RNS Number : 6438Z
Whitbread PLC
22 September 2020

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FY21 H1 post close and operational review update

Trading:

- H1 total sales were significantly down year-on-year reflecting the closure of the vast majority of our hotels and restaurants for a large part of the period
- When able, hotels and restaurants reopened quickly and safely, with the majority of the estate in the UK open by the start of August, and 98% of hotels open by the end of H1
- Since reopening, UK accommodation sales performance has been ahead of the market, benefitting from the fast reopening, the strength of the Premier Inn brand and our leading customer proposition. We have seen strong demand in tourist locations, while market demand remained subdued in metropolitan areas and London
- Across our entire UK estate, occupancy levels steadily improved on a weekly basis, averaging 51% in August, while UK Restaurant performance was boosted by the positive impact of the Eat Out To Help Out scheme. August UK total sales (accommodation and food and beverage) improved to 38.5% down year-on-year

Near-term outlook & actions:

- A rapid and robust operational response at the start of the crisis helped protect our teams, guests and the continuity of the business, and ensured the safe reopening of our hotels and restaurants with strong social distancing and hygiene standards
- Our financial response included significant reductions in discretionary spend and capital expenditure, suspension of the dividend, voluntary pay cuts for the Board and management team, and use of UK and German government support packages
- The completion of a £1bn rights issue enhanced both our financial flexibility and our ability to successfully execute our strategy in the UK and Germany
- We continue to focus on taking measured and appropriate action, at the right time, to protect the business. With market demand expected to remain at lower levels in the short to medium-term, we have now taken the very difficult decision to announce our intention to enter into consultation on proposals that could result in up to 6,000 redundancies for our hotel and restaurant colleagues (representing 18% of our total workforce). We expect a significant proportion of these redundancies to be achieved voluntarily. Our priority now is to ensure that the process is fair and that impacted colleagues are supported throughout
- This is a regrettable but necessary step to ensure that we emerge from the crisis with a lower cost base, a more flexible operating model and a stronger more resilient business

Medium-term opportunity:

- The strength of the Premier Inn brand and winning operating model is evidenced by our ability to quickly reopen our business and perform ahead of the market
- We are well-placed to continue this outperformance against the budget branded and independent competitor sets, as both become increasingly constrained
- The business retains a strong balance sheet and is well-placed to take advantage of enhanced structural opportunities in the medium to long-term

H1 Financial performance:

	UK like-for-like sales change		**UK total sales change**		**UK & International total sales change**	
	Q2[1]	H1[2]	Q2[1]	H1[2]	Q2[1]	H1[2]
Accommodation	(77.1)%	(78.2)%	(76.6)%	(77.7)%	(75.5)%	(77.1)%
Food & beverage	(72.8)%	(76.6)%	(72.6)%	(76.3)%	(72.4)%	(76.1)%
Total	**(75.6)%**	**(77.6)%**	**(75.2)%**	**(77.2)%**	**(74.5)%**	**(76.8)%**

1: Q2 = 13-week period ended 27 August 2020 | 2: H1 = 26-week period ended 27 August 2020

The Group's financial performance in the first half of the year reflects the closure of the UK business from the end of March until the reopening of hotels and restaurants commenced at the start of July, and the closure of our hotels in Germany from the end of March until the middle of May.

In the UK, the vast majority of hotels and restaurants were reopened by the first week of August, and a total of 801 hotels, representing 98% of total UK capacity were open by the end of August. In Germany, all six operational hotels were closed at the end of March, and reopened during May, alongside 13 of the acquired Foremost hotels that were fully refurbished and rebranded during the lockdown period, to bring a total of 19 hotels now open.

