



**PRELIMINARY RESULTS 2016**



**Ralph Findlay**  
**Chief Executive**  
**Officer**

# HIGHLIGHTS

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## 1. Continued progress in 2016

- Record turnover and operating profit
- PBT growth of 7%, EPS up 9%
- Increased dividend and cover
- Leverage reduced, fixed charge cover up
- Return on capital increased

## 2. Transformed pub estate delivering organic growth

- Like-for-like sales growth in all businesses
- MAT profit per pub £108k: +8% 2016
- 22 pubs and bars and six lodges opened

## 3. Brewing growth

- Both organic and acquisition driven
- Market share gains in on and off trade
- Unrivalled portfolio of beer brands
- Continuous innovation



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Clear and consistent strategy delivering strong results

# MARKET DYNAMICS

## 1. Sector supply

- Remains strong in high footfall locations
- Anticipate some slowdown in 2017
- We remain focused on less competitive markets

## 2. Consumer outlook

- No discernible changes since Brexit vote
- Demand high standards in service and quality
- Moderate price increases possible

## 3. Economic and political

- Cost inflation – well placed to meet challenges
- Rates – London and city centres most exposed
- Health agenda



No discernible changes to supply and consumer outlook, well placed to meet headwinds

# IMPROVING LONG-TERM RETURNS



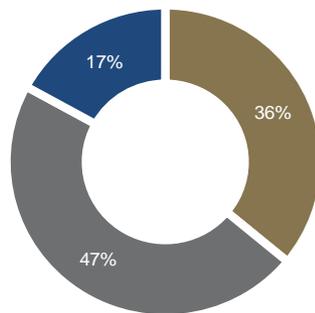
Meadow Farm lodge, Redditch

Clear and consistent plans to enhance long-term returns

# PUB SEGMENTATION

2016	Operating profit £m	Current no. of pubs	Average no. of pubs	Average profit per pub vs LY %
Destination and Premium	90.2	416	405	+2
Taverns	56.0	812	832	+10
Leased	24.2	331	338	+3
<b>Total</b>	<b>170.4</b>	<b>1,559</b>	<b>1,575</b>	<b>+8</b>

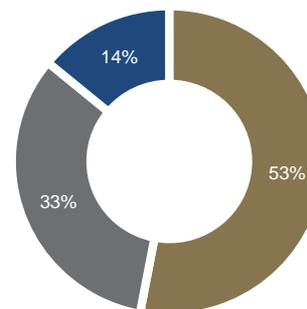
2012 Profit Mix



£73k

Average MAT profit per pub

2016 Profit Mix



£108k

+c.50%

■ Destination and Premium  
■ Taverns  
■ Leased

Higher quality estate, over half of earnings from Destination and Premium

# OPERATIONAL ESTATE REVIEW

## 1. Last review in 2013

- Clearly defined segmentation
- Disposal pubs identified

## 2. 2016 review

- Review of estate to update on appropriate offer
- Destination pubs that have become more wet led
- Taverns pubs that have become more food led

## 3. Pub movements in 2017

- 40 pubs migrate from Destination and Premium to Taverns
- 40 pubs migrate from Taverns to Leased
- Net effect c.£3m profit transferred from Destination and Premium to Leased
- No change to identified disposals



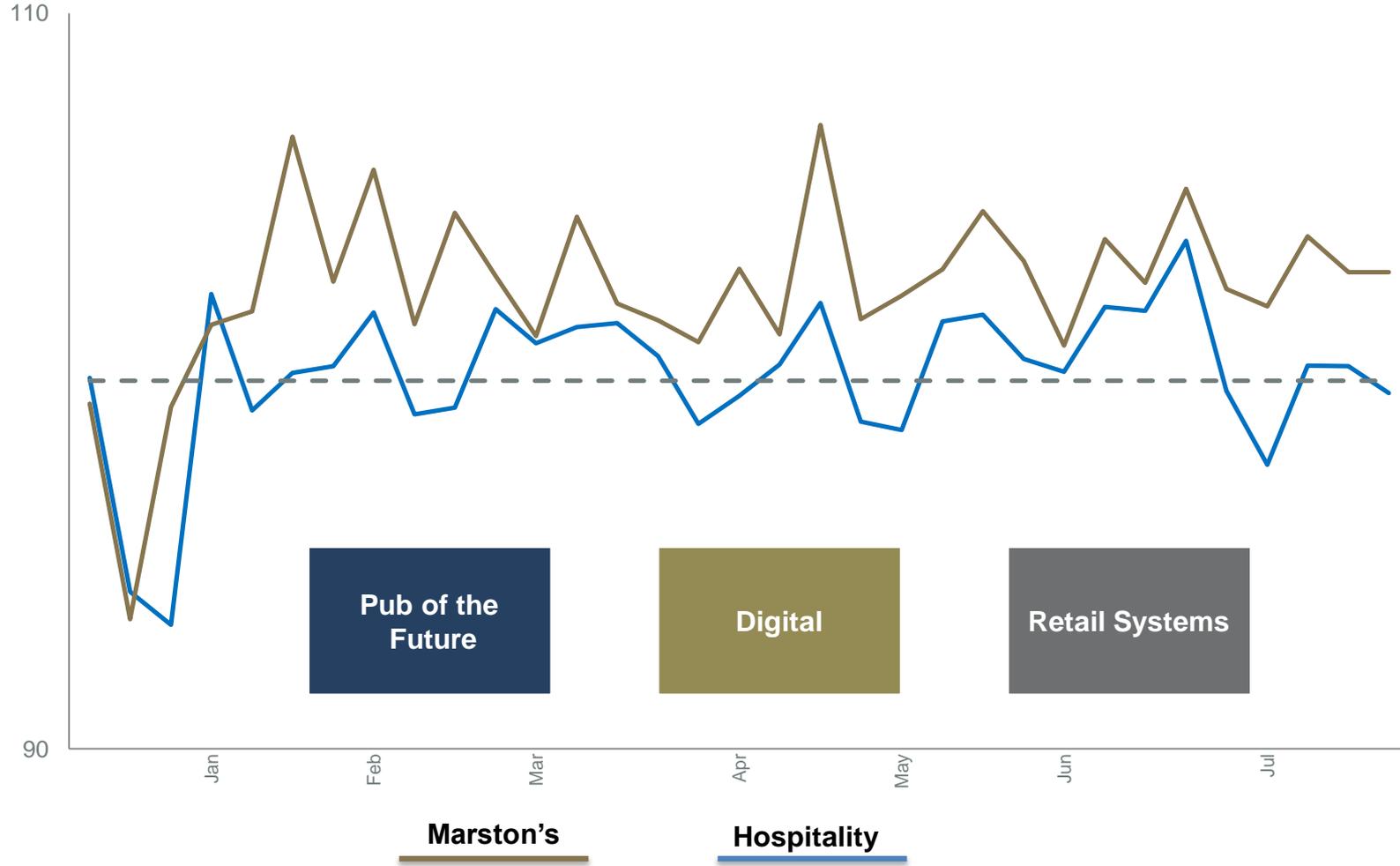
Estate review ensures pubs sit in appropriate segments to optimise future growth

