

# Preliminary Results 2017



**Ralph Findlay,**  
Chief Executive Officer

**Andrew Andrea,**  
Chief Financial and  
Corporate Development  
Officer





**Ralph Findlay**  
Chief Executive Officer

# HIGHLIGHTS

## 1. Continued progress in 2017

- Turnover up 10% to c.£1bn
- PBT growth of 3%, EPS up 2%
- Dividend up 3% to 7.5p per share
- Proforma leverage down and fixed charge cover maintained

## 2. Transformed estate in growth

- Like-for-like sales growth in all businesses
- Profit per pub +2%
- 19 pubs and bars and 8 lodges opened

## 3. Brewing in growth

- Continued beer volume growth
- Market share gains in on and off trade

## 4. Acquisitions in second half year

- Charles Wells Beer Business (“CWBB”)
- 9 Destination and Premium Pubs and Bars



# TRANSFORMED BUSINESS, CLEAR GROWTH PLANS

Clear consistent strategy	Track record of growth and returns	Strong asset base and finance structure	Clear growth plans
<p><b>Transformed estate</b> Profit per pub +c.70%*</p>	<p><b>4 year LFL &gt; market</b> Margin discipline Beer market share up Record of innovation</p>	<p><b>94% freehold</b> 56% LTV NAV 147p</p>	<p><b>2018</b> Proforma CWBB 2017 pub acquisitions 19 new-builds Cost savings £5m</p>
<p><b>Leading beer business</b> Profit up c.60%*</p>	<p><b>Creating value</b> CROCCE up &gt;100bps* Cash dividend +34%* c.£300m returned*</p>	<p><b>Secure financing</b> Long-term structure Bank facility to 2022 FCC 2.6x vs 2.3x*</p>	<p><b>Beyond 2018</b> New-build pipeline Beer Co opportunities</p>

\*since 2010

# MARKET DYNAMICS

## Consumer outlook

- Leisure spend anticipated to grow
- Inflationary pressures starting to squeeze “big ticket” items
- Quality, service and environment are key drivers
  - value for money
  - not about lowest price



## Sector supply

- Slowdown in rates of opening
- Freehold opportunities outside hotspots
- Increased opportunity alongside residential development



## Economic, Political

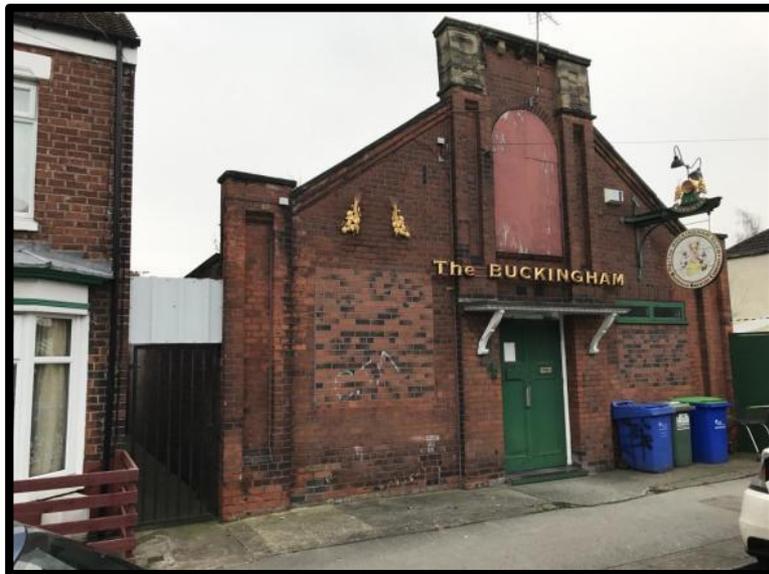
- Tax-related cost increases likely
  - employment/energy > inflation
  - business rates
- Limited impact from interest rate rise
- No material Brexit impact anticipated
- Growing importance of health agenda



