

# Interim Results 2012



-  **Focused and consistent strategy yielding growth**
  - New-builds and Franchise Agreements continue to perform well
-  **Continued strong operational performance**
  - Revenue and profit growth in all three trading segments
-  **EPS growth of 14.6% drives return to dividend growth**
  - Interim dividend up 5% to 2.2 pence per share
  - Dividend cover increased to 2.1x

**Clear strategy driving profit and dividend growth**

Andrew Andrea  
CFO





## Financial summary

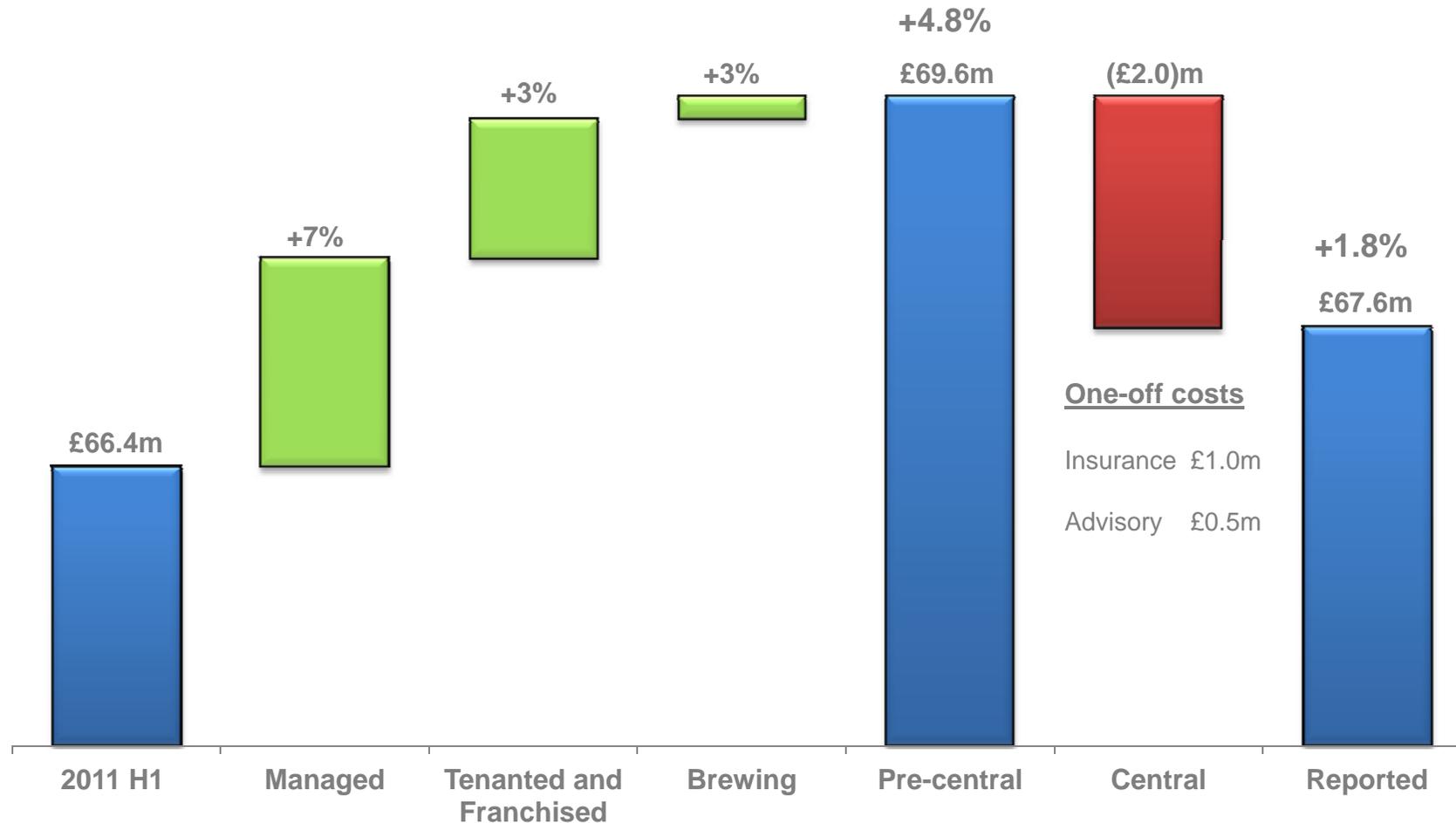
26 weeks	2012	2011	vs. LY
Revenue	£342.1m	£317.9m	+7.6%
EBITDA	£88.6m	£86.8m	+2.1%
Operating Profit	£67.6m	£66.4m	+1.8%
Profit before tax*	£33.5m	£29.2m	+14.7%
Adjusted EPS*	4.7p	4.1p	+14.6%
Interim Dividend	2.2p	2.1p	+4.8%
Dividend Cover	2.1x	1.9x	+0.2x