# DESTINATION PUBS: EVOLVING OUR OFFER



Evolution and innovation have driven three consecutive years of market outperformance

# CUSTOMER SATISFACTION



*InMoment Hospitality Benchmark October 2016*

**Our customers more satisfied relative to sector**

# TAVERNS



Creating the community pubs of the future

# LEASED



Quality estate delivering growth

- LFL profit growth +3%
- £77k average EBITDA
- 2% rental growth

Income stability

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

Sustainable income through quality estate and strong support

# PUB EXPANSION

## Site pipeline

- At least 20 pubs planned for 2017
- Good visibility on future site pipeline
- No material change to land and build costs

## Format

- “Pub is the hero”
- Decide appropriate offer based on demographics
- No format targets

## Future plans

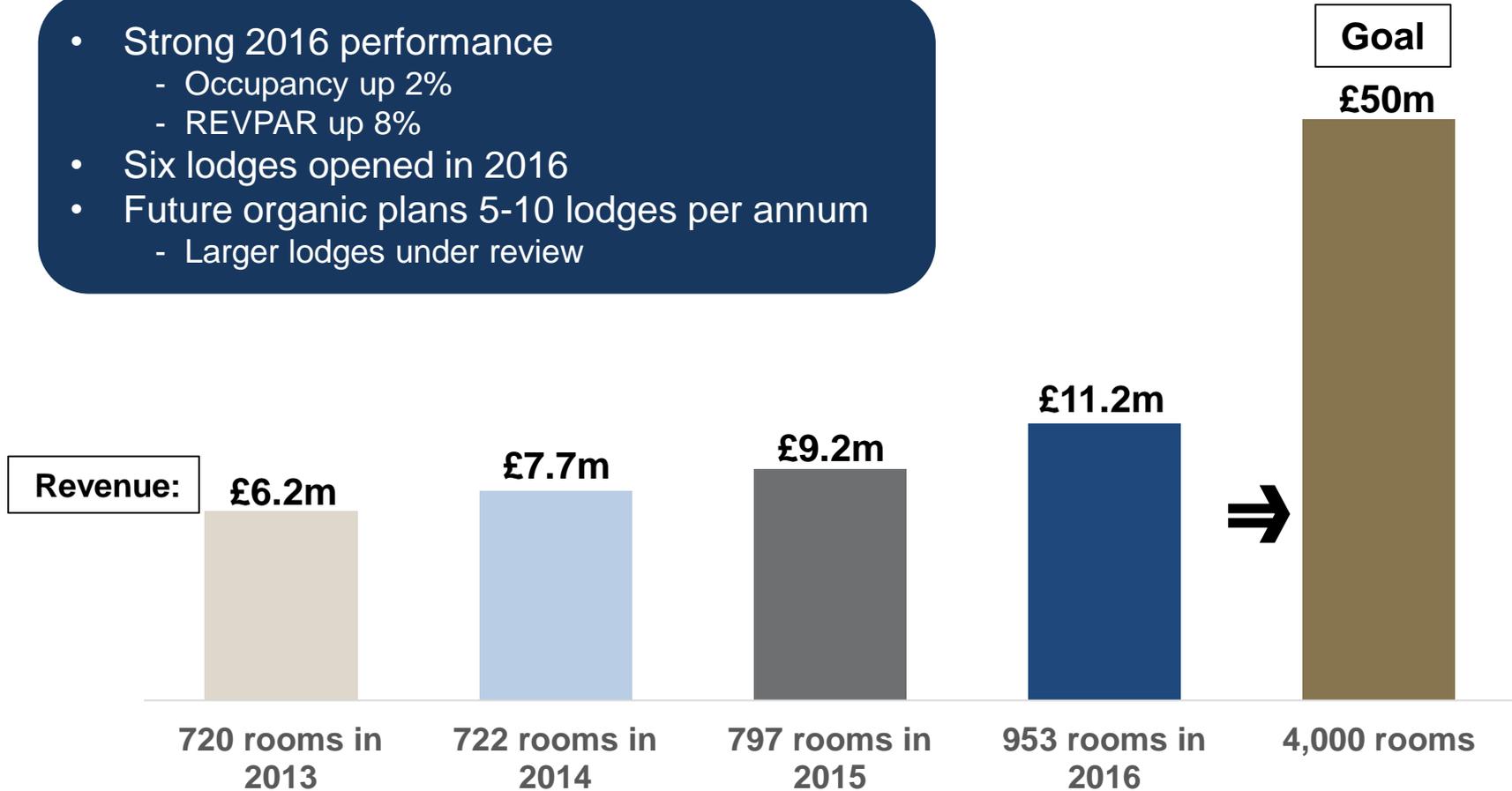
- Around 20 new-build pub-restaurants per annum
- Investment away from “hotspots”
- Substantially freehold; leasehold where appropriate



Maintain expansion through high-returning investments

# GROWTH IN ACCOMMODATION

- Strong 2016 performance
  - Occupancy up 2%
  - REVPAR up 8%
- Six lodges opened in 2016
- Future organic plans 5-10 lodges per annum
  - Larger lodges under review