**Targeting continued growth**

# TRANSFORMED PUB ESTATE OVER LAST DECADE

OUT WITH THE OLD



IN WITH THE NEW

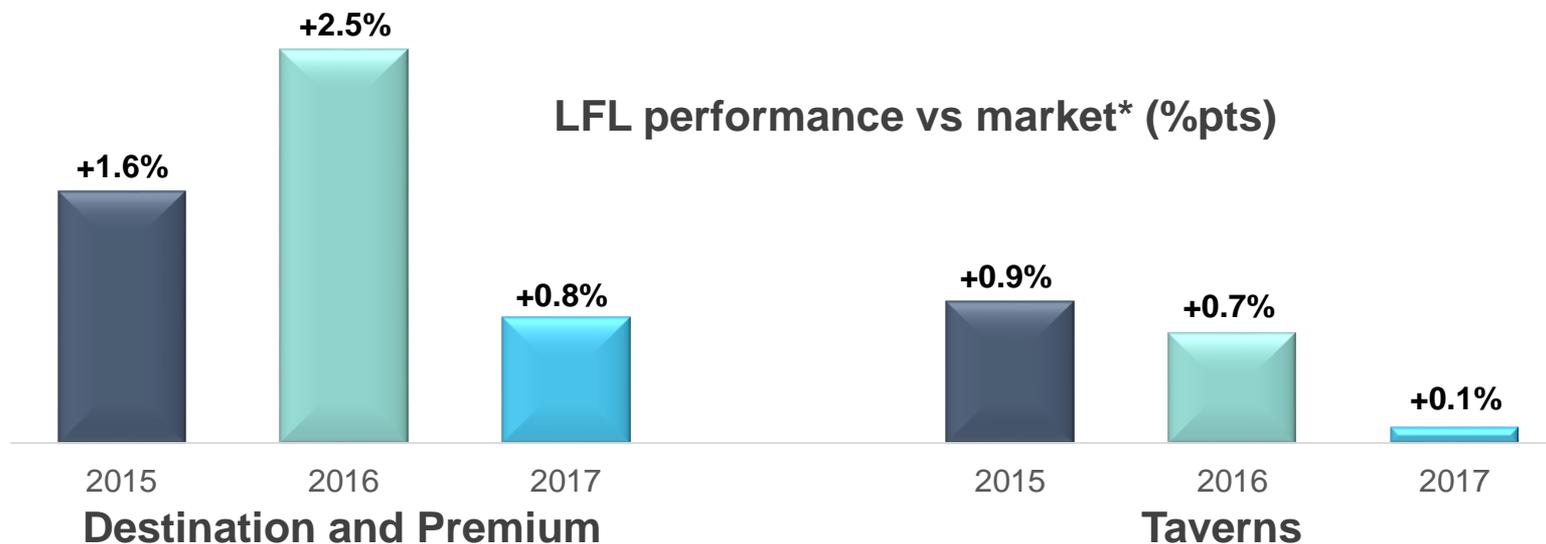


Profit per pub up c.70% over the estate

High quality pub estate; 60% of Destination estate < 10 years old

# PUB ESTATE OPERATING ACROSS ALL MARKETS

2017	Operating profit £m	No. of pubs	Average no. of pubs	Average profit per pub vs LY%
Destination and premium	88.9	397	381	+1
Taverns	57.0	806	816	+2
Leased	27.1	365	365	+2
<b>Total</b>	<b>173.0</b>	<b>1,568</b>	<b>1,562</b>	<b>+2</b>



*\*Peach Tracker outside London*

**Higher quality estate continues to outperform market**

# EVOLVING THE OFFER: KEY THEMES

## 1. 'Raising the bar' on service

- 'Firebrand' to reignite value formats (241)

## 2. Staying contemporary

- Format development – Pizza Kitchen, Rotisserie, Smokehouse
- Refresh the traditional – Carvery
- Exciting drinks range – 'Craft', 'World beers', non-alcoholic

## 3. Intelligent use of technology

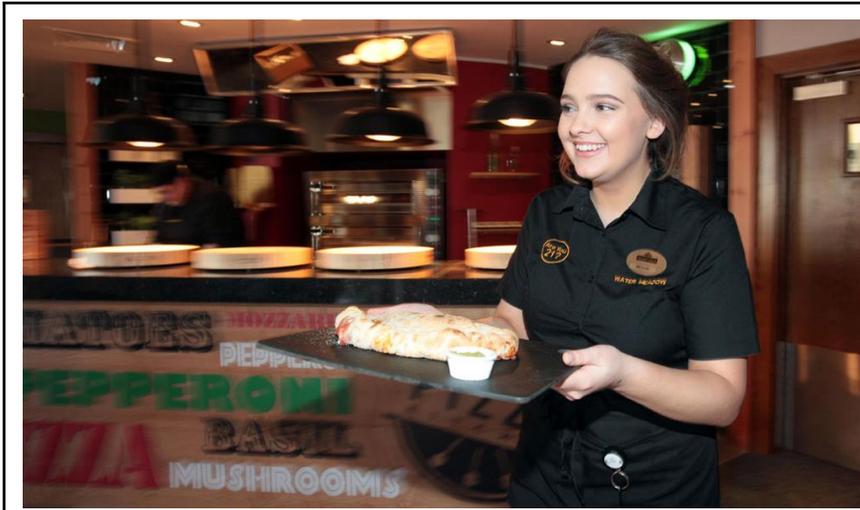
- EPOS investment 2017/18
  - Speed of service, customer data
  - Margin control
- Superfast broadband – Marston's Telecoms

## 4. Stretching the portfolio

- 'Accent' at the top-end of Destination
- Exploit accommodation opportunity



# EVOLVING THE DESTINATION OFFER



Continuous development to maintain market advantage

# ACCOMMODATION

## 2017: strong performance

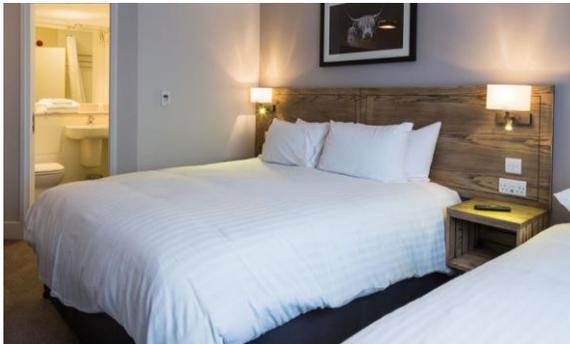
- c.1,250 rooms
- LFL sales up 4.5%
- RevPAR up 4.4% to £38
- Occupancy up 0.8% to 74%

## New lodges enhance metrics

- 8 lodges opened in 2017
- RevPAR up 10% to £47
- Occupancy up 4% to 83%
- 2 year maturity profile

## Future: 5-10 lodges p.a.

- New-build sites
- Existing pub opportunities
- Jan 2018: Ebbsfleet - 100+ rooms
- Integrated pub-lodge building under design



**Strong rooms performance supports expansion strategy**

# PREMIUM EXPANSION



Continued growth of premium estate, 3 new sites planned for 2018

# 2018 PLANS – CONTINUED GROWTH, GOOD PIPELINE

## 1. Appropriate investment plans for market conditions

- New openings remain key driver of earnings growth

## 2. Current 2018 plan:

- 15 pub-restaurants and bars
- 6 lodges

## 3. Strong pipeline for future growth

- Pub-restaurants, lodges, premium
- Opportunities exist in areas with limited competition
- ROIC hurdle rates remain 13-15%



Appropriate capital spend; no compromise to returns

# STREAMLINED OPERATIONAL STRUCTURE



Structure focused on consumer occasion with cross-segmental learning

# MARSTON'S BEER CO - UK NO. 1 PREMIUM ALE BREWER

Pre CWBB	CWBB	Today
40 brands delivered to 9,000 pubs	17 brands delivered to 1,500 pubs	57 brands delivered to 10,500 pubs
11% of ale market	London, SE England, Scotland	15% of ale market
17% of premium packaged ale market	Increase market share in PBA, PCA, premium can and Export	21% of premium packaged ale market
19% of premium cask ale market		24% of premium cask ale market

