our teams shines through with the continuous improvement of our guest sentiment scores. Special note goes to the Tripadvisor scores, averaging a resilient 4.5 out of five. So, how have we done it? We've specifically focused on three key areas of the guest journey. And that's what the guests have said are important to them. The first one was speed of service. So we've re-engineered our menu and, as Stephen has rightly pointed out, without sacrificing plate coverage. And that's to ensure that at peak our teams can deliver the menu at pace. And in turn, we're starting to see more cover turns out of that as well.

Our food quality is really important to our guests, and we've got a proactive supply chain to ensure the quality isn't compromised, and we continually train our back-of-house team on the execution of all dishes. And all restaurants are currently going through a programme, it's called Kitchen Masters and that supports the food quality and the speed of service through our restaurants, and then the guest and team interaction. As Stephen said, we do that through deploying teams brilliantly. We ensure that we've got the right team in the right place doing the right things at the right time. And also, we have a daily pre-shift brief and those targets are clearly set. So, if there is a memorable occasion about to happen on that day, the team are all geared up to delight every guest. And we put the guest at the heart of every single visit. So, as you can see on the slide, in turn, the focus has also led to our value scores

increasing, and they've increased from 3.95 to 4.22 in half one 2023. It's demonstrated that all the activity that we're doing and the focus on every guest having a great time is really meaningful to them.

So, if we go to the next slide, we spoke about this at the end of 2022 and Raising the Bar, H1, as we said, is our transitional period. It saw us go back to our heritage and implementing our Raising the Bar strategy, and it is one of our key organic growth initiatives. This is part of our grand repositioning in becoming the original American cocktail bar and restaurant, and that's famous for everyday celebrations. The data clearly shows that where we focus mainly on food-led experience, this had a negative impact not only on our drinks per cover metrics but also by the guests and their perception. Our bars became functional and we didn't hero or position the expertise of our Tom Cruise flairing bartenders that gave those amazing experiences. So our competitors had the advantage and we continued to miss out on the repeat drinking trade, and further new footfall. Also, we couldn't grab and we didn't actually attract a demographic. This is now not the case, I'm pleased to say. Our Raising the Bar engagement and education strategy was not only for our teams but also for guests. It's now having a positive effect, encouraging guests to stay longer, spend more and thus it delivers high profit margins for us as well; and also, it becomes less labour-intensive.

Our two-for-one cocktail pricing is now across the whole estate, barring Scotland, and revenue of cocktails has increased. And we've seen a net-positive impact on H1 with margins of plus half a million. We've also seen an increase in cocktails sold from an average of 35,000 a week in H1 to an average of 46,000 and I think that we peaked at 61,000 and that was during school holidays, wasn't it? So drink sales are back to 1.32. This will carry on versus 1.14 in 2022, and we've got further initiatives to also increase the drinks per cover as we go through to the remainder of the year. We're now heavily focused on further incremental opportunities whilst protecting our core family trade, which is really important to us. And this enables us to appeal to a broader mix of guests. So we've now got master classes that are alive and kicking in the business and they are bespoke, and they are placed during trough trading periods. Bottomless Brunch, that has cemented over the last twelve months and I'm pleased to say it's drove three-quarters of a million pounds worth of incremental revenue, and we just see that going from strength to strength as the volume increases. And we're now using the segmentation of TGI Friday's to a whole different level. And we're looking at private parties, we're looking at more corporate occasions for a different guest base, and we've also started to do group sales as well. We don't just want to be famous for celebrations. We want to be known as the home of celebrations.

So, if we go on to the next slide, please. So in terms of the CRM and loyalty, we're continuing to build our rewards strategy. It's pivotal to aid further growth and also guest retention. We're growing our engagement with 600,000 members now actively engaged on our app. 13% of our sales are coming from app transactions, versus 10% in the last period. And the uplift has been targeted through promotions but also our fabulous teams. The proactive team engagement selling up the benefits. We've increased email opt-in from 1.5 million to 1.8 million and the app push notifications from 300,000 to 475,000. And the reason why we're so focused on our rewards programme is that we have a loyal base that is very, very valuable to us, who know TGI Friday's, who trust us and, basically, we're pushing at an open door with these guests. We want to retain and grow the value of these guests by giving them a discount to come outside of when they would normally visit and also peak trading. Our reward app members are three times more valuable to us than a non-member, and with the top 15% spending six times more than a non-reward guest. So, basically, £79 versus £474. Year-to-date sales performance with the reward app is strong, and we've captured 24% more sales via the reward app versus 2022. 21% visits from reward members versus 2022. And 75% more sign-ups. The growth of our reward member programme means we're building an engaged group of loyal guests, ensuring we're able to contact them via email and push notifications to continue to engage and grow their value with our brand. So, I'm going to pass over to Stephen.