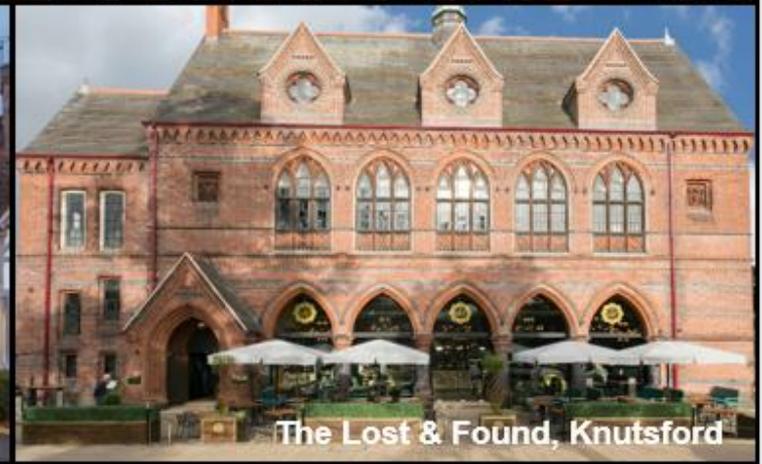
Accelerating expansion in rooms

# GROWTH IN ACCOMMODATION



Six lodges opened in 2016

# PREMIUM EXPANSION



Continued growth of premium estate, 3 planned for 2017

# BREWING: MARKET LEADING BRAND PORTFOLIO

## 1. Unrivalled brand portfolio

- Great brands with local credentials
- Operating on a national scale

## 2. Brand expansion

- Wainwright – relaunched in 2016
- 61% of mixed pack category
- 56% of mini kegs

## 3. Leading brand - Hobgoblin

- No. 2 PBA
- Most followed ale brand on social media
- No. 3 in YouGov's 'Best Brands of 2016' in category
- Most shopped brand in the UK



Broad brand portfolio driving market share growth

# BREWING: INNOVATION AND CRAFT

## 1. NPD

- Total NPD value - £17.5m RSV
- Consumer insight driven
- Target 20% of turnover

## 2. DE14

- 600 pint micro-brewery
- Leading edge research
- Producing next wave of innovative beers

## 3. Shipyard

- No. 2 Craft brand in the on-trade
- +269% yoy growth
- Continuing wave of brand evolution



Strong participant in craft revolution

# BREWING: EVOLUTION OF HERITAGE BRANDS

## 1. New look

Across the range. Authentic. Relevant. Deliberately blurs the lines.

## 2. New consumer campaign

Telling our story. People. Brewery. Town. And our beers.



Development of existing brands to meet constantly changing market

# CLEAR EXPANSION PLANS

## Destination

At least 20 new-builds - mainly freehold  
5 – 10 lodges - leasehold

## Premium

2-3 new sites - leasehold  
Conversions from Destination

## Taverns

Franchise development  
New-build

## Beer

Innovation  
Collaboration  
Acquisition

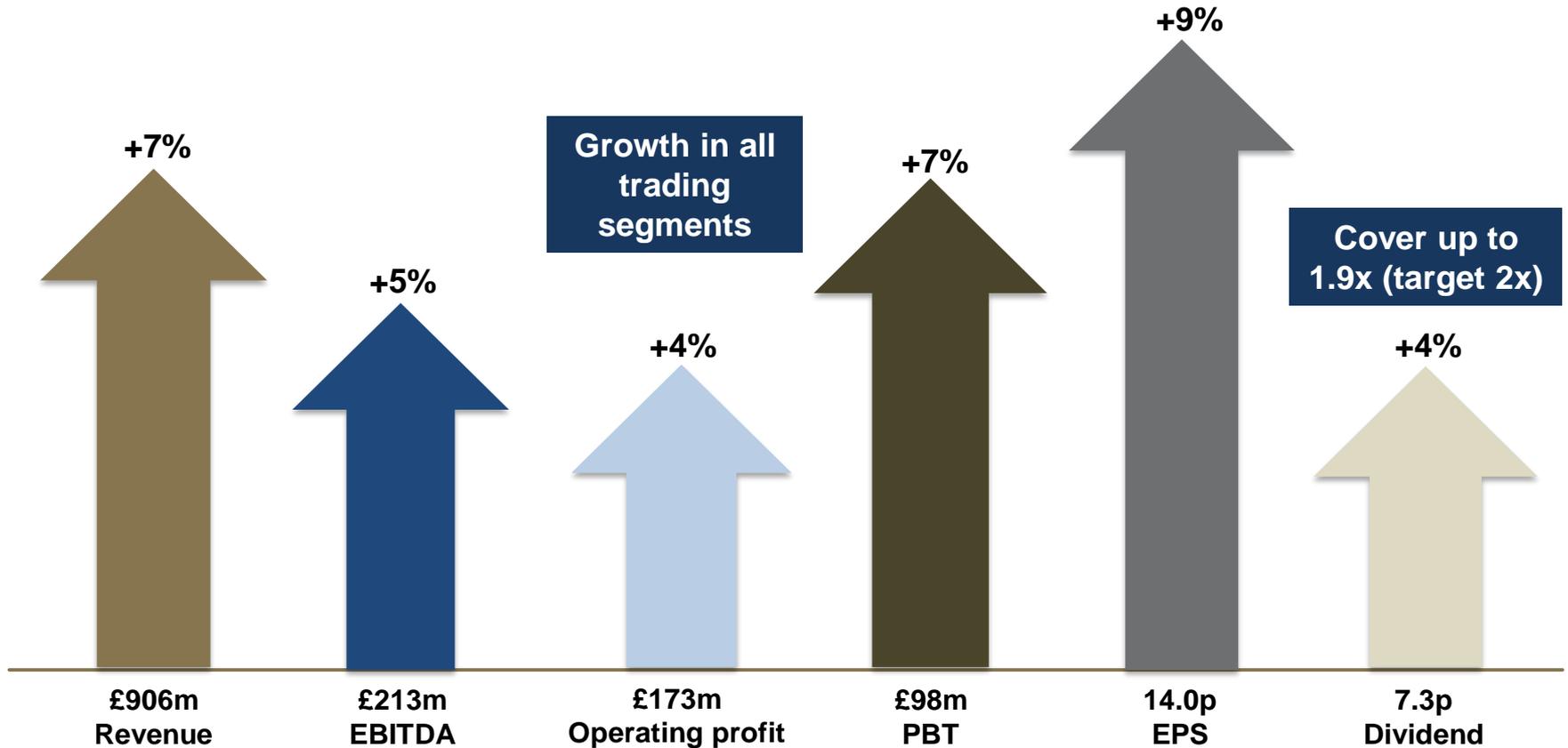
**Broad range of growth opportunities at attractive returns**