**A clear strategy demonstrating continued growth and market leadership**

# MARSTON'S BEER CO - DEVELOPING LICENSED BRANDS



Licensed partnerships strengthen craft ale and lager portfolios

# MARSTON'S BEER CO – BEST IN CLASS INDUSTRY SERVICE

Pre CWBB	CWBB	Today
<b>Packaging</b>		
38% of UK PBA	Canning line capacity	42% of UK PBA
<b>Distribution</b>		
On-trade, off-trade Major contract wins in 2017	South East and London geographies	Further opportunity building on 2017 success
<b>Brewing</b>		
Efficient low cost production Existing large contracts 850k brls capacity 85% utilised	Scale lager brewing 550k brls capacity 53% utilised	1.4m brls capacity 73% utilised Further opportunity in contracting market
<b>Customer Service</b>		
Award winning team, relentless focus driving results		

**Profit opportunities from supply chain expertise**

# PROVEN ACQUISITION CAPABILITY

## Proven acquisition capability



### Ringwood – 2007, £20m

- Fortyniner, Boondoggle  
Old Thumper, Razorback
- Shipyard



### Refresh – 2008, £14m

- Hobgoblin, Brakspear
- Off-trade expertise



### Thwaites' beer business – 2015, £26m

- Wainwright, Lancaster  
Bomber, Warsteiner,  
Kaltenberg
- NW free trade presence

## CWBB

### £55m initial consideration

- Well invested freehold site: bv £20m
- Bombardier, Courage, Directors, McEwan's
- Licensed brands
- Export capability
- Contract service opportunity

### On-track to achieve £4m synergies

- Supply chain and head office
- Procurement

### Future 'top-line' opportunities targeted

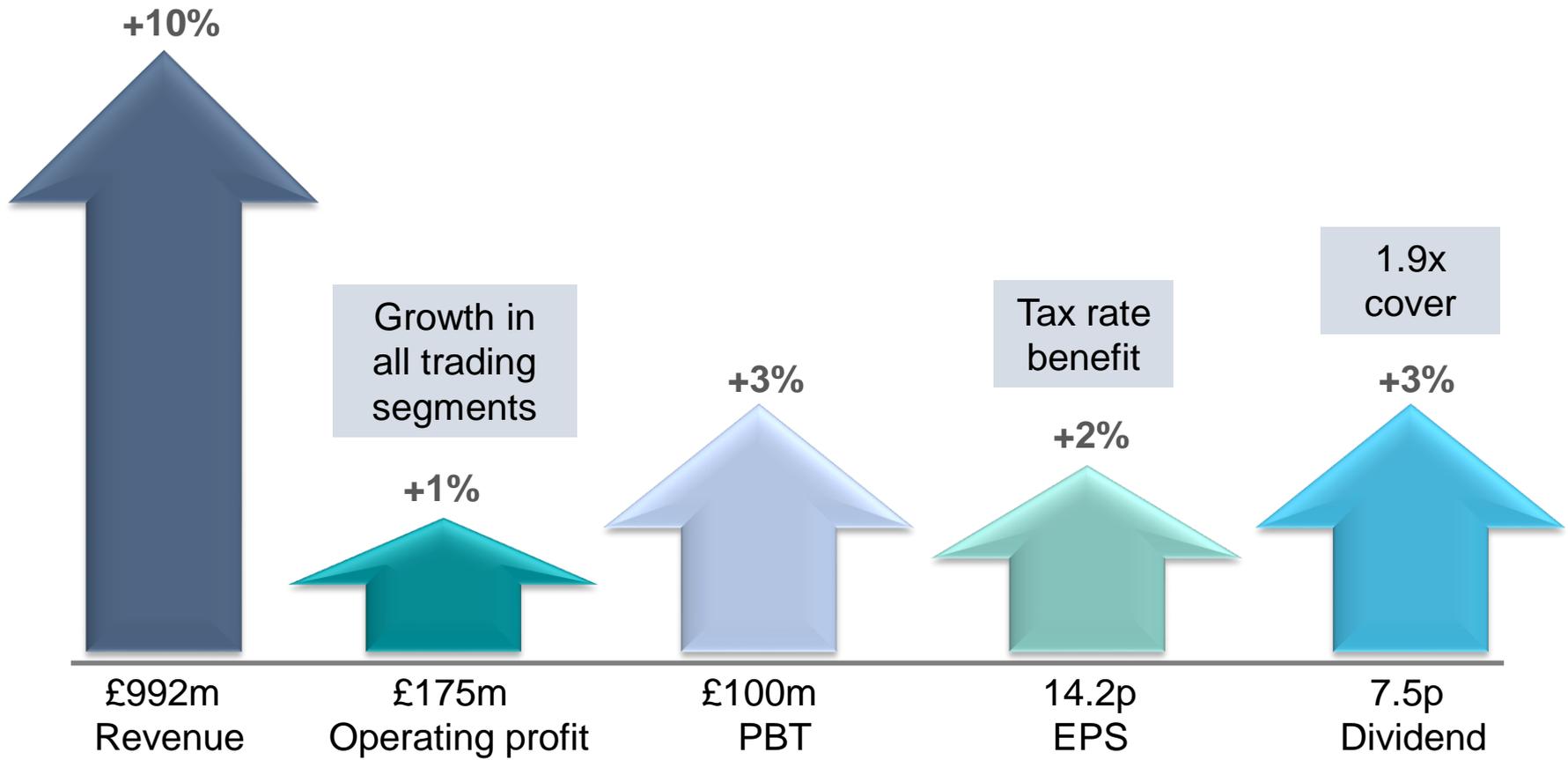
- Attractive geography
- Licensed brands