\* before exceptional items

**Revenue, profit and dividend growth**

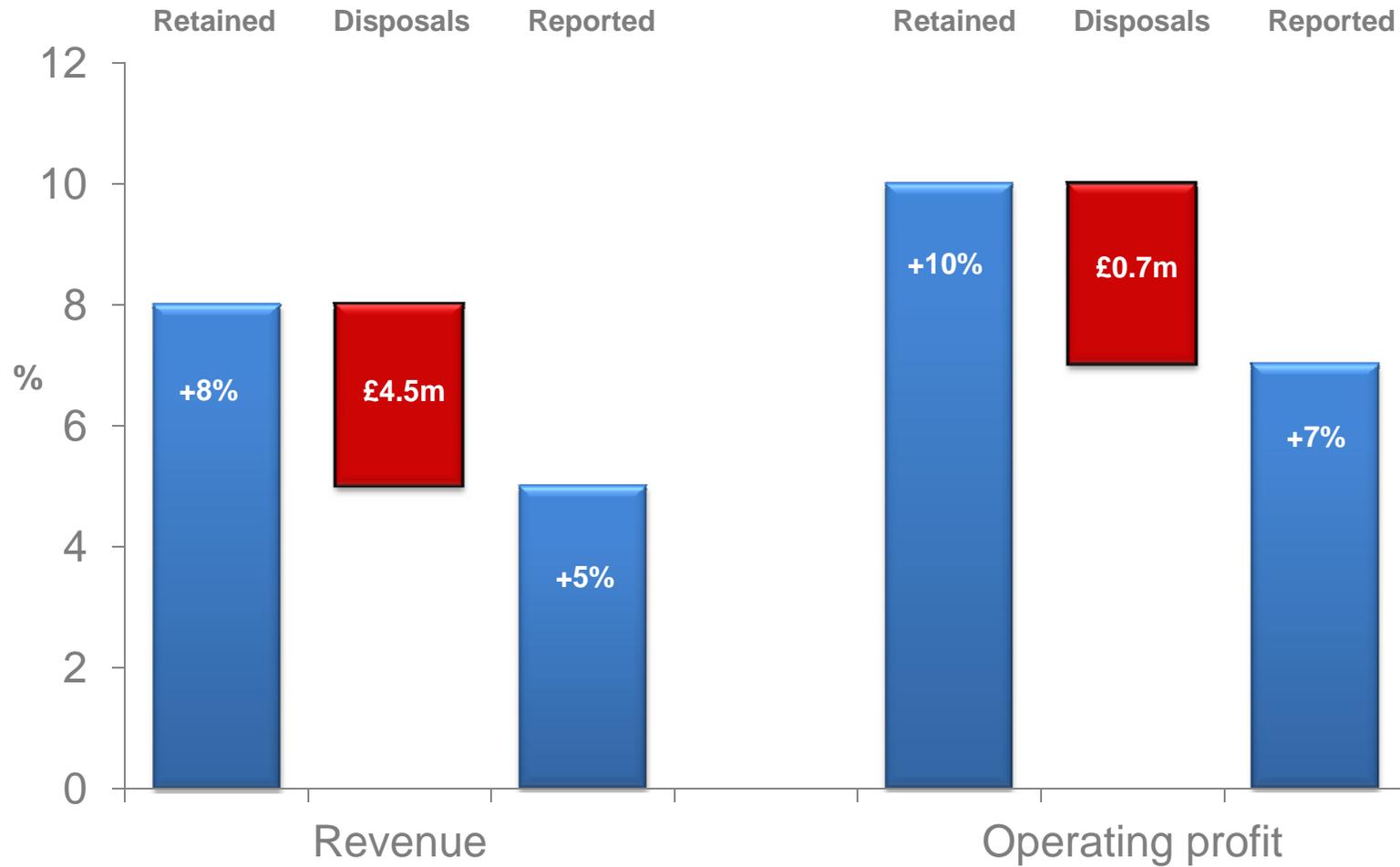


# Segmental operating profit



**Growth in all trading segments**

# Retained estate performance



**Strong underlying growth**

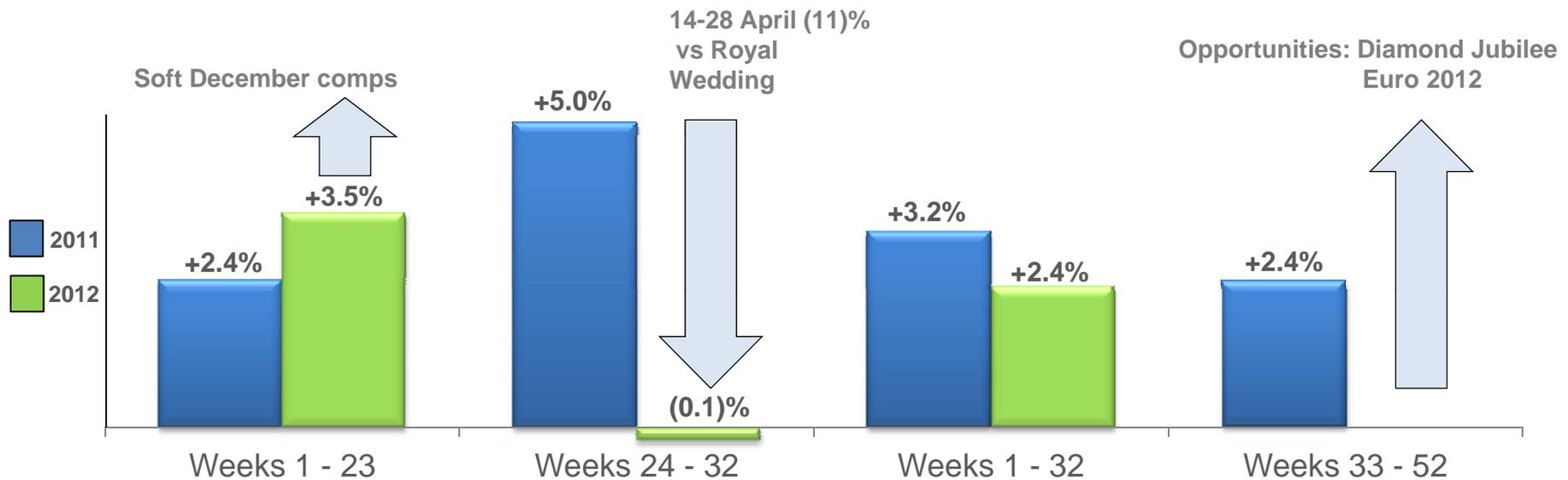


MANAGED PUBS

# Sales performance

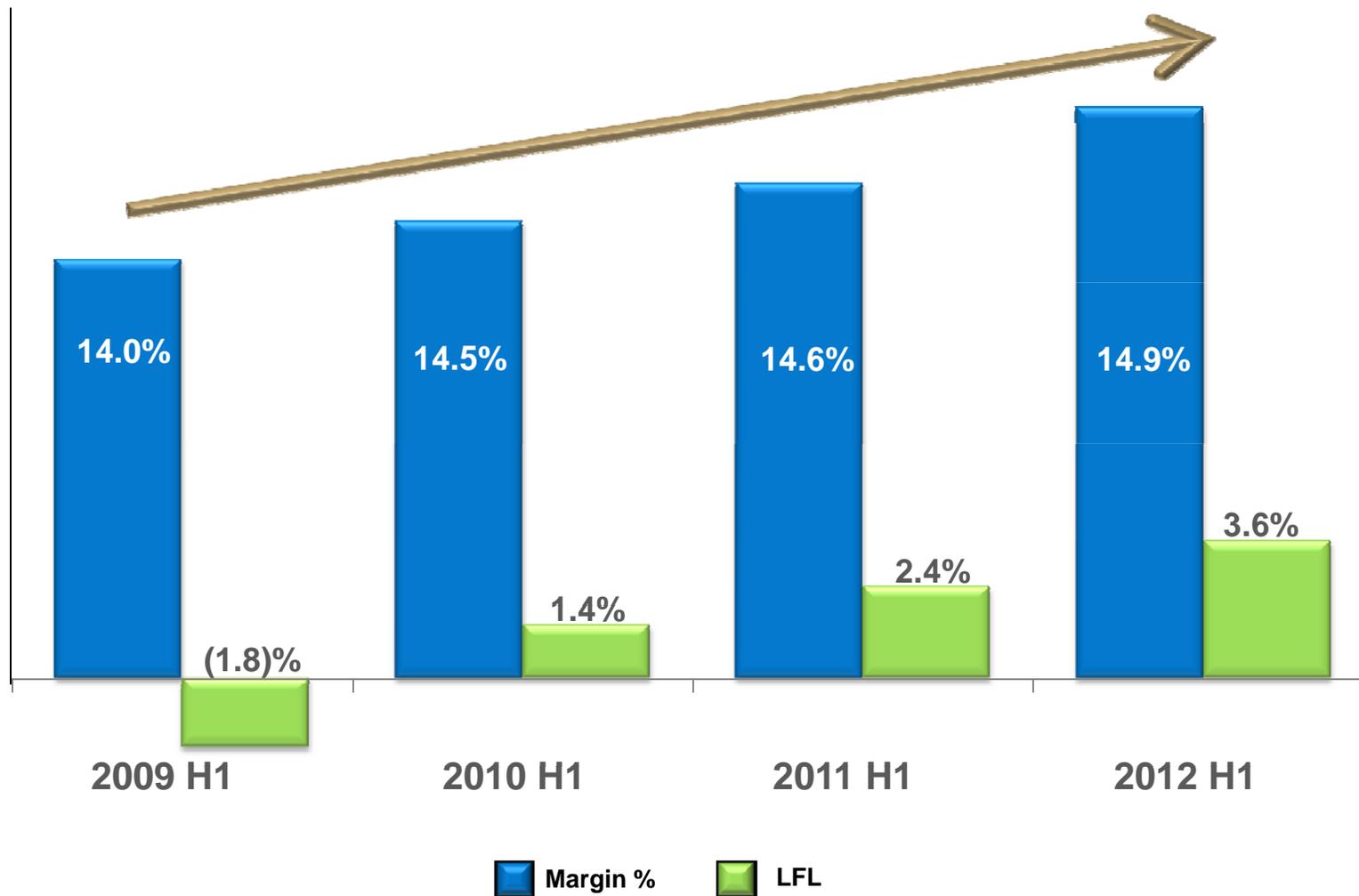
Like-for-like sales* % change	26 weeks to 31 March	32 weeks to 12 May