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



# FINANCIAL SUMMARY

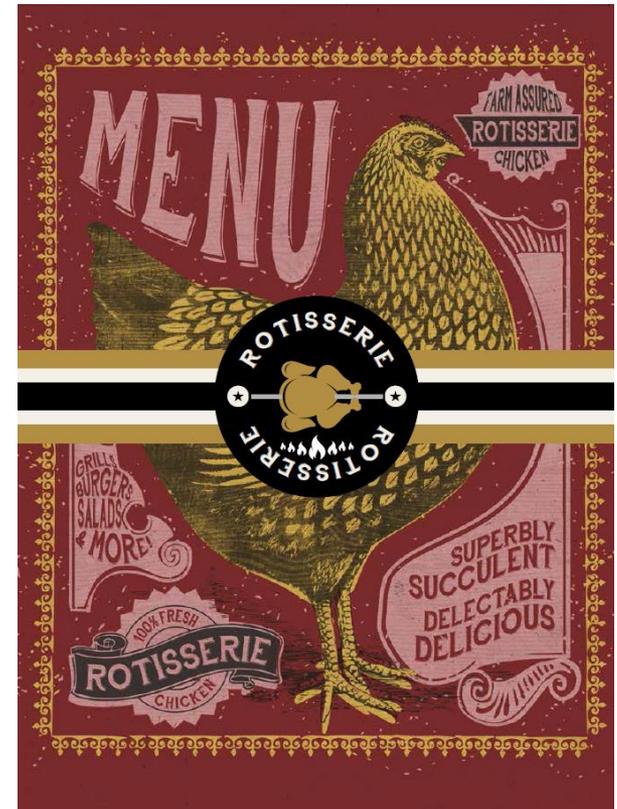


*Underlying numbers, statutory numbers in appendices*

**Solid revenue and profit growth**

# LIKE-FOR-LIKE PERFORMANCE

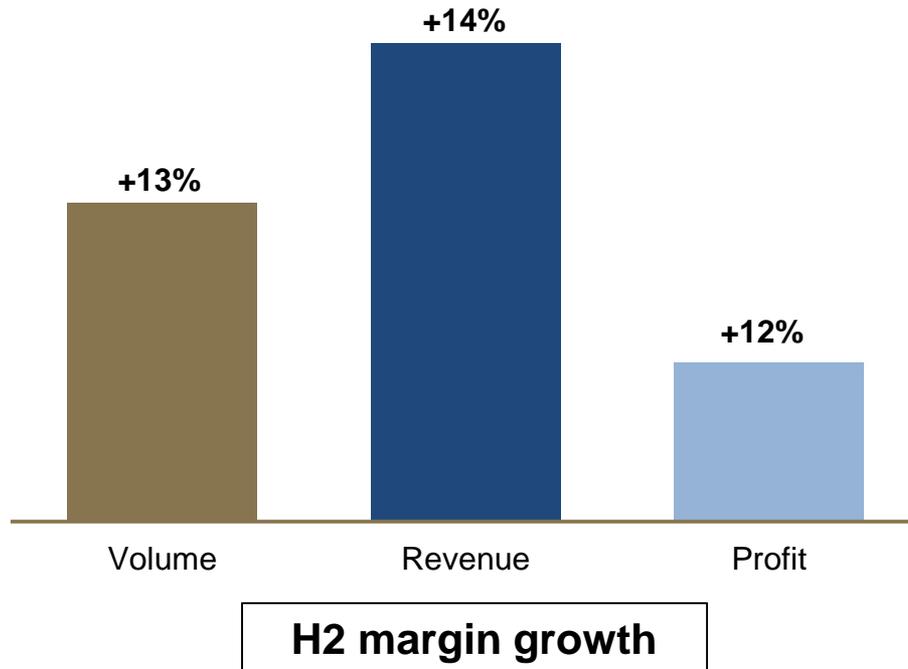
	Destination and Premium	Taverns
Sales	+2.3% +2.5% vs market*	+2.7% +0.7% vs market*
Growth drivers	Volume and mix	Volume and mix
Margin	In line	+0.6%



\*Peach Tracker MAT to September 2016 outside London

Consistent growth and market outperformance, margin maintained

# BREWING



**BEST NATIONAL CASK ALE SUPPLIER OF THE YEAR**  
in the last three Publicans' polls



Revenue and profit growth from core business and acquisition

# COST GUIDANCE

	2017	2018
Drink	c.1-2%	65% contracted
Food	c.1-2%	50% contracted
Brewing raw materials	c.1-2%	75% contracted
Energy inflation - all variable fixed to 2018	c.1-2%	100% contracted
Labour cost inflation - National Minimum Wage £6.95 from October, £7.05 from April - National Living Wage up 4% to £7.50 for over 25s from April	c.4%	c.4%
Apprenticeship levy from April 2017, NEST	+£0.5m	+£1.0m
Rates	c.4%	c.4%
Pension interest (non-cash)	£1.4m	

**No change to operating cost outlook for 2017 and well hedged for 2018**

# CASH FLOW SUMMARY

	2016 £m	2015 £m	Comments
<b>Operating cash flow</b>	<b>183</b>	<b>162</b>	<b>EBITDA and pension</b>
Net interest	(72)	(72)	
<b>Pre-investment FCF</b>	<b>111</b>	<b>90</b>	
Organic capex:			
Maintenance	(45)	(44)	
Growth	(34)	(30)	
Disposals	48	72	<b>£31m lease related</b>
Dividend	(41)	(39)	
<b>FCF pre new-build and acquisitions</b>	<b>39</b>	<b>49</b>	
New-build capex	(65)	(68)	
Thwaites	-	(29)	
<b>Net underlying cash flow</b>	<b>(26)</b>	<b>(48)</b>	