**Proven acquisition capability provides platform to consider further opportunities**



**Andrew Andrea**  
Chief Financial and Corporate  
Development Officer

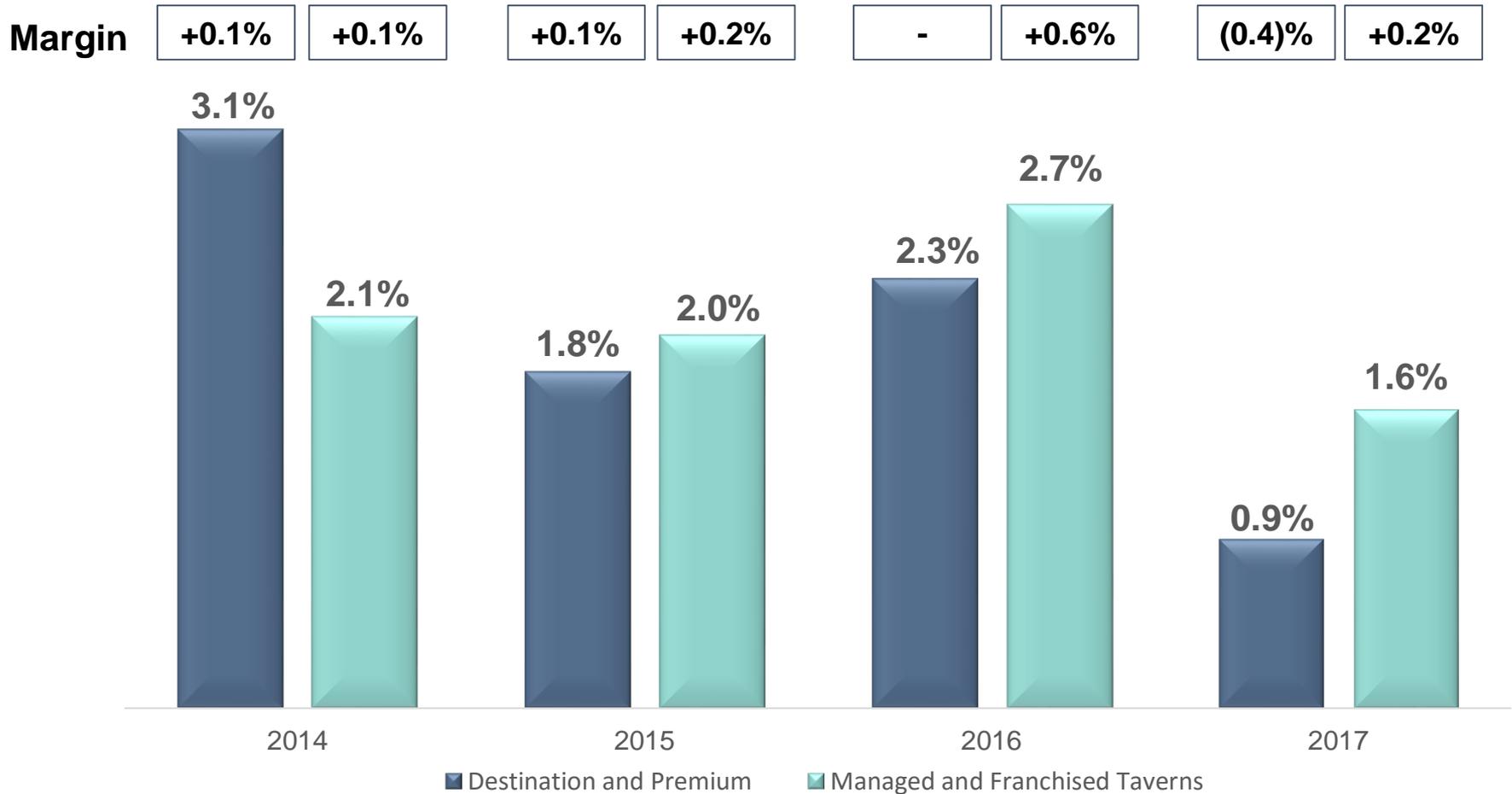
# FINANCIAL SUMMARY



*Underlying numbers, statutory numbers in appendices*

**Continued progress in revenue and earnings supports dividend growth**

# MANAGED AND FRANCHISE LIKE-FOR-LIKE PERFORMANCE



**2018: Encouraging start with LFL sales growth in both businesses**

**Long-term LFL sales growth, disciplined approach to margins**

# LEASED



Quality estate delivering growth

- Profit per pub growth +2%
- 2% rental growth
- Higher margin from higher rental mix

Income stability

- Licensee stability >90%
- Bad debt <0.1% of turnover
- Moderate capital investment
- Agreement flexibility

## FY 2018 COST GUIDANCE

Drink	c.2%	<ul style="list-style-type: none"> <li>c.85% fixed for 2018</li> <li>c.80% contracted to 2020</li> </ul>
Food	c.2%	<ul style="list-style-type: none"> <li>c.70% fixed for 2018</li> <li>c.50% contracted to 2020</li> </ul>
Brewing raw materials	c.2%	<ul style="list-style-type: none"> <li>Fixed for 2018</li> </ul>
Energy inflation	c.3%	<ul style="list-style-type: none"> <li>c.85% commodity contracted to 2019/20</li> <li>Granted water licence</li> </ul>
Labour cost inflation		
- National Minimum Wage	c.4%	
- National Living Wage		
Apprenticeship levy, NEST	+£1.0m	
Rates	c.4%	
Rent	+£1.5m	

**No material change to operating cost outlook for 2018**

## CASH FLOW SUMMARY

	2017 £m	2016 £m	
<b>Operating cash flow</b>	214	183	• Creditors: CWBB
Net interest	(78)	(72)	• £3m facility arrangement fees
<b>Pre-investment FCF</b>	<b>136</b>	<b>111</b>	
Organic capex	(85)	(79)	
Disposals	62	48	
Dividend	(44)	(41)	
<b>FCF pre new-build and acquisitions</b>	<b>69</b>	<b>39</b>	
New-build and acquisitions	(111)	(65)	<ul style="list-style-type: none"> <li>• Includes Whitbread and Pointing Dog</li> <li>• Timing of new-build spend</li> </ul>
CWBB	(91)	-	• Working capital. £15m recovered since year end
Equity issuance	76		
<b>Net underlying cashflow</b>	<b>(57)</b>	<b>(26)</b>	

**Strong operating cash flow, £30m timing benefit in 2018**

## CAPEX GUIDANCE

	2018 £m	2017 £m	
Organic capex	c.80	85	Includes CWBB and investment for new distribution contracts
New sites	c.70-75	111	
Disposals	(c.45-50)	(62)	
<b>Net capex</b>	<b>100-110</b>	<b>134</b>	