Drink	+3.6%	+2.3%
Food	+3.9%	+2.7%
<b>Total</b>	<b>+3.6%</b>	<b>+2.4%</b>

\* Excludes any pubs acquired in last two years



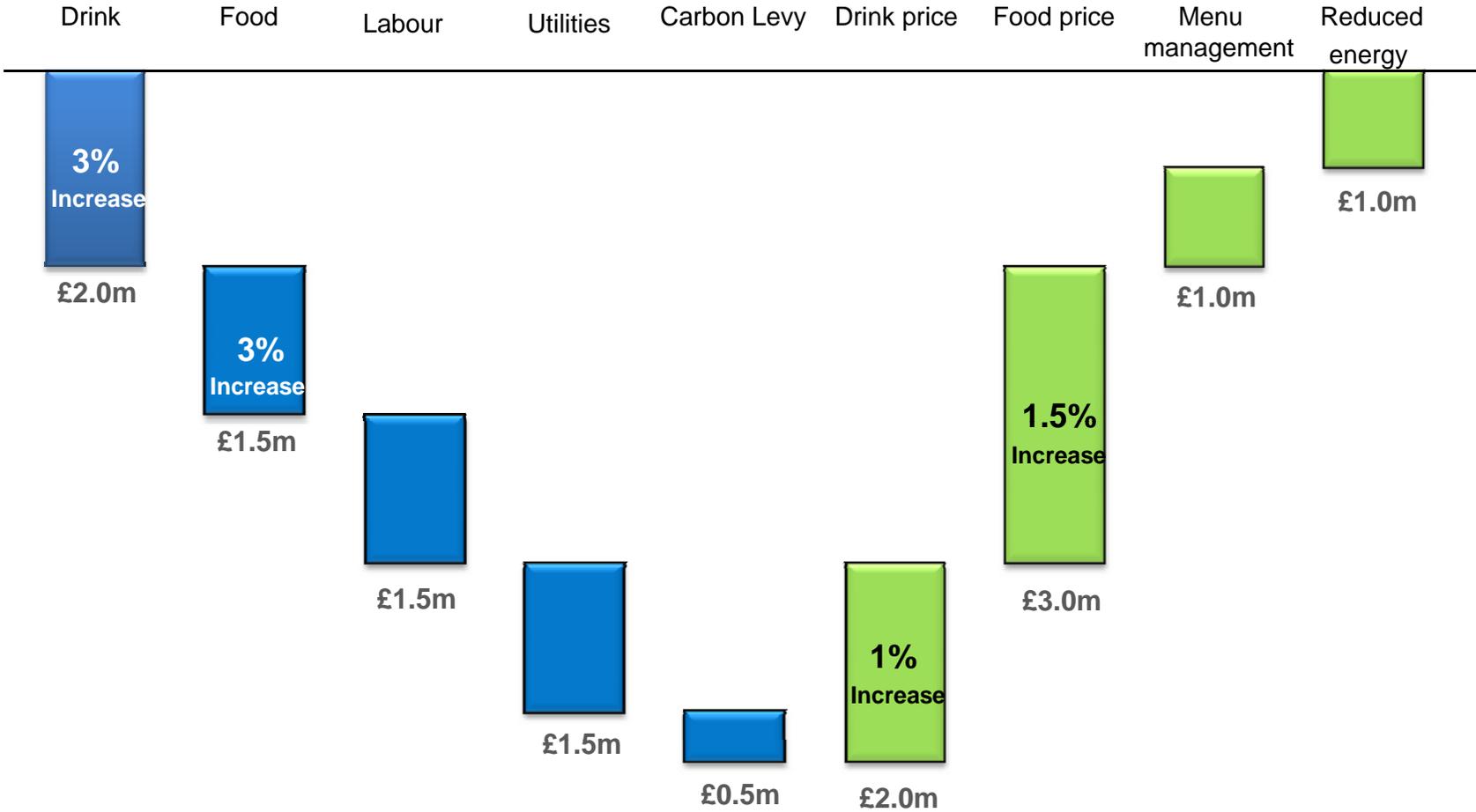
**Sales growth in challenging market**

# Margin performance



**Growth achieved with strong margin progression**

**MANAGED PUBS**



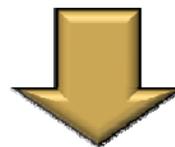
**Reduced inflationary pressure, mitigation plans identified**