FCF= free cash flow

**Stronger operating cash flow, fewer disposals**

# FINANCING STRUCTURE

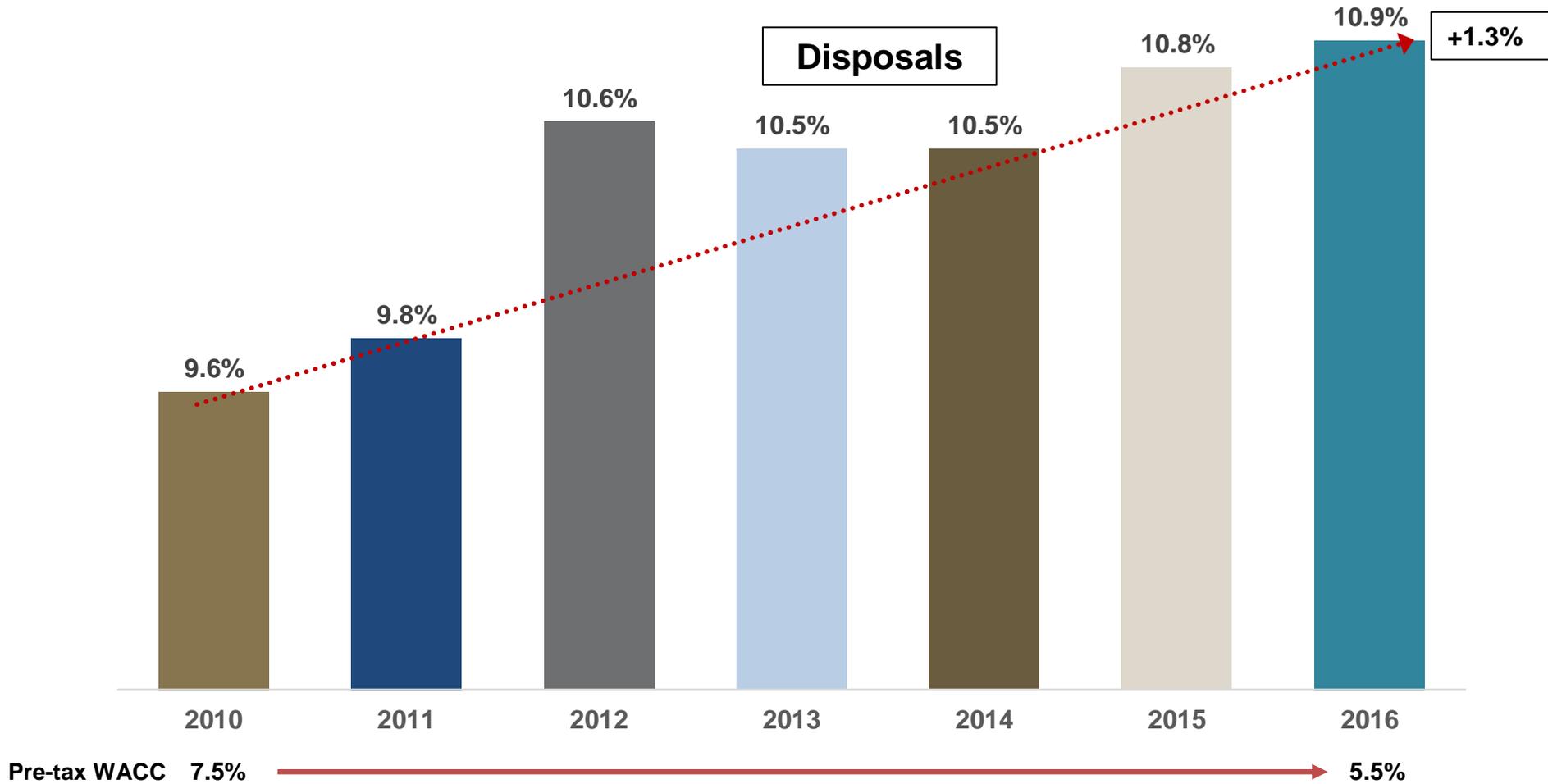
	Securitised	Bank and cash	Total (excluding property)	Property Leasing	TOTAL	Fixed Charge Cover**
	Visible, smooth amortising debt to 2035*	£287.5m bank facilities		Property leases 35-40 year term		
Net Debt £m						
2015	860	183	<b>1,043</b>	202	<b>1,245</b>	
2016 vs 2015	(26)	12	<b>(14)</b>	38	<b>24</b>	
2016	834	195	<b>1,029</b>	240	<b>1,269</b>	
Net Debt: EBITDA						
2015	7.5x	2.0x	<b>5.1x</b>		<b>6.1x</b>	<b>2.5x</b>
2016 vs 2015	(0.4)x	-	<b>(0.3)x</b>		<b>(0.1)x</b>	<b>0.1x</b>
2016	7.1x	2.0x	<b>4.8x</b>		<b>6.0x</b>	<b>2.6x</b>

\* Amortisation schedule in appendices

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

**Long-dated debt structure, leverage reducing, fixed charge cover improving**

# RETURN ON CAPITAL



*CROCCE calculations included in Appendices*

**Returns-focused strategy delivering long-term growth**

# SUMMARY

## 1. Pub business outperforming market

- Well managed estate
- Profit per pub increased 8% to £108k
- Clear and consistent expansion plans

## 2. Market-leading brewing business

- Strong beer portfolio outperforming market
- High quality supply chain improving efficiency
- Potential acquisition opportunities