**£25-35m reduction in 2018 capex spend**

# FINANCING STRUCTURE

	Securitised	Bank and cash	Total (excl. property)	Property leasing	Total	Fixed charge cover**
	Visible, smooth amortising debt to 2035*	£320m bank facility to 2022		Property leases 35-40 year term		
Net Debt (£m) 2017	806	222	1,028	301	1,329	
Net Debt: EBITDA 2017	6.9x	2.3x	4.8x		6.2x	2.6x
2016	7.1x	2.0x	4.8x		6.0x	2.6x
<b>Proforma***</b>	<b>6.9x</b>	<b>2.1x</b>	<b>4.7x</b>		<b>6.0x</b>	<b>2.6x</b>

**45% of EBITDA outside of securitisation**

\* Amortisation schedule in appendices

\*\* Fixed charge cover: EBITDAR/(interest plus rent)

\*\*\*Proforma Charles Wells post synergy EBITDA and Whitbread pubs

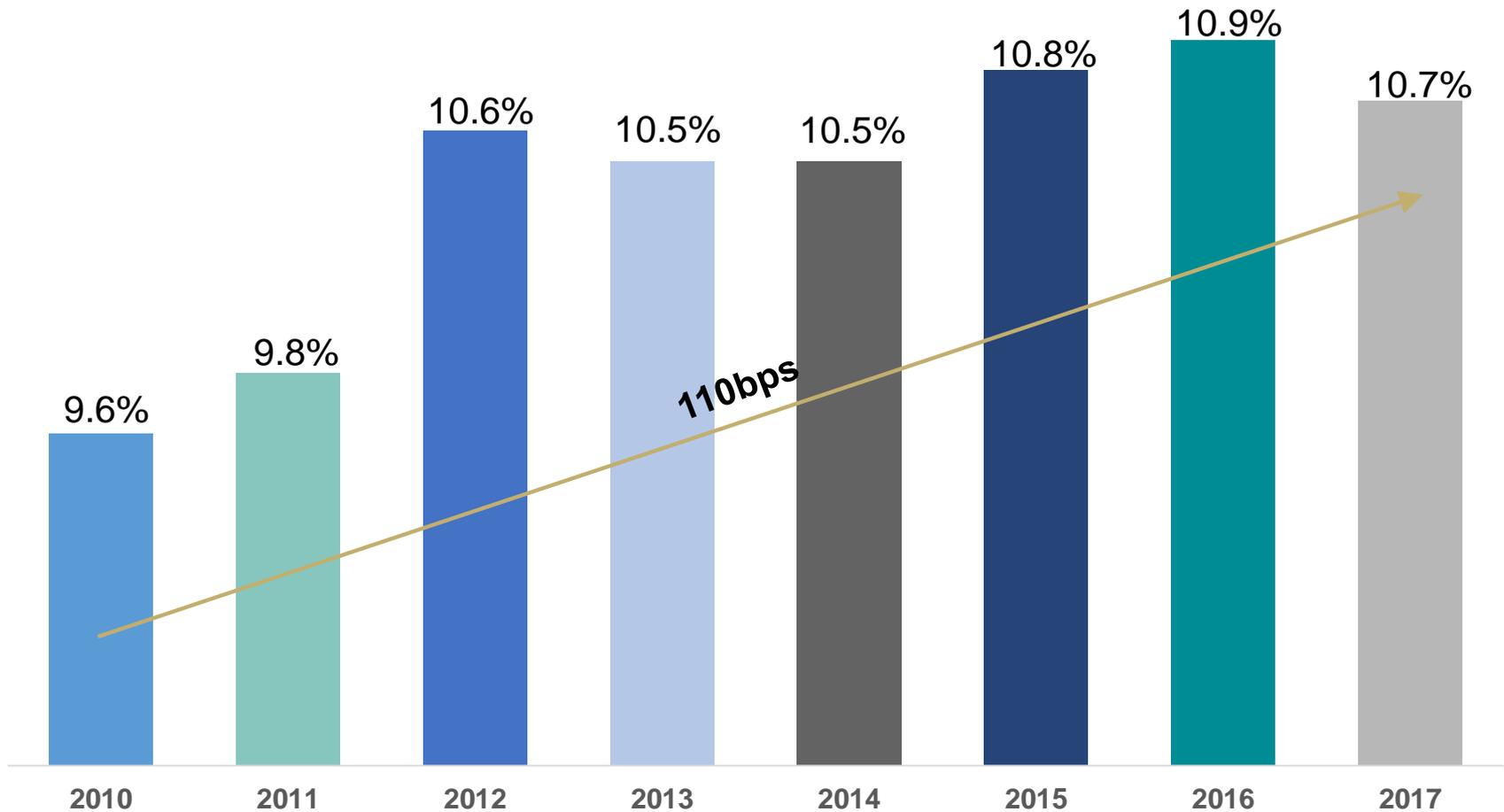
**Long-dated debt structure, leverage maintained and fixed charge cover strong**

## EVOLUTION OF FINANCE STRUCTURE

	2012 £m	2017 £m		Illustrative 2017 (all new-build leasehold) £m
Securitised	959	806		806
Bank	162	222		222
<b>Debt excluding property leasing</b>	<b>1,121</b>	<b>1,028</b>		<b>1,028</b>
Property leasing	-	301		-
<b>Total Debt</b>	<b>1,121</b>	<b>1,329</b>		<b>1,028</b>
<b>Leverage excluding property leasing</b>	<b>5.6x</b>	<b>4.7x</b>		<b>4.7x</b>
Leverage including property leasing	5.6x	6.0x		4.7x
EBITDA outside securitisation	c.35%	c.45%		c.45%
Freehold mix	96%	94%		87%

**Debt increase driven by preference for freehold tenure**

# RETURN ON CAPITAL



*CROCCE calculations included in Appendices*

**Continue to deliver strong returns, 2017 impacted by timing of capex**

# SUMMARY

## 1. Solid 2017 performance

- Revenue earnings and dividend growth
- Expansion through acquisition and new pub development

## 2. Clear plans for 2018

- Encouraging start to year following challenging summer
- Annualised benefit of acquisitions
- 15 new pubs and bars, six lodges