Stephen Welker, Chairman: So, if we go to the next slide, that's great. I think what this slide is, as everyone knows, our strategic focus is to generate cash flow to pay down our borrowings and so there's a lot that's gone on in the first half given that it was transitional, and so we thought it would be helpful to show what the underlying cash flow was in the first half and what the pro forma cash flow might be based on the actions that we've taken. So, if you go through the left-hand chart, I'll just run you through it. The reported change in cash for the period was a positive £700,000. In that number was a net borrowing of £4 million and we also paid £2 million of interest and fees. So, prior to any financing changes, our cash flow was a negative £1.4 million in the first half. Against that in the first half, we had about £1 million of legacy capital expenditures from our new store openings from 2022, as well as about £600,000 of losses from the trading of those stores. So, if you add those two items back, our non-new store opening cash flows about break even for the period. In that number, however, and given that there was a lot going on in the first half and, as Matt said earlier, we renegotiated part of our bank debt process and had redundancy expenses, the total of those things were about a million and a half in the period. So, if you look at it, our implied underlying free cash flow on a recurring basis was about £1.5 million in the first half. Just to be clear, that's after £2 million maintenance CapEx in the period. So our implied underlying operating cash flow is about £3.5 million.

So, what does that mean? If you go to the right-hand side of the page, the three lines there I think are important benchmarks that, in the first half, we reported minus £3.8 million of EBITDA but, as we said on the left just a second ago, the underlying free cash flow related to that was about a positive million and a half. And just to be clear, that's after our maintenance capital expenditures. The last line there is pro forma free cash flow and I think it's worth probably taking a second to explain what that means. So what pro forma free cash flow is, is just simply adding up some numbers. It's taking the £1.6 million of underlying free cash flow from the first half. In the first half, we did not experience the benefit of £2.5 million over the cost reductions that we implemented, just because of the timing of when they went in. So we're adding those in as further benefit if they had been in there the full period. In addition, as has been widely reported, utilities were at a very high level in the first half, and they've come back to a much more manageable level. If you adjust for the excess utility expenses, I'll call it, in the first half, that's about £1.3 million, so we'll add that back. Against that, as has also been widely reported, the national minimum wage had a pretty dramatic uplift in April of this year, so we did not have the full impact of that for the first half, so we've subtracted another £400,000 to represent what would have happened if it had been in place for the full period. Where that leads to is pro forma free cash flow of about £5 million, which I think is a pretty dramatic difference compared to the one and a half million that we had actually in the first half. And then that allows us, if that continues, to continue with our desire to pay down our debt, and then ultimately, to make shareholder distributions.

If we go to the next page, I'll take you through trading. So where we are today, that was the first half, where we are today is through the first eighteen weeks of the second half, which was through a week ago, 24th September, our like-for-like revenues were about positive 2% versus the same period in 2022. I think there's been a bit of a curve during the period, that what we saw was, July was actually a very good month, August was sort of an okay month, and then the first couple of weeks of September were a bit softer. What's interesting is this immediate past week that ended yesterday, was quite a bit better. One of the things that we're trying to investigate is our impression is that customers have pulled back a little bit at the moment because they're saving up for Christmas. And the reason we say that is when we look at our Christmas bookings, they're running at a much higher level now than they were this time a year ago. Actually, multiples of where they were a year ago. So, we think people are saving up for Christmas, but our sales, this past week recovered to be an okay result. Also, for trading with EBITDA for the third quarter, which is just ended yesterday, we're estimating that the EBITDA will come in at about £1.5 million positive. The reason that this is important is that each of the three months of the third

quarter have a positive result. That compares with the first half of the year, which none of the first six months of the year had a profit. So, I think that shows how the turnaround is impacting our results, which we're very pleased to see. As a general matter, what we've seen is that inflationary pressures have been stabilising, and we have the benefit of having many of our purchased inputs under long-term contracts or being hedged, and just, sort of, as an anecdote, on the inflationary side, we've actually been signing some new contracts for purchase inputs at lower prices than we've had in the past year or so. So, it's not just lower inflation but it's actually nominally lower prices as well. Not every contract, but there have been some anecdotes with that. With net debt today, it's around the 30th June level which, given the timings of the seasonality of the profitability of the third quarter and other working capital items, that's broadly where you would expect it to be, this time of year, and then, we have the fourth quarter, which we'd expect to be much more cash generative, to pay down debt towards the end of the year.