## 3. Delivering shareholder value

- Dividend up 4.3%
- Return on capital improving
- Strengthening balance sheet

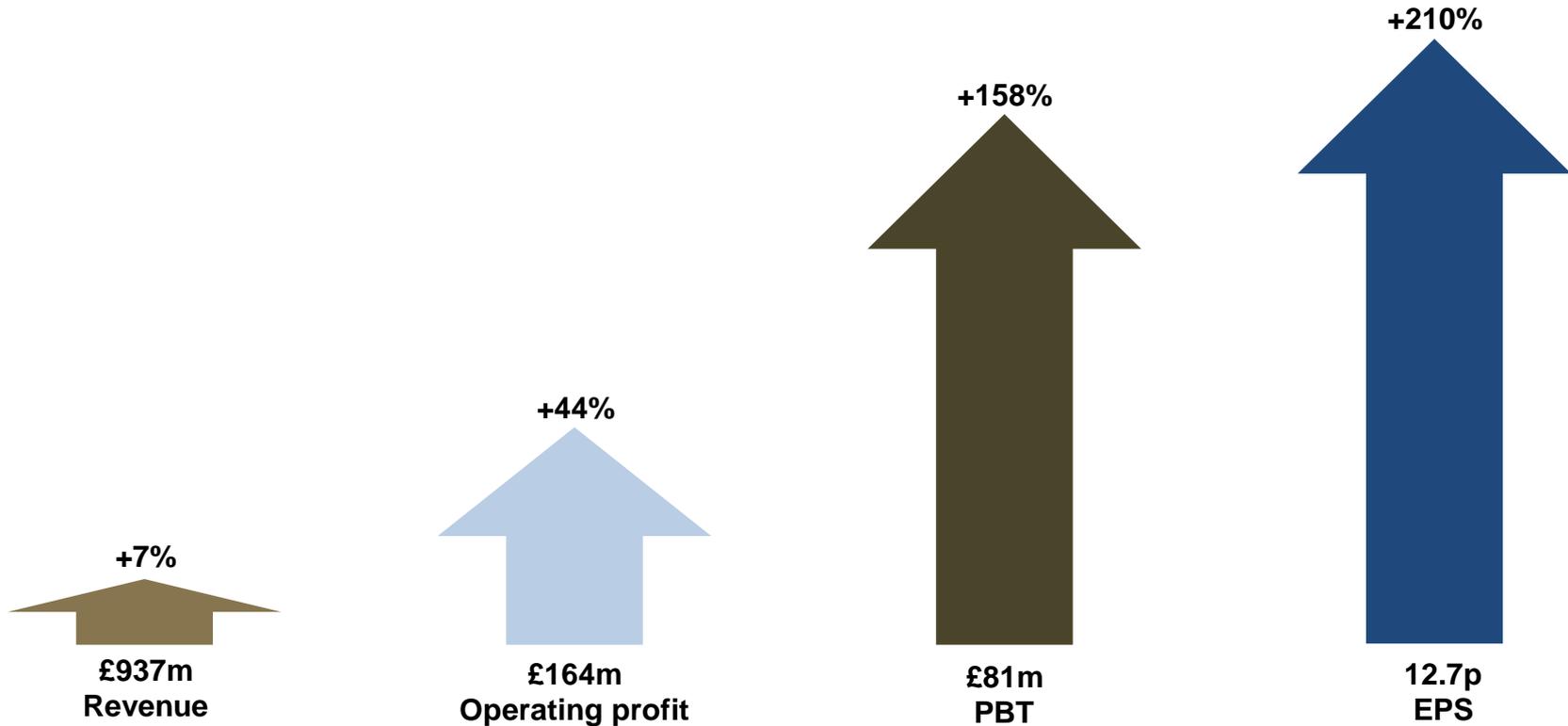


Continuing to deliver shareholder value



# Appendices

# FINANCIAL SUMMARY – STATUTORY BASIS



Revenue and profit growth despite disposals

# SEGMENTAL PROFIT

	2016 £m	2015 £m	YOY %
<b>Turnover</b>			
Destination & Premium	440.8	408.1	8.0%
Taverns (inc AHFS)	221.0	214.7	2.9%
Leased	50.7	53.6	(5.4)%
Beer Division	193.3	169.1	14.3%
Total	905.8	845.5	7.1%
<b>EBITDA</b>			
Destination & Premium	106.3	99.8	6.5%
Taverns	63.5	63.0	0.8%
Leased	25.8	25.6	0.8%
Beer Division	33.4	29.4	13.6%
Group Services	(16.3)	(14.5)	(12.4)%
Total	212.7	203.3	4.6%
<b>EBIT</b>			
Destination & Premium	90.2	83.6	7.9%
Taverns	56.0	55.9	0.2%
Leased	24.2	23.8	1.7%
Beer Division	23.2	20.7	12.1%
Group Services	(20.9)	(18.6)	(12.4)%
Total	172.7	165.4	4.4%
<b>Margin %</b>			
Destination & Premium	20.5%	20.5%	0.0%
Taverns	25.3%	26.0%	(0.7)%
Leased	47.7%	44.4%	3.3%
Beer Division	12.0%	12.2%	(0.2)%
Total	19.1%	19.6%	(0.5)%
<b>Finance Costs</b>	<b>(74.7)</b>	<b>(73.9)</b>	<b>(1.1)%</b>
<b>Profit Before Tax</b>	<b>98.0</b>	<b>91.5</b>	<b>7.1%</b>

# PUB NUMBERS

	Destination and Premium	Taverns	Leased	Total
2015 Closing	397	859	341	1,597
New-build additions	6	1		7
Disposals		(32)	(2)	(34)
<b>H1 2016 Closing</b>	<b>403</b>	<b>828</b>	<b>339</b>	<b>1,570</b>
New-build additions	15			15
Transfers	(2)	6	(4)	-
Disposals		(22)	(4)	(26)
<b>2016 Closing</b>	<b>416</b>	<b>812</b>	<b>331</b>	<b>1,559</b>
2014 average numbers	357	1,082	348	1,787
2015 average numbers	382	913	342	1,637
<b>2016 average numbers</b>	<b>405</b>	<b>832</b>	<b>338</b>	<b>1,575</b>