## 3. Long-term shareholder value creation

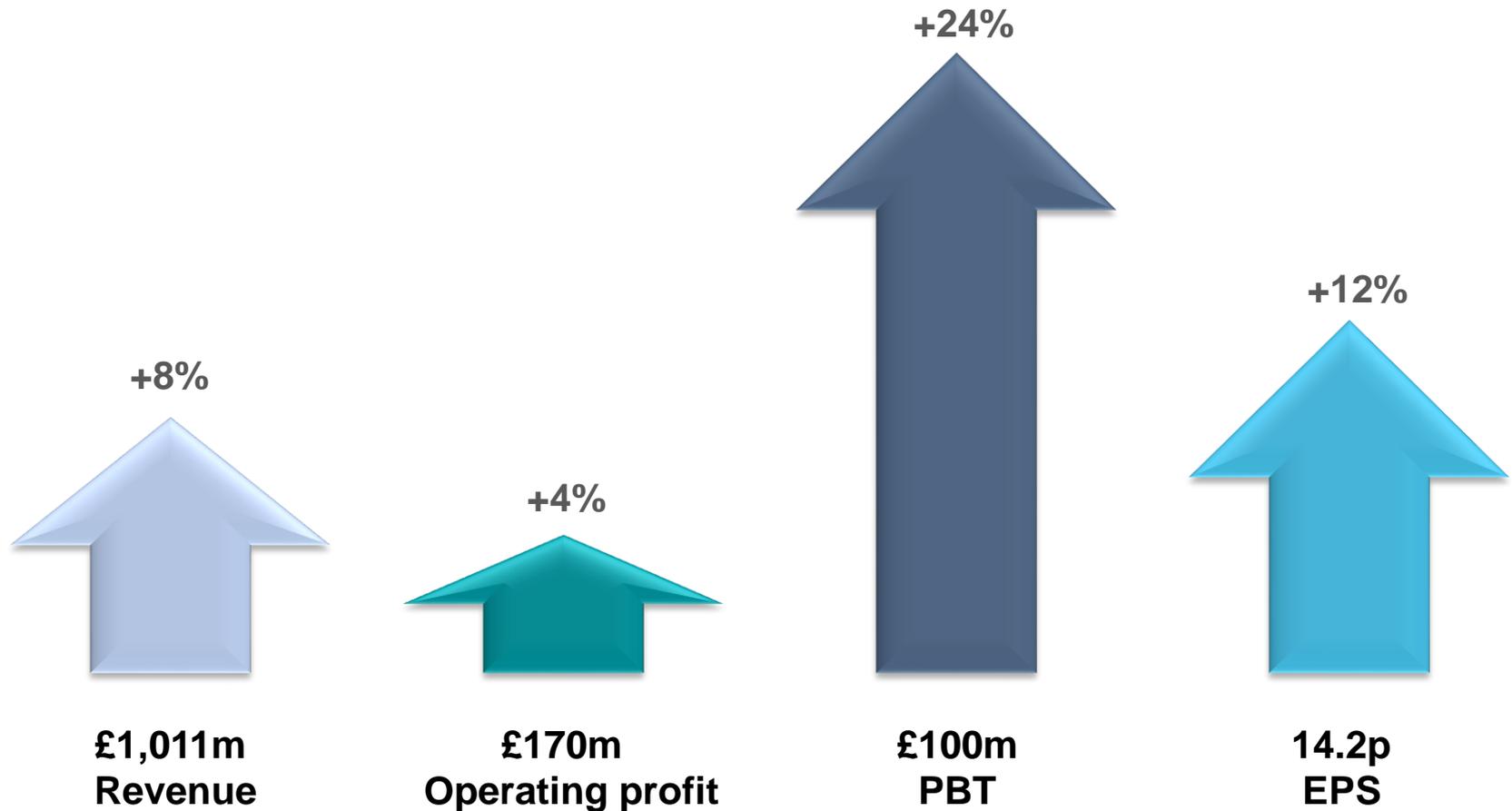
- Clear and consistent strategy
- Long-term track record of growth and attractive returns
- Strong asset base and finance structure
- Clear growth plans



# Appendices

## FINANCIAL SUMMARY – STATUTORY BASIS

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Revenue and profit growth despite disposals

# SEGMENTAL PROFIT

	2017 £m	2016 £m	YOY %
<b>Turnover</b>			
Destination & Premium	438.0	419.0	4.5%
Taverns	246.7	238.5	3.4%
Leased	54.6	55.0	(0.7)%
Beer Division	252.9	193.3	30.8%
<b>Total</b>	<b>992.2</b>	<b>905.8</b>	<b>9.5%</b>
<b>EBITDA</b>			
Destination & Premium	104.5	102.0	2.5%
Taverns	65.1	65.0	0.2%
Leased	28.6	28.6	-
Beer Division	36.0	33.4	7.8%
Group Services	(20.5)	(16.3)	(25.8)%
<b>Total</b>	<b>213.7</b>	<b>212.7</b>	<b>0.5%</b>
<b>EBIT</b>			
Destination & Premium	88.9	86.9	2.3%
Taverns	57.0	56.6	0.7%
Leased	27.1	26.9	0.7%
Beer Division	25.5	23.2	9.9%
Group Services	(24.0)	(20.9)	(14.8)%
<b>Total</b>	<b>174.5</b>	<b>172.7</b>	<b>1.0%</b>
<b>Margin %</b>			
Destination & Premium	20.3%	20.7%	(0.4)%
Taverns	23.1%	23.7%	(0.6)%
Leased	49.6%	48.9%	0.7%
Beer Division	10.1%	12.0%	(1.9)%
<b>Total</b>	<b>17.6%</b>	<b>19.1%</b>	<b>(1.5)%</b>
<b>Finance Costs</b>	<b>(74.4)</b>	<b>(75.4)</b>	<b>1.3%</b>
<b>Profit Before Tax</b>	<b>100.1</b>	<b>97.3</b>	<b>2.9%</b>