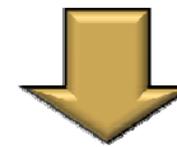
# Performance

TENANTED AND FRANCHISED

	Tenancies and Leases	Franchise Agreement estate	Total
No. of pubs	c.1,000	c.600	c.1,600
Revenue	+2.3%	+33.2%	+14.2%
Rent	+3.4%	n/a	-
YOY EBIT	+0.6%	+13.5%	+3.1%



**SUSTAINABLE  
GROWTH**



**OPPORTUNITY**

**Stable core estate, franchise driving growth**

# Continued market outperformance



## Revenue growth

- Revenue up 6.6%
- Group ale volume up 2%
- Ale growth across all channels



## Robust financial performance

- Operating profit up 2.7%
- Strong cash generation



## 2013 cost outlook

- c.£1m of cost inflation – energy
- Mitigated through price and efficiency





# Cashflow summary

£m	H1 2012	H1 2011	Comments
<b>EBITDA</b>	<b>88.6</b>	<b>86.8</b>	
Working capital/pension/tax	(13.8)	(7.8)	Working capital timing
<b>Operating cashflow</b>	<b>74.8</b>	<b>79.0</b>	
Net interest	(40.5)	(36.6)	One-off arrangement fees
<b>Pre-investment FCF</b>	<b>34.3</b>	<b>42.4</b>	
Net capex*	(36.6)	(42.4)	Higher new-build offset by higher disposals
Final dividend	(21.0)	(21.0)	
<b>Net cashflow</b>	<b>(23.3)</b>	<b>(21.0)</b>	

\* Includes disposal proceeds  
 FCF = Free cashflow

**Strong operating cashflow**

	£m	
Securitisation	1,029	<ul style="list-style-type: none"> <li>• FCF cover: 1.5x vs covenant &gt;1.1x</li> <li>• EBITDA cover: 1.7x vs covenant &gt;1.5x</li> </ul>
Bank facility	161	<ul style="list-style-type: none"> <li>• Interest cover: 5.1x vs covenant &gt;3.0x</li> <li>• Debt to EBITDA: 2.4x vs covenant &lt;4.0x</li> <li>• £257.5m facility to May 2016 with £42.5m accordion</li> </ul>
	1,190	
Net cash	(54)	
Debt issue costs	(12)	
<b>Net debt</b>	<b>1,124</b>	

 No refinancing requirement until May 2016

 Flexibility to transfer profit between finance structures

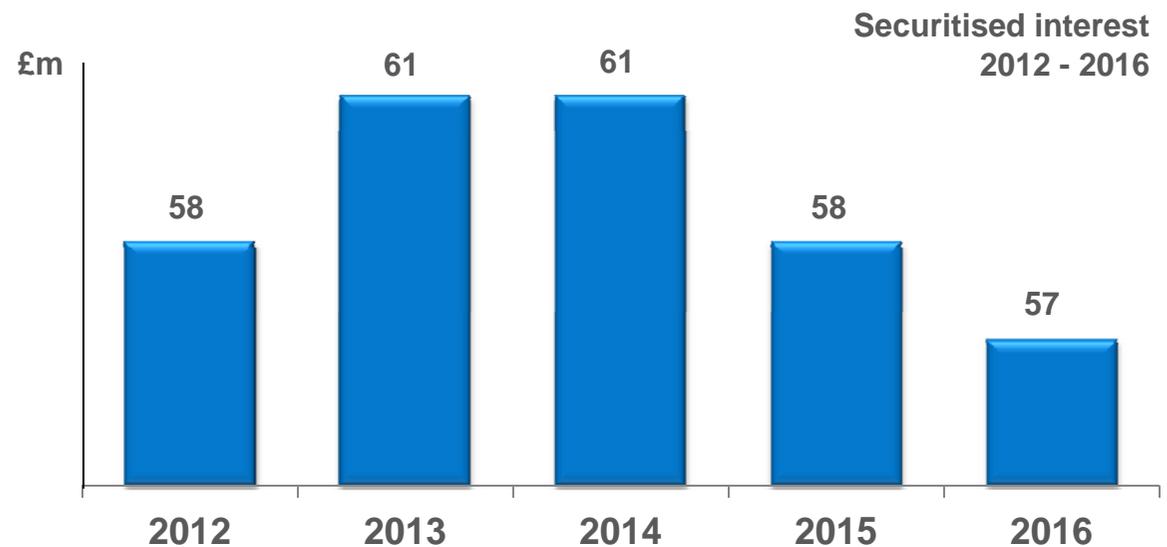
**Secure and flexible finance structure**



# Interest costs



- 🍷 New £120m swap arrangement to 2020
- 🍷 “Replaces” more expensive £140m swaps to 2014
- 🍷 Reduces interest charges by c.£2-3m pa
  - Mitigates 2013/14 step up in securitised interest



**New swaps reduce underlying interest costs**

# Pension triennial valuation

## Reduction in deficit since 2008

- £30m improvement in cash deficit to £75m
- Reflects consistency of funding over time

## No changes to current funding profile

- c.£11m per annum increasing by 5.75% per annum

## Deficit targeted to be cleared by 2017

- De-risking through selective buy-in process



# Ralph Findlay CEO



## Opportunities

- Eating-out market resilient
- Inflation easing
- Unemployment threat easing
- Technology
- Minimum pricing?