# HISTORICAL LFL

	Destination and Premium				Taverns
	Total	Food	Wet		Total
15 wks to 18/01/14	4.1%	5.6%	2.2%		3.0%
11 wks to 05/04/14	8.0%	6.1%	9.4%		4.9%
26 wks to 05/04/14	5.7%	5.8%	4.9%		3.8%
15 wks to 19/07/14	1.8%	1.9%	0.2%		0.5%
41 wks to 19/07/14	4.1%	4.2%	3.5%		3.0%
11 wks to 04/10/14	(0.3%)	(0.2%)	(1.8%)		(0.8%)
52 wks to 04/10/14	3.1%	3.3%	2.0%		2.1%
16 wks to 24/01/15	2.0%	2.0%	2.0%		2.0%
10 wks to 04/04/15	0.6%	0.5%	0.5%		0.5%
26 wks to 04/04/15	1.5%	1.4%	1.4%		1.4%
15 wks to 18/07/15	2.0%	2.3%	1.4%		2.3%
41 wks to 18/07/15	1.7%	1.6%	1.6%		1.7%
11 wks to 03/10/15	2.2%	2.1%	2.1%		3.1%
52 wks to 03/10/15	1.8%	1.7%	1.7%		2.0%
16 wks to 23/01/16	3.0%	2.5%	3.4%		2.7%
10 wks to 02/04/16	3.0%	1.8%	3.8%		3.5%
26 wks to 02/04/16	3.0%	2.2%	3.5%		3.0%
16 wks to 23/07/16	1.8%	1.9%	1.3%		2.5%
42 wks to 23/07/16	2.5%	2.1%	2.6%		2.8%
10 wks to 01/10/16	1.8%	0.4%	1.4%		2.0%
52 wks to 01/10/16	2.3%	1.7%	2.3%		2.7%

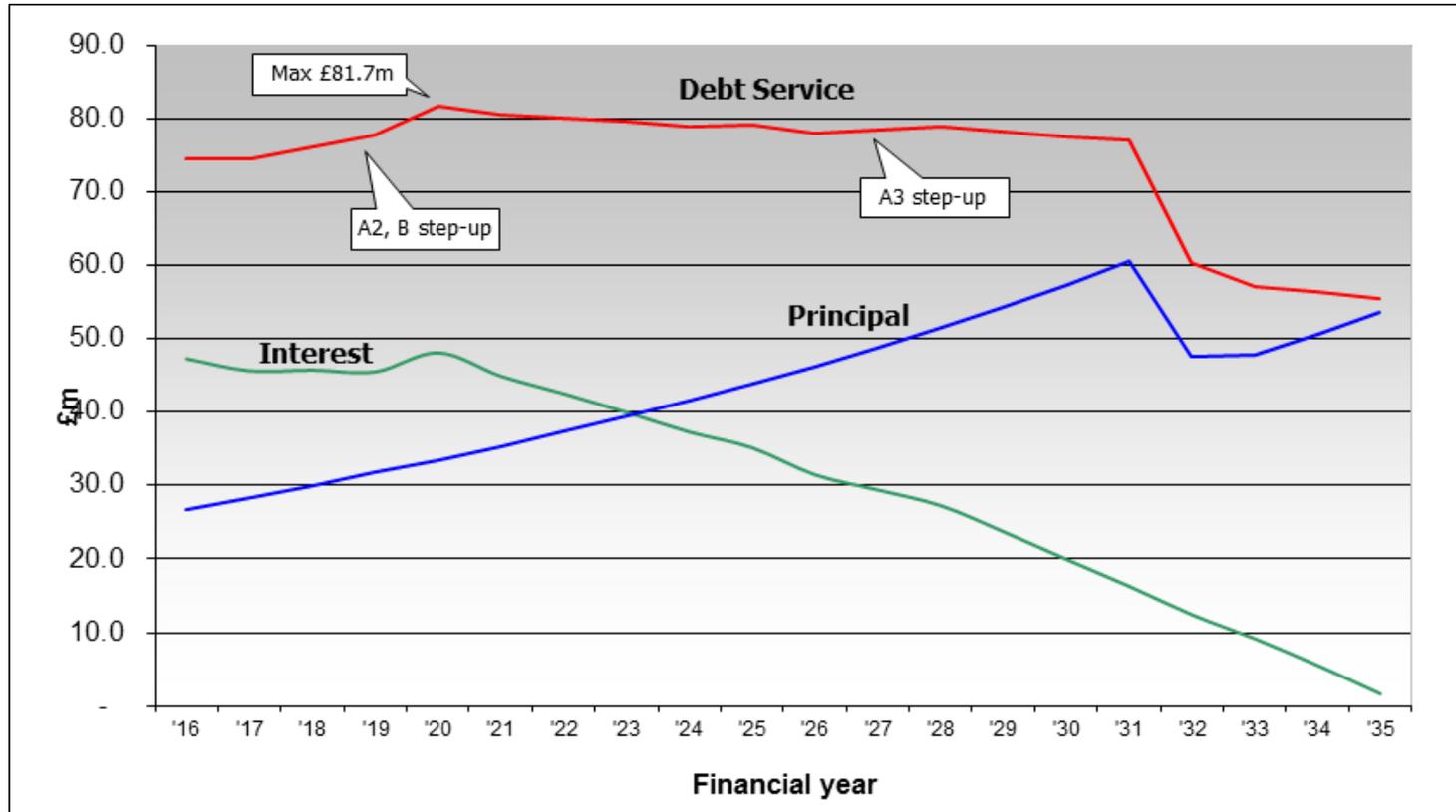
## CAPEX, TAX AND SHARE CAPITAL

		Actual 2016	Forecast 2017	Comments
New-build capex		£65m	c.£70m	Lodge investment
Growth capex		£34m	c.£30m	
Maintenance capex		£45m	c.£40m	
Total		£144m	c.£140m	
Disposals		£17m	£20m	
Lease related		£31m	c.£50m	Increase driven by lodges
Net capex		£96m	c.£70m	
Tax rate		18.0%	c.18.5%	
Average number of shares in 2016		574.6m		
Shares in issue at 1 October 2016		575.4m		
Additional dilutive number of shares		6.0m		

