

Brains Transaction Update



Strategic considerations

- **Clear financial strategy**
 - Reduce borrowings to below £1bn by 2024
- **Clear organic growth plans**
- **M&A considerations**
 - Expansion does not always require us to own bricks and mortar
 - Capital light M&A will be considered
 - We aspire to be operating partner of first choice
 - Look beyond COVID
 - Good pubs pre-COVID will be good pubs post-COVID

Brains opportunity

- **Pub estate**
 - Principally based in South and West Wales; comprising managed and leased pubs
 - Comprising destination food and wet-led community pubs which are highly complementary with Marston's existing portfolio of 106 pubs in Wales
 - Good quality pub estate with stable earnings and some iconic sites
 - Well maintained/invested estate
 - Brand opportunity – Marston's has right to use Brains brand on Welsh pub estate.
- **Mixture of Managed and Tenanted pubs**
 - C30% food mix in managed pubs
 - Opportunity for franchise conversion
- **Strong team transferring**
 - C.1,300 employees including area managers, marketing manager, food development manager
 - Engaged pub teams
- **Opportunities for future growth investment**

➤ **Good quality estate and team with scope for future growth**



Ty-Risha Alehouse
Pen-Y-Cae Bridgend CF32 9SN



Tynant Inn Morganstown Road,
Morganstown Cardiff CF15 8LB



The Ship Tresaith, West Wales



Pub estate composition

	Pubs	Proforma* Revenue (£m)	Proforma* EBITDA (£m)	Proforma* EBITDA per pub £k	
99 sites on long-term lease – stable 5 year record					
Managed	62	47	11	175	21 convert to franchise (non-franchise £220k per pub)
Leased and Tenanted	37	3	2.5	68	Medium term convert to franchise
Total	99	50	13.5	135	
8 freehold sites with low EBITDA but target historical levels – revenues stable at c.£4m per annum					
Managed	8	4	0.5	63	£4m purchase price, 7 convert to franchise
Total long-term estate	107	53	14	131	
30 non-core turnaround sites – peppercorn rent for 18 months					
Managed	14	6.5	0.3	19	
Leased and Tenanted	16	0.5	0.2	11	
Total turnaround	30	7	0.5	15	Review for long-term agreement/purchase
10 leasehold pubs on management agreement for 2 years					

Accommodation: 141 rooms in 15 pubs in core estate

* Proforma represents pre-COVID revenue and earnings

➤ **Core estate on long-term agreement underpinned by stable earning base**

Summary financials

Proforma Income (Pre IFRS16)	No.	£m
Core Estate Outlet EBITDA	107	14
Rent		(5.5)
Overhead		(1.5)
Net EBITDA		7
Depreciation		(2)
EBIT		5
Opportunities		
Conversion to franchise		1-2
Overhead synergies		0.5
Purchasing synergies		0.5-1
Total cost/conversion synergy		2-3
Investment growth opportunities under review		

➤ Potential £10m EBITDA opportunity with strong rent cover

Cashflow implications

Cashflow considerations				
<u>Cashflows for completion</u>				
Rental prepayments			£m	
Completion - Yr1 rent in advance			5.5	
April - Yr2 rent in advance			5.5	
Freeholds			4	
			15	
<u>Funding</u>				
ULP sales in March			8	
H2 Disposals			7	
Annual maintenance capex			2	
Growth capex			TBC	Must meet return criteria

➤ Initial transaction cashflows funded by disposals. Monthly cash rent starts Apr 2023

Future opportunities

- **Will consider similar opportunities**
 - ROI accretive
 - Reduces operating leverage
 - Consistent with financial strategy to reduce borrowings
- **Establish Marston's as "operating partner of choice"**
 - Market-leading national pub operator with strong credentials
 - Operate pub formats across the pub sector: food-led and wet-led
 - Infrastructure in place to support a significantly larger estate
 - PLC covenant facilitates similar transactions
- **Disciplined approach to estate expansion**
 - No dilution of quality of estate (profit per pub)
 - Opportunity to create value (i.e. conversion to franchise)
 - Likely to be wet-led rather than food-led
 - Strong rental cover minimising financial risk

➤ **Transaction lays foundation for future expansion**

Questions



Heineken
MARSTON'S

Pub Numbers

	Marston's Core	Brains Core	Total
Managed	490	70	560
Partnership	874	37	912
Total pubs	1,364	107	1,471

Brains Pubs operated under short-term arrangements: 40

IFRS16 financials

Proforma IFRS 16			£m
EBITDA			14
Overhead			(2)
Depreciation			(2)
IFRS 16 depreciation			(3.5)
EBIT			6.5
Interest			(4)
IFRS16 PBT			2.5
IFRS16 Debt			80



Red Dragon High View, LitchardHill, Bridgend CF31 1QJ



Duke of Wellington The Hayes Cardiff CF10 1AJ



Pheasant Heol Eglwys, Pen Y Fai Bridgend CF31 4LY





BRAINS

The OLD ARCADE

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MARSTON'S

Cardiff
PREMIER
RUGBY
PUB!

BETFRED
bonus king

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