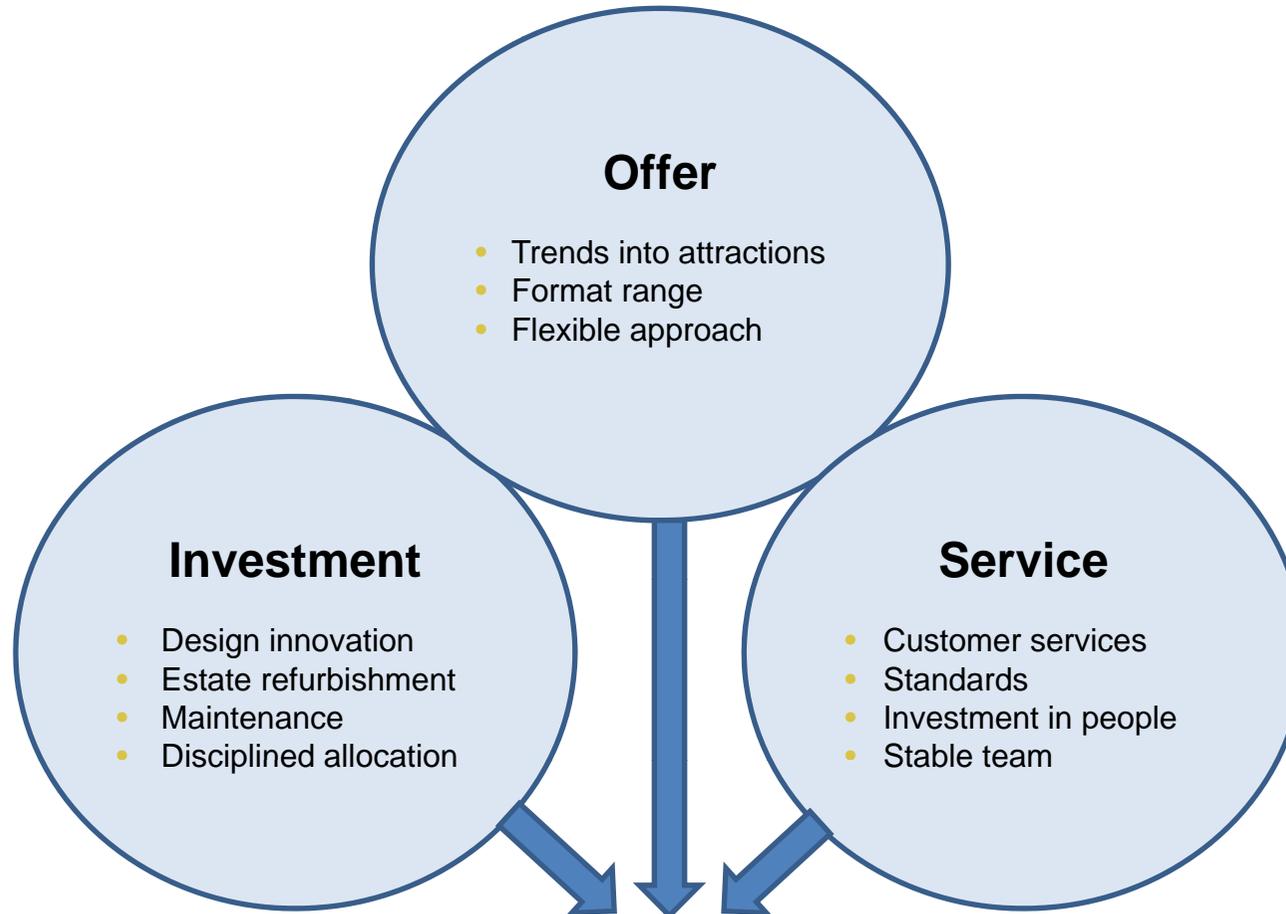


## Challenges

- Taxation – duty, VAT
- Regulation
- Changing consumer behaviour
- Economy

# Drivers of organic growth

## Improved consumer insight



## Improving returns

**Growth not driven by capex alone**

## Disciplined capex

		2012 capex programme	Target Return
External	• New-builds	£50m	16.5%
Internal	• Investment capital	£10m	20%
	• Maintenance capital	£10m	
		<b>£70m</b>	

**70% of capex growing estate; LFL growth with moderate capex**

# Flexible pub offers

## Taverns

### Homestead

- ‘In the houses’
- Clearly defined target market
- Everyday favourites – Pedigree, Banks’s, scampi
- Centrally-driven activities

Pubs: 213  
LFL: +1.9%  
Food mix: 26%

### Village

- Rural village location
- Wider target market
- More adventurous menu, drinks ranges
- Locally-driven activities

## Reasons to visit – drinking, eating, activities and events



**Flexible formats ensure ‘pub is the hero’**

# Flexible pub offers

## Destination

### Two for One

- Ultimate food deal!
  - Every Day Low Prices
- Value-driven growth
- Intimate “pubby” feel

Pubs: 260  
LFL: +3.8%  
Food mix: 54%

### Milestone

- Landmark sites
- Pub classics with a twist
- More flexible pricing
- Intimate “pubby” feel

## Reasons to visit - convenience dining, special occasions



**Flexible formats ensure ‘best pub around here’**

# Pitcher & Piano

## High-quality estate in strong growth

- 21 pubs, c.50% freehold
- LFL up 9%, wet up 7%, food up 16%
- Food mix up 2% to 22%
- Margins up 1%

## Continuous development

- Theatre approach to food and drink
- 95% “Fresh Food”
- Modest investment, maximum impact

## Strong and stable team





MANAGED PUBS

# Customer focused business

## Customer service – balanced scorecard



### SMILE culture

- Making customers feel welcome



### High5

- Maximising sales from customer visit



### Customer experience monitoring

empathica ■



# “Make your name at Marston’s”

## Attracting new talent

- “Make it” - our pub employer brand
- New recruitment website/app
- Social media - Twitter

## Clear career progression in a growing business

- Pub career path
- Modern Apprenticeships and Diplomas
- Opportunities for the ambitious



**Good people = good service**



MANAGED PUBS

## New-build performance

	2009 target	Pre 2010 sites	Post 2010/11 sites
Revenue per week	£20k	£21k	£27k
<b>EBITDA conversion</b>	<b>30%</b>	<b>32%</b>	<b>32%</b>
Food mix	55%	57%	62%
<b>Food spend per head</b>	<b>c.£6.00</b>	<b>c.£6.00</b>	<b>c.£6.50</b>
EBITDA ROI*	15%	17.3%	18.5%

\*annualised pro-forma

**Strong performance continues; investment at 5.4x EBITDA**

## New-build growth

### Clear visibility over pipeline

- Sites identified for next three years
- Retail parks and beyond
  - premium community food
  - smaller footprint sites
- National coverage
- Focus on quality not quantity