As we continue to pay down our borrowings, it's still our intention to pay down all of our borrowings and get to zero. I mean, at some point along the way, we'd like to start initiating shareholder distributions, which we can talk about more at the appropriate time. So, if you go to the next page, just to wrap things up, as we said, several times, the first half was a transitional period, and there were lots of changes, with senior leadership, with the cost base, we realigned the internal structure to have a greater focus and have cross-functional communication, which wasn't there previously, and I think, importantly, we have a revised capital allocation policy that is the lens through which we look at the business every single day. Inflation does appear to be stabilising, it is much more manageable, and then, with the new capital allocation policy, it's driven a renewed focus on operating the business in a commercial manner. So, I think that's had a dramatic impact on the outlook of Hostmore, by just taking a really hard look at what our revenue opportunities are, what the opportunities are to be more efficient on the cost line. I think the team has done a great job at addressing the loss-making stores, without having to take drastic action, just simply good management, and then, what all this has led to, this cash generation that we can use to reduce our borrowings. So, I think, in total, this improved financial position is allowing us to continue on the path to repaying our borrowings and looking at shareholder distributions. So, I think we're in a fairly decent spot, and so, with that, I think it's now time to open up to questions.

Moderator: we've got a question from William Partridge at Perdix Capital. William, do you want to unmute yourself? Go ahead.

William Partridge: Morning, guys. Just a quick one, can I ask a question about utility hedging? So, can you remind me how you're hedging utilities …?

Matthew Bibby, CFO: Yes, absolutely. Yes, I got the bulk of that question. Yes, so we hedged utilities at the end of last year for the first quarter of this year, which gave us quite a lot of benefit. We've stayed out of the market for a period of time, but we've actually hedged to the end of the financial year 75% of our gas and 75% of our electricity, which is in line with where our policy is aiming to get to.

William Partridge: What about into next year? You're a December year end, so there is a probability that winter, i.e. January, February, March, gas prices spike a lot, yes?

Matthew Bibby, CFO: Yes. So, currently, we don't have anything hedged into next year, but we are in the final stages of just agreeing a contract and agreeing that hedging, for at least the first quarter of next year.

William Partridge: Thank you.

Moderator: We've got a question from Tim Barrett at Numis. Tim?

Stephen Welker, Chairman: Hi, Tim.

Tim Barrett: Hi, morning, all of you. Thanks for the presentation. I had a couple of questions, please. Just on the operational side, you're obviously back into like-for-like sales growth in the second-half. I wondered how much of that reflected price increases and where the volumes were trending, at the moment? Then, on the cash flow side which, obviously, you've been very, very thorough on helping us, could you talk about the working capital impact in the first half, where you expect that to be for the full year, and longer-term, what kind of onerous lease outflows we should be modelling? Thank you very much.

Matthew Bibby, CFO: Yes, so, look, it's been quite well-publicised, the volumes have been quite difficult and our guests have less disposable income from interest rates, from consumer confidence, those sorts of things. So, volume's been more difficult to get to, and we've talked about, kind of, pricing and the targeted pricing that we've done, and equally, menu pricing we've done. It's lagged behind inflation for much of the year, but it's started to catch up now, as inflation's started to stabilise. So, that's become a bit more of a stable level. In terms of the cash flow, so the working capital management, in comparison to last year, we had a lot of unsettled bills from the end of 2021, which were principally around our listing costs and those sorts of things, when we first went to market, but in the first half of this year, we've managed our cash really closely. We're not expecting that to unwind in the second-half of the year, and I think we've given a bit of guidance on where we're expecting our free cash flow to be and why we've got confidence in that. In terms of our onerous leases and you'll probably see from our loss-after-tax that we haven't taken a lot of impairments or write-downs or any of those sorts of things in our profit numbers for the first half of the year, because we took a lot of that in previous periods, but equally, because we've run those assessments and we feel comfortable in the projections of each individual cash-generating unit. So, in terms of the onerous leases, we're not expecting any large further changes.

Stephen Welker, Chairman: The only thing I would add, Tim, on the cover, so I think that's a very good question, we've done some analysis internally on that, and what it looks to us is that, clearly, there was a down-turn, a year, fifteen months ago, in covers, and that impacted our second-half last year. What seems to have been the case is, since about the 1st July last year, so fifteen months ago, covers have broadly stabilised, at that new lower level. So, it's not a precipitous decline, it's broadly bobbing around, sort of, the same level that it's been for the last year, fifteen months.

Tim Barrett: Okay, thanks. So, I mean, it sounds like, other things being equal, you'd hope to maintain positive like-for-likes in the second-half, having done a good job in Q3?

Stephen Welker, Chairman: That's certainly our target.

Matthew Bibby, CFO: Yes, correct.

Tim Barrett: Understood. Okay, thanks very much.

Moderator: We've got some typed in questions here. Firstly, from Simon B. '40% of your cost reduction this year and nearly 50% of your annualised number is cost of sales. What revenue assumption did you use to calculate these savings and what gross margin do you expect going forward?'