## PUB SEGMENT CHANGES

	Pub movements	H1 2016 Original £m	FY 2016 Original £m	H1 2016 Change	FY 2016 Change	H1 2016 Revised	FY 2016 Revised £m
<b>Turnover</b>							
Destination & Premium	(39)	204.8	440.8	(10.9)	(21.8)	193.9	419.0
Taverns	4	107.1	221.0	8.8	17.5	115.9	238.5
Leased	35	24.2	50.7	2.1	4.3	26.3	55.0
Beer Division		92.6	193.3			92.6	193.3
Group Services							
<b>Total</b>	<b>-</b>	<b>428.7</b>	<b>905.8</b>	<b>-</b>	<b>-</b>	<b>428.7</b>	<b>905.8</b>
<b>EBITDA</b>							
Destination & Premium		42.9	106.3	(1.8)	(4.3)	41.1	102.0
Taverns		28.0	63.5	0.6	1.5	28.6	65.0
Leased		13.5	25.8	1.2	2.8	14.7	28.6
Beer Division		15.1	33.4			15.1	33.4
Group Services		(8.9)	(16.3)			(8.9)	(16.3)
<b>Total</b>		<b>90.6</b>	<b>212.7</b>	<b>-</b>	<b>-</b>	<b>90.6</b>	<b>212.7</b>
<b>EBIT</b>							
Destination & Premium		34.8	90.2	(1.3)	(3.3)	33.5	86.9
Taverns		24.2	56.0	0.1	0.6	24.3	56.6
Leased		12.7	24.2	1.2	2.7	13.9	26.9
Beer Division		10.0	23.2			10.0	23.2
Group Services		(11.2)	(20.9)			(11.2)	(20.9)
<b>Total</b>		<b>70.5</b>	<b>172.7</b>	<b>-</b>	<b>-</b>	<b>70.5</b>	<b>172.7</b>
<b>Margin</b>							
Destination & Premium		17.0%	20.5%			17.3%	20.7%
Taverns		22.6%	25.3%			21.0%	23.7%
Leased		52.5%	47.7%			52.9%	48.9%
Beer Division		10.8%	12.0%			10.8%	12.0%
<b>Total</b>		<b>16.4%</b>	<b>19.1%</b>			<b>16.4%</b>	<b>19.1%</b>

## PUB NUMBERS

	Destination and Premium	Taverns	Leased	Total
2016 Closing	416	812	331	1,559
New-build additions/Acquisitions	4	22	-	26
Transfers	(39)	4	35	-
Disposals	(4)	(15)	(1)	(20)
H1 2017 Closing	377	823	365	1,565
New-build additions/Acquisitions	24	-	-	24
Transfers	(2)	2	-	-
Disposals	(2)	(19)	-	(21)
2017 Closing	397	806	365	1,568
2016 average numbers (restated)	376	829	370	1,575
2017 average numbers	381	816	365	1,562

# HISTORICAL LFL

	Destination and Premium	Taverns
	Total	Total
52 wks to 04/10/14	3.1%	2.1%
16 wks to 24/01/15	2.0%	2.0%
10 wks to 04/04/15	0.6%	0.5%
26 wks to 04/04/15	1.5%	1.4%
15 wks to 18/07/15	2.0%	2.3%
41 wks to 18/07/15	1.7%	1.7%
11 wks to 03/10/15	2.2%	3.1%
52 wks to 03/10/15	1.8%	2.0%
16 wks to 23/01/16	3.0%	2.7%
10 wks to 02/04/16	3.0%	3.5%
26 wks to 02/04/16	3.0%	3.0%
16 wks to 23/07/16	1.8%	2.5%
42 wks to 23/07/16	2.5%	2.8%
10 wks to 01/10/16	1.8%	2.0%
52 wks to 01/10/16	2.3%	2.7%
16 wks to 21/01/17	1.5%	1.5%
26 wks to 01/04/17	1.1%	1.1%
30 wks to 29/04/17	1.6%	1.7%
12 wks to 22/07/17	0.6%	2.1%
42 wks to 22/07/17	1.3%	1.9%
10 wks to 30/09/17	(0.8%)	0.3%
52 wks to 30/09/17	0.9%	1.6%