### Planning

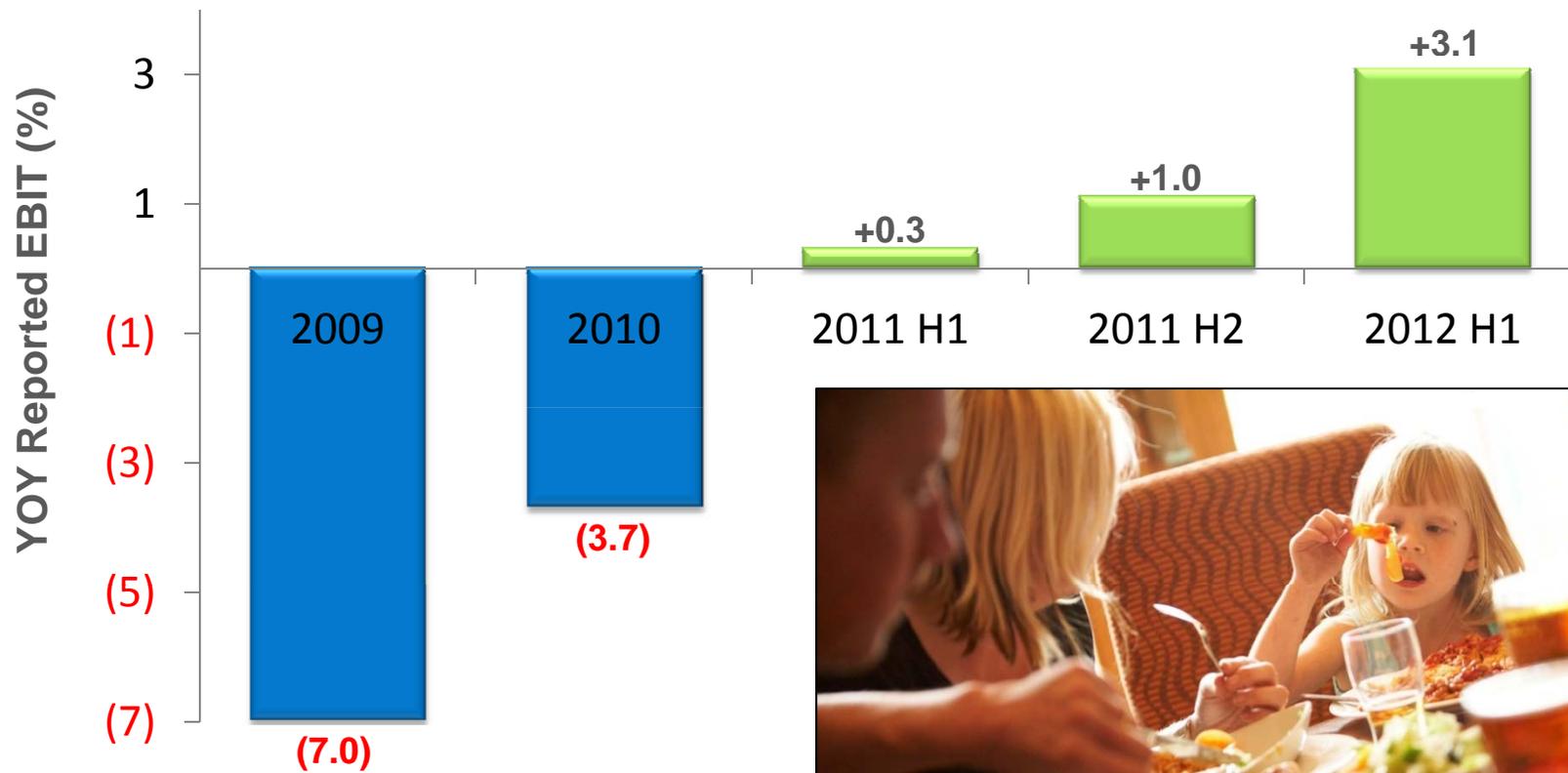
- Increased build cost c.£0.2m per site
- “Delay” rather than “prevent” build

### Competition

- Aware of market developments
- Key defence:
  - stable team
  - relationships with agents/developers