# SECURITISED DEBT PROFILE

Tranche	Type	Principal outstanding at 1 October 2016	Step-up date	Final maturity date
A1	Floating	£79.5m	July 2012	2020
A2	Fixed/Floating	£214.0m	July 2019	2027
A3	Fixed/Floating	£200.0m	April 2027	2032
A4	Floating	£191.0m	October 2012	2031
B	Fixed/Floating	£155.0m	July 2019	2035
<b>Total</b>		<b>£839.5m</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	FY2016				FY2015				FY2014				FY2013*	FY2012	FY2011
	Bal	Depn	Reval	Adj	Bal	Depn	Reval	Adj	Bal	Depn	Reval	Adj	Adj	Adj	Adj
<b>FIXED ASSETS:</b>															
Goodwill	227.5			227.5	227.5			227.5	224.2			224.2	224.2	224.2	224.2
Other intangible assets	37.3	7.5		44.8	37.6	6.6		44.2	25.1	5.3		30.4	30.2	28.7	28.1
Property, plant and equipment	2,199.4	201.6	(623.1)	1,777.9	2,122.6	187.9	(616.0)	1,694.5	1,990.0	183.9	(545.9)	1,628.0	1,674.2	1,653.3	1,800.1
Free trade loans	10.4			10.4	12.1			12.1	11.5			11.5	12.8	14.3	17.1
<b>CURRENT ASSETS:</b>															
Inventories	28.7			28.7	28.2			28.2	23.0			23.0	21.5	22.2	18.8
Assets held for sale	6.6			6.6	18.0			18.0	38.3			38.3	59.9	39.2	6.5
Debtors	85.0			85.0	84.3			84.3	72.9			72.9	69.0	62.5	74.5
<b>LIABILITIES:</b>															
Creditors	(234.3)			(234.3)	(228.5)			(228.5)	(199.0)			(199.0)	(188.4)	(175.2)	(169.2)
<b>NET ASSETS</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>2,186.0</b>	<b>189.2</b>	<b>(545.9)</b>	<b>1,829.3</b>	<b>1,903.4</b>	<b>1,869.2</b>	<b>2,000.1</b>
<b>EBITDA</b>				<b>212.7</b>				<b>203.3</b>				<b>192.4</b>	<b>199.1</b>	<b>198.5</b>	<b>195.7</b>
<b>CROCCE (Closing Net Assets)</b>				<b>10.9%</b>				<b>10.8%</b>				<b>10.5%</b>	<b>10.5%</b>	<b>10.6%</b>	<b>9.8%</b>

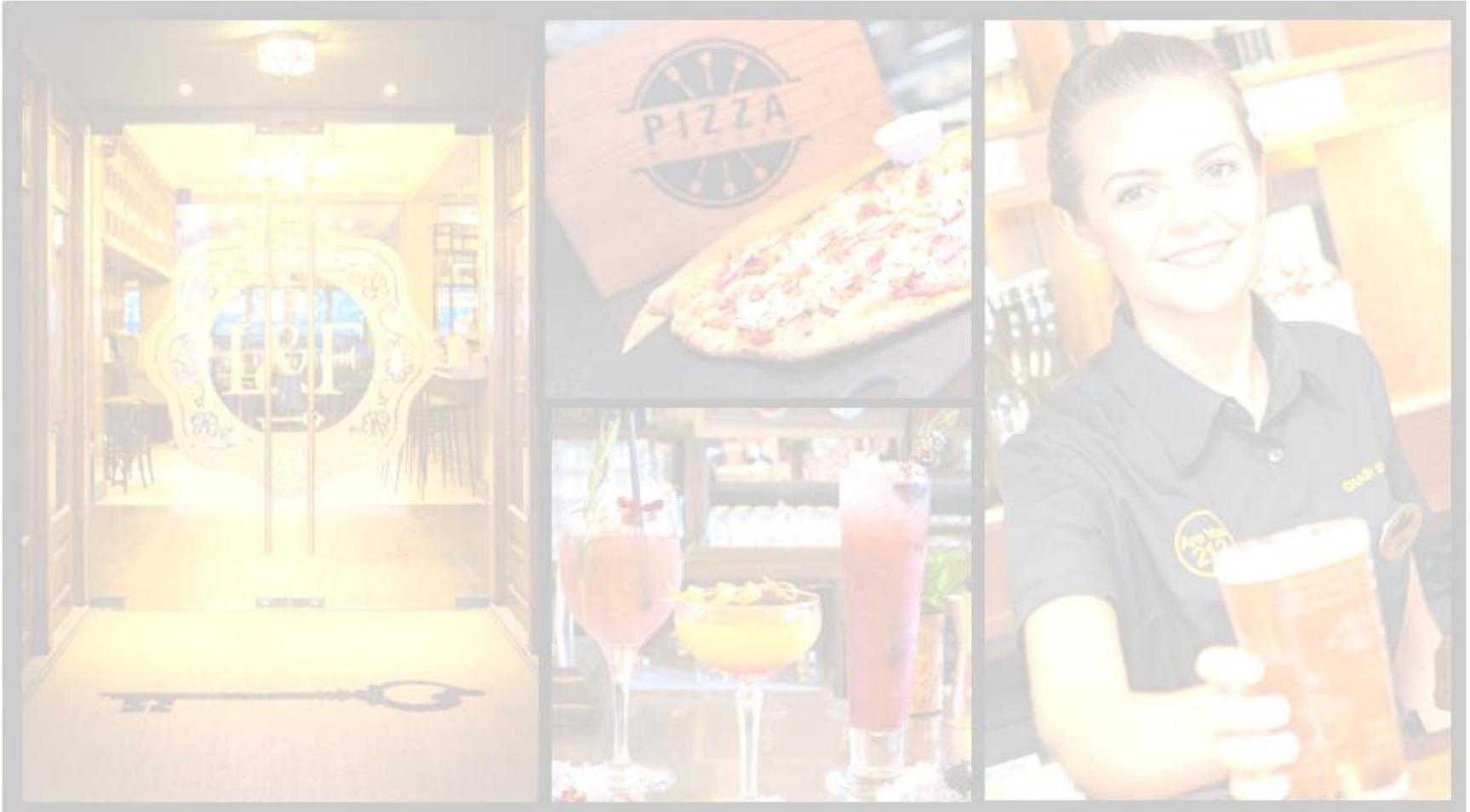
\*2013 adjusted to exclude 53<sup>rd</sup> trading week





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**Notes**



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[www.marstons.co.uk](http://www.marstons.co.uk)