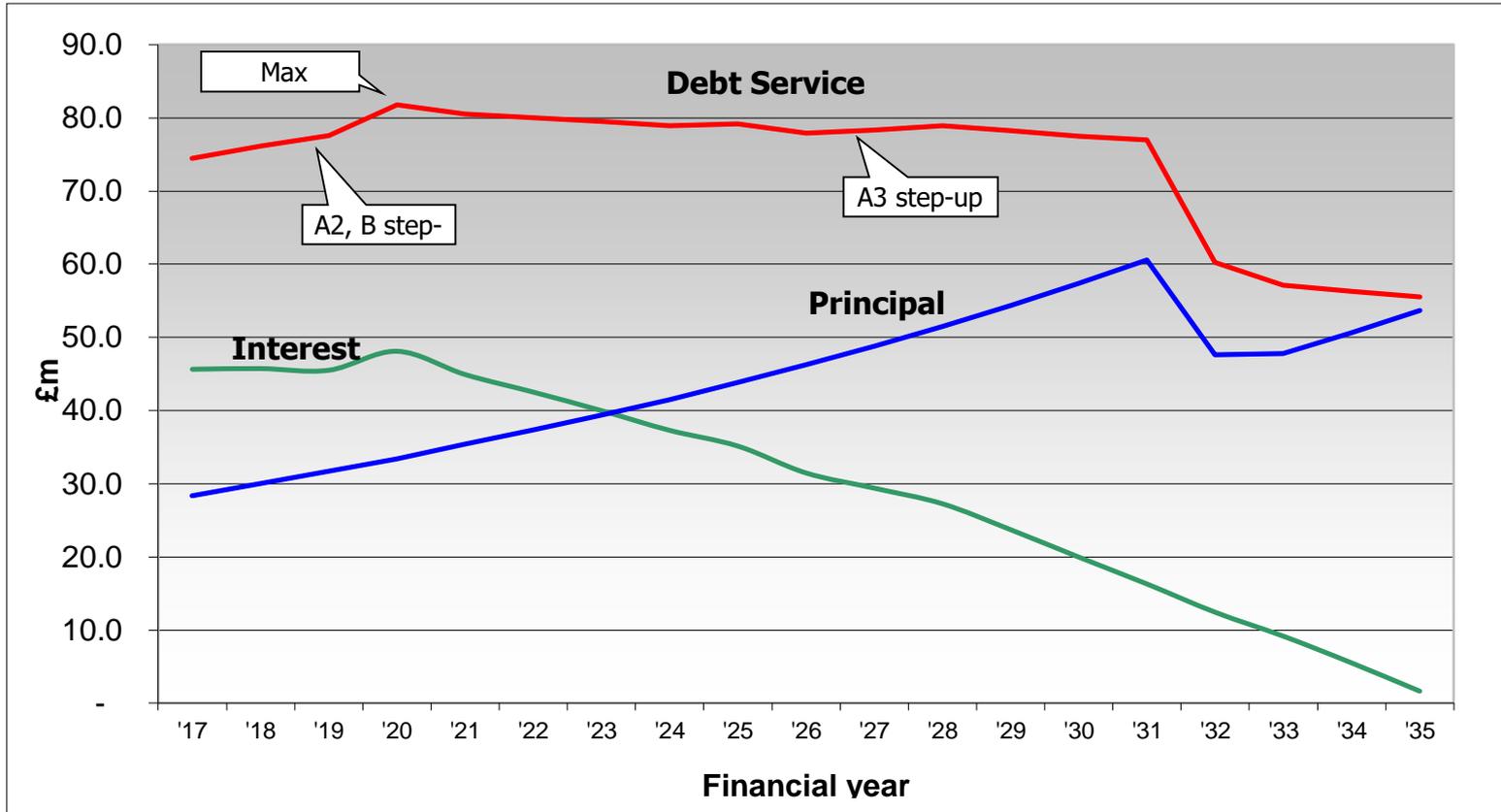
## CAPEX, TAX AND SHARE CAPITAL

		Actual 2017	Forecast 2018
New-build capex			c.£70-75m
Organic capex			c.£80m
Total			c.£150-155m
Disposals			£45-50m
Net capex			£100-110m
Tax rate		15.6%	17-18%
Average number of shares in 2017		596.9m	
Shares in issue at 30 September 2017		633.7m	
Additional dilutive number of shares		4.8m	

## SECURITISED DEBT PROFILE

Tranche	Type	Principal outstanding at 30 September 2017	Step-up date	Final maturity date
A1	Floating	£60.3m	July 2012	2020
A2	Fixed/Floating	£214.0m	July 2019	2027
A3	Fixed/Floating	£200.0m	April 2027	2032
A4	Floating	£181.8m	October 2012	2031
B	Fixed/Floating	£155.0m	July 2019	2035
<b>Total</b>		<b>£811.1m</b>		

# SECURITISATION PROFILE



		FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035
Principal	£m	28.4	30.0	31.7	33.4	35.4	37.3	39.4	41.5	43.9	46.3	48.8	51.5	54.4	57.4	60.5	47.6	47.8	50.6	53.6
Interest	£m	45.6	45.7	45.5	48.1	44.9	42.5	40.0	37.3	35.1	31.5	29.4	27.3	23.7	20.0	16.3	12.4	9.2	5.5	1.7
Debt Service	£m	74.5	76.2	77.6	81.7	80.5	80.0	79.5	78.9	79.1	77.9	78.4	78.9	78.2	77.5	77.0	60.2	57.1	56.3	55.5

# CROCCE

CROCCE	FY2017**				FY2016				FY2015				FY2014	FY2013*	FY2012
	Bal	Depn	Reval	Adj	Bal	Depn	Reval	Adj	Bal	Depn	Reval	Adj	Adj	Adj	Adj
<b>NON-CURRENT ASSETS:</b>															
Goodwill	230.3			230.3	227.5			227.5	227.5			227.5	224.2	224.2	224.2
Other intangible assets	67.6	6.8		74.4	37.3	7.5		44.8	37.6	6.6		44.2	30.4	30.2	28.7
Property, plant and equipment	2,360.7	196.6	(624.2)	1,933.1	2,199.4	201.6	(623.1)	1,777.9	2,122.6	187.9	(616.0)	1,694.5	1,628.0	1,674.2	1,653.3
Other non-current assets	10.3			10.3	10.4			10.4	12.1			12.1	11.5	12.8	14.3
<b>CURRENT ASSETS:</b>															
Inventories	40.2			40.2	28.7			28.7	28.2			28.2	23.0	21.5	22.2
Assets held for sale	2.7			2.7	6.6			6.6	18.0			18.0	38.3	59.9	39.2
Trade and other receivables	108.4			108.4	85.0			85.0	84.3			84.3	72.9	69.0	62.5
<b>LIABILITIES:</b>															
Creditors***	(286.9)			(286.9)	(234.3)			(234.3)	(228.5)			(228.5)	(199.0)	(188.4)	(175.2)
<b>CASH CAPITAL EMPLOYED</b>	<b>2,533.3</b>	<b>203.4</b>	<b>(624.2)</b>	<b>2,112.5</b>	<b>2,360.6</b>	<b>209.1</b>	<b>(623.1)</b>	<b>1,946.6</b>	<b>2,301.8</b>	<b>194.5</b>	<b>(616.0)</b>	<b>1,880.3</b>	<b>1,829.3</b>	<b>1,903.4</b>	<b>1,869.2</b>
<b>Weighted average</b>				<b>2,001.9</b>											
<b>EBITDA</b>				<b>213.7</b>				<b>212.7</b>				<b>203.3</b>	<b>192.4</b>	<b>199.1</b>	<b>198.5</b>
<b>CROCCE</b>				<b>10.7%</b>				<b>10.9%</b>				<b>10.8%</b>	<b>10.5%</b>	<b>10.5%</b>	<b>10.6%</b>

\*2013 adjusted to exclude 53<sup>rd</sup> trading week

\*\* 2017 calculated on average net assets to reflect significant acquisition activity during the second half year

\*\*\* Creditors comprise trade and other payables, other non-current liabilities and provisions for other liabilities and charges

# NOTES

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