# Profit performance



**Continued profit growth, trends improving**

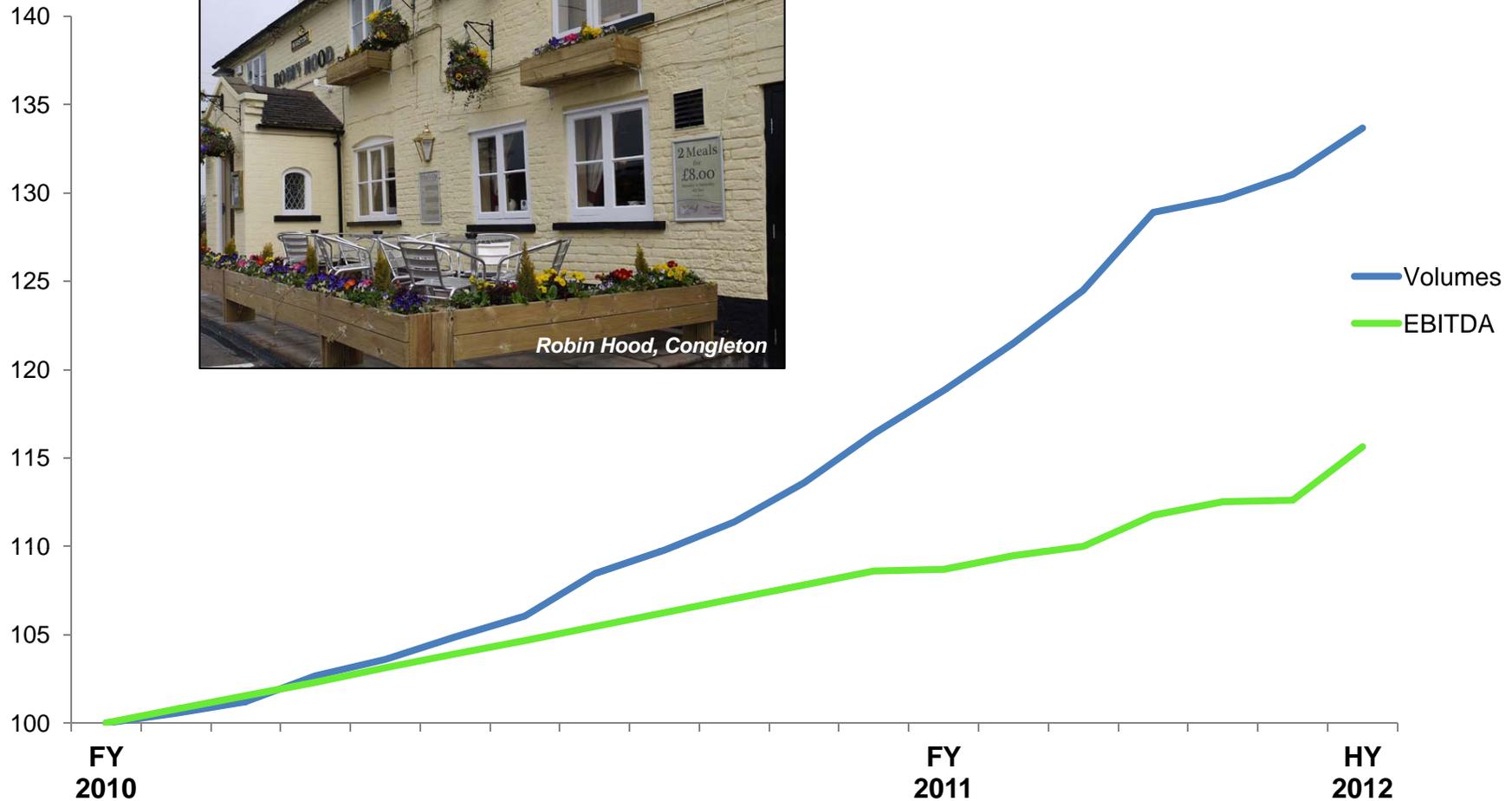


# Franchise Agreement performance

TENANTED AND FRANCHISED



*Robin Hood, Congleton*



419 pubs  
2010 Benchmark = 100

**Continued volume and profit growth**



TENANTED AND FRANCHISED

# Franchise Agreement evolution

## Conversion from managed to franchised

- Minimal capital investment
- Wet-led, lower turnover, community pubs
- Nine targeted by year end

<i>Case study:</i>	<i>Sun, Doncaster</i>	<i>December 2011 conversion</i>
	<i>Capex:</i>	<i>£50k</i>
	<i>MAT EBITDA growth:</i>	<i>+40%</i>
	<i>Revenue growth since conversion:</i>	<i>+16%</i>

## “Capex-lite” for appropriate sites

- Core consumer offer introduced
- £10-15k capex
  - mainly EPOS – can be reallocated



*Sun, Doncaster*

# Stability in traditional estate



## Focus on top-line support

- Direct promotional offers
- Marketing and commercial advice
- Moderate capital investment



## Focus on licensee quality

- Central recruitment team for all pubs
  - higher standards
- Stability increased to 92%



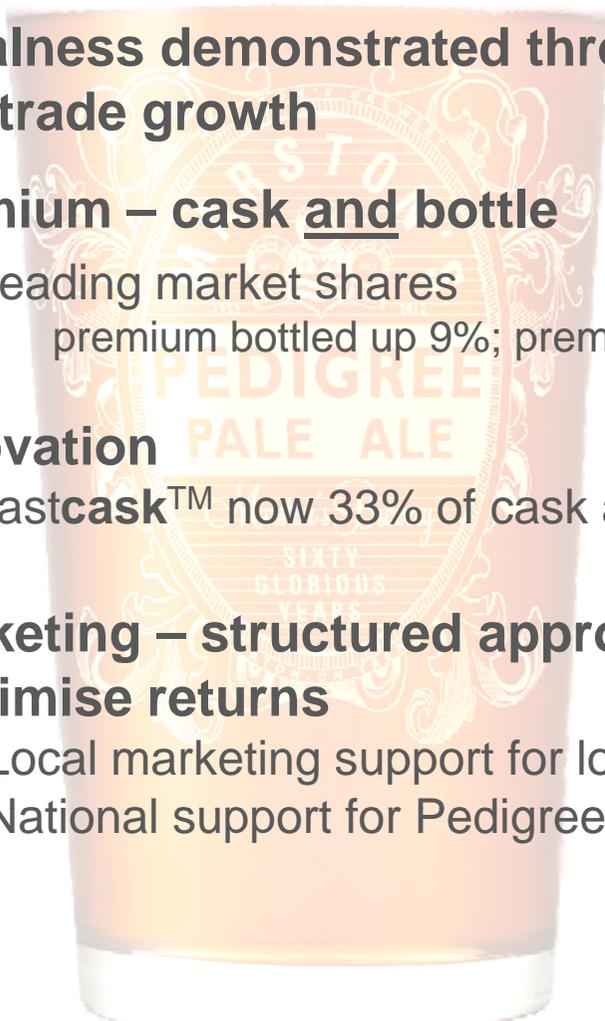
## Agreement flexibility

- Right agreement for the pub
- New code of practice
- Rental growth demonstrates fairness of rent process

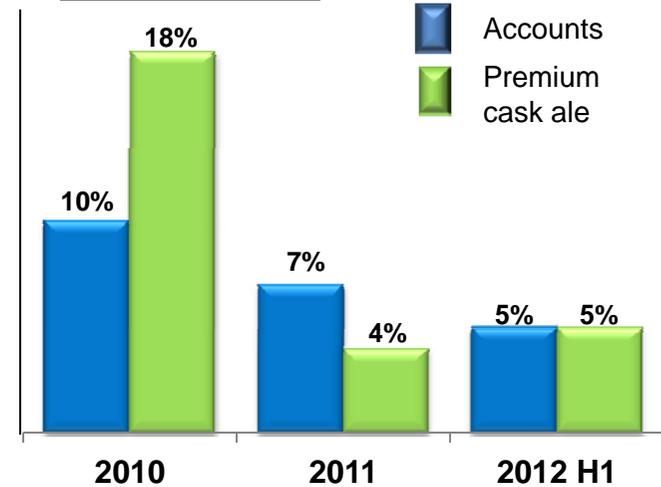


# Localness and Premium

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**Localness demonstrated through free trade growth**
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**Premium – cask and bottle**
  - Leading market shares
    - premium bottled up 9%; premium cask up 2%
- 
**Innovation**
  - fastcask™ now 33% of cask ale brewed
- 
**Marketing – structured approach to maximise returns**
  - Local marketing support for local brewers
  - National support for Pedigree and Hobgoblin



Free Trade Growth



-  **Clear, consistent and focused strategy**
-  **Value, service and quality across all business segments**
-  **Stable and secure finance structure**
-  **Strategy and effective execution delivering growth**
-  **Return to progressive dividend**



# Appendices



# Group strategy

## STRATEGY

## KEY COMPONENTS

## OBJECTIVES



- 'F-Plan
- New-build investment



Exploit and develop competitive advantage in pubs and brewing sectors



- Innovative agreements
- Greater control of retail offer



1. Sustainable growth
2. Lower gearing ratios
3. Increased ROC



- Localness
- Premium ales

**Clear, focused and consistent strategy**



# Segmental analysis

<b>Revenue</b>
Managed Houses
Tenanted and Franchised
Brewing
Central
<b>Total</b>
<b>EBITDA</b>
Managed Houses
Tenanted and Franchised
Brewing
Central
<b>Total</b>
<b>Operating Profit</b>
Managed Houses
Tenanted and Franchised
Brewing
Central
<b>Total</b>
<b>Margin %</b>
Managed Houses
Tenanted and Franchised
Brewing
Central
<b>Total</b>
Finance costs
<b>Profit Before Tax</b>