Since reopening, total UK accommodation sales growth was ahead of the market, benefitting from the fast reopening, the strength of the Premier Inn brand and our leading customer proposition. Demand was strong in seaside & tourist locations, with occupancy levels of almost 80% during August in those locations. However, demand remained subdued across the rest of the hotel market, particularly in London and metropolitan areas. Across our entire UK estate, overall occupancy levels steadily improved on a weekly basis, averaging 51% in August with year-on-year accommodation sales recovering to -47.3%, while UK Restaurant performance was boosted by the positive impact of the Eat Out to Help Out scheme. Total UK sales (accommodation and food and beverage) improved to -38.5% in August.

Performance trends in Germany mirrored the UK, with strong demand and occupancy levels in tourist locations, while locations with a greater business skew remained at low occupancy levels. In August, total sales were over 300% ahead, boosted by the acquired Foremost hotels, while occupancy recovered to 54%. We continue to actively assess opportunities to accelerate our pipeline growth in Germany.

Update on operational review and cost efficiency programme

Throughout the COVID-19 crisis, management has taken quick and decisive action to protect the business and to position it for long-term success.

This included the rapid closure of our businesses in March, the immediate postponement and cancellation of all non-critical spend and accessing Government schemes to secure the liquidity of the business, followed by the £1bn rights issue that will help successfully position the business in the medium-term. We are also close to completing a process that will result in a reduction of our head office headcount by approximately 15%-20%.

In line with previous announcements, we expect demand to remain subdued in the short to medium-term and the UK Government's furlough scheme to come to an end in October. We have taken the very difficult decision to announce our intention to enter into consultation with our UK hotel and restaurant colleagues on proposals that could result in up to 6,000 redundancies, of which it is hoped that a significant proportion can be achieved voluntarily, along with reductions in contracted hours for a proportion of our colleagues. These changes create a more flexible labour model that can adapt with changes in the demand environment going forward. Our priority is to ensure that the process is fair and that impacted colleagues are supported throughout.

The impact of these changes is already reflected in the external guidance given at our full year results announcement on 21st May, where every one percentage point of total revenue decline, net of cost savings, resulted in a c.£18m adverse impact on profit. One-off costs to achieve are expected to be approximately £12-£15m.

Current trading and outlook:

Trading in the first two weeks of September saw year-on-year total accommodation sales remain ahead of the market. Bookings in tourist destinations remain strong, and business bookings are growing, albeit from a low base. September and October are traditionally a period when business bookings pick-up after the quiet summer period, however at this point it is too early to assess the impact of COVID-19 on this traditionally busy booking period.

We also note recent UK Government announcements regarding increased local and regional lockdowns and we will continue to closely monitor the situation.

Whitbread will provide a further update at its interim results announcement on the 27 October 2020.

Comment from Alison Brittain, CEO:

"Our teams have worked very hard to reopen our hotels and restaurants and we are now firmly in the "restore" phase of our response to the COVID-19 crisis. Our performance following the reopenings has been ahead of the market, however, it has been clear from the beginning of this crisis that even as restrictions are eased and hospitality businesses such as ours reopen their doors, that demand would be materially lower than FY20 levels for a period of time. Given this backdrop, we have already taken extensive action to protect the business, retain financial flexibility and position it for long-term success. We continue to work hard to ensure that we emerge from the crisis with a more flexible operating model and a stronger, more resilient business.

With demand for travel remaining subdued, we are now having to make some very difficult decisions, and it is with great regret that today we are announcing our intention to enter into a consultation process that could result in up to 6,000 redundancies in the UK, of which it is hoped that a significant proportion can be achieved voluntarily. In line with our longstanding values of treating our people fairly, our priority is now to ensure that this process is clear and transparent for all colleagues and that everyone impacted is supported throughout.

We will continue to focus on the safety of our guests and teams and the continuity of our business. Maintaining our financial flexibility alongside our leading operating model and powerful brand will allow Whitbread to pursue enhanced long-term structural growth opportunities both in the UK and Germany. This will leave us in a position of strength to continue to invest, increase market share, support our colleagues, guests and suppliers and create value for shareholders."

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