Matthew Bibby, CFO: So, the savings have been calculated on our, kind of, projected volumes, which are, well, pretty much in line with what we just talked about. So, we're delivering the cost savings in line with where we've projected them to be so far to date. So, we believe that that will continue in terms of absolute volume and absolute numbers, on the go-forward. That obviously increases our margins and our underlying margins quite a bit, as does the pricing, which is helpful.

Moderator: Great, thank you, and how many of the loss-making restaurants can you close without breaching your contract with the US franchisor, i.e. what's the minimum number of restaurants you're required to maintain?

Stephen Welker, Chairman: I forget the number. Is it …,

Julie McEwan, CEO: It's 83.

Stephen Welker, Chairman: Is it? So, it's 83 that we have to maintain. I think what I would say in, sort of, a general matter, is that our franchisor's been very, very accommodating and helpful, for which we're appreciative. I think what we're also doing is being sensitive to that. We don't want to take advantage of how much they've been willing to help. So, we also are trying to do some estate management, I'll call it, doing trade-offs of, 'Well, if we can get, you know, a landlord to give a better lease term on a loss-making store, rather than closing it, that might be better for the bigger picture, even if it's not the absolute most profitable decision.' So, I think there's a bit of a trade-off but, yes, we're well within what we can do with the franchisor agreement.

Moderator: Great, thank you very much, and going back to utilities, if utilities are expected to be about £4 million higher than last year, does that mean that the net reduction in costs this year is £1.8 million?

Matthew Bibby, CFO: So, the bulk of the utilities inflation we've seen already and we saw through Q1. So, a lot of that £4 million expectation, we've already seen, it's already built into the numbers, but broadly, yes.

Moderator: Great, thank you, and the next question from Robert Corden, 'What's your definition of free cash flow? Is it prior to maintenance CapEx, and is working capital projected to be flat?'

Stephen Welker, Chairman: Sure. I think, I forget what slide it is, but the free cash flow slide, I think, sets that out, that free cash flow is after the expensing of capital expenditures, which I think is an important part. Free cash flow would include all changes, by definition, to working capital. As Matt said, we're not expecting drastic changes to working capital in the second half.

Moderator: Thank you, and what's your target for repayment of borrowings?

Stephen Welker, Chairman: Well, I think, as a matter of numbers, our target is zero. I think the timing is, you know, less certain, but if the free cash flow comes through as expected, I'll, sort of, let each individual person come up with their own projection of when that happens but, hopefully, there's a pretty clear path to doing that.

Moderator: Great, thank you, and Mark Photiades from Canaccord has asked, 'Can you confirm whether the £1.5 million estimated EBITDA in quarter three is on a pre- or post- IFRS 16 basis?'

Matthew Bibby, CFO: That's on a pre-IFRS 16 basis.

Stephen Welker, Chairman: In other words, FRS is the other way of saying that.

Matthew Bibby, CFO: Correct.

Stephen Welker, Chairman: It's the way we operate the business, which is after lease expense, so we're not fiddling with the numbers.

Moderator: Great, thank you very much, and another question from William Partridge. William, do you want to unmute yourself?

William Partridge: Thank you very much. So, can I ask two questions here? So, on the loss-making stores, is the reduction in losses, sort of, pro-forma against the loss-makers, or do you still have any one particularly bad store that you're still struggling with? I know, historically, Leicester Square's been a bit of a millstone.

Stephen Welker, Chairman: Well, I would say more generally, William, that we're making good progress on all of our loss-makers. So, I don't think there's one particular store that stands out, at the moment, as being, you know, a more extreme problem than the others.

William Partridge: Right, and then, second question, can I ask a question about 2026, which, as I understand it, the master franchisee, at that point, you're going to have to start opening up more stores again, or is that not a given? You might be able to postpone it again or-,

Stephen Welker, Chairman: Well, I think what we've actually said is that we deferred our 2023 and 2024 openings. So, at the moment, we're contractually obligated to start opening new stores in 2025. What I would say is, you know, there's always a conversation to be had, but also, back to my earlier point, there are some trade-offs, when we're looking at the estate management as a whole, that we might be able to satisfy some of that at what I call lower cost, than otherwise might be the case. So, it's not a given that it'll be a full-rate store opening in that year.

William Partridge: Your assumptions around deleveraging assume, what? They must assume new stores are opened in 2025, yes?

Stephen Welker, Chairman: Well, right, but we still have another, you know, eighteen months of cash generation before that starts happening.

Matthew Bibby, CFO: Yes.

William Partridge: Thank you.

Moderator: That's the end of questions. Stephen, do you have any closing remarks?

Stephen Welker, Chairman: Well, I just want to thank everyone for joining today, and hopefully, we can have a good Christmas period, as we always look forward to, and we'll be back to see you again next April or May, with our annual results. So, thank you, everyone, for joining.