	2012 £m	Interim 2011 £m	%
	190.4	181.7	4.8%
	98.1	85.9	14.2%
	53.6	50.3	6.6%
	-	-	-
<b>Total</b>	<b>342.1</b>	<b>317.9</b>	<b>7.6%</b>
	38.3	36.5	4.9%
	45.6	43.6	4.6%
	11.6	11.6	0.0%
	(6.9)	(4.9)	(40.8%)
<b>Total</b>	<b>88.6</b>	<b>86.8</b>	<b>2.1%</b>
	28.3	26.5	6.8%
	39.8	38.6	3.1%
	7.5	7.3	2.7%
	(8.0)	(6.0)	(33.3%)
<b>Total</b>	<b>67.6</b>	<b>66.4</b>	<b>1.8%</b>
	14.9%	14.6%	0.3%
	40.6%	44.9%	(4.3%)
	14.0%	14.5%	(0.5%)
<b>Total</b>	<b>19.8%</b>	<b>20.9%</b>	<b>(1.1%)</b>
	(34.1)	(37.2)	8.3%
<b>Total</b>	<b>33.5</b>	<b>29.2</b>	<b>14.7%</b>

Average number of pubs

Managed houses  
Tenanted and Franchised

495  
1,652

485  
1,662



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Average number of shares in 2012	568.9m
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Number of shares in issue as at 31 March 2012	568.9m
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Additional dilutive number of shares	4.3m
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	<b>Forecast <u>2012</u></b>	<b>Forecast <u>2013</u></b>
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Tax rate	c.20%	21 - 23%
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Capex	£110m	£110m
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Disposal proceeds	c.£30m	c.£30m
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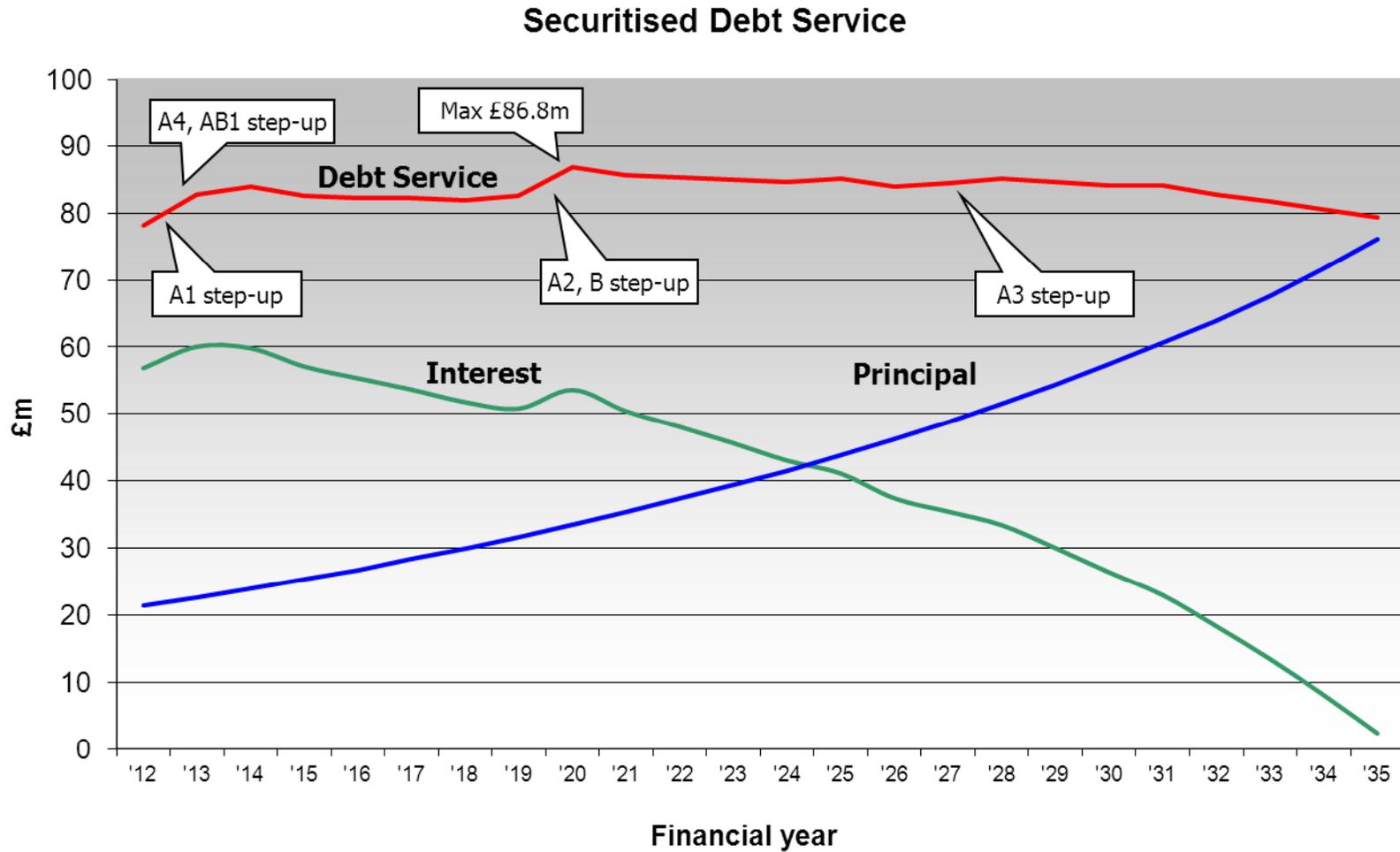
## Securitisation as at 31 March 2012

<b>Securitisation results £m</b>	<b>Actual</b>	
• Gross debt outstanding as at 31 Mar 2012	£1,029.3m	
• EBITDA	131.0m	
• Free cashflow (FCF)	113.6m	
• Debt service (DSCR)	77.7m	
<b>Financial covenants</b>	<b>Actual</b>	<b>Covenant</b>
• FCF : DSCR	1.5x	>1.1x
• EBITDA : DSCR	1.7x	>1.5x
• Net worth	£591.1m	£90m



## Securitised debt profile

Tranche	Type	Principal outstanding at 31/3/2012	Step-up Date	Final Maturity Date
A1	Floating	£154.8m	July 2012	2020
A2	Fixed/Floating	£214.0m	July 2019	2027
A3	Fixed/Floating	£200.0m	April 2027	2032
A4	Floating	£225.5m	October 2012	2031
AB1	Floating	£80.0m	October 2012	2035
B	Fixed/Floating	£155.0m	July 2019	2035
<b>Total</b>		<b>£1,029.3m</b>		





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