



# PRELIMINARY RESULTS 2015

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Ralph Findlay, Chief Executive Officer

Andrew Andrea, Chief Financial Officer



# Ralph Findlay Chief Executive Officer



# HIGHLIGHTS

## 1. Good progress in 2015

- Revenue and profit growth despite disposals
- PBT growth of 10%
- Growth in all trading segments
- CROCCE, EPS, dividend cover up; leverage reduced

## 2. Pub estate transformation well advanced

- 25 new-builds opened this year
- Average profit per pub £100k – up circa 40% in 3 years
- External estate valuation delivered £54m of value accretion

## 3. Continued development of high quality beer business

- Successful NPD programme
- Acquisition of Thwaites' beer brands successfully integrated
- Increased leading share of premium and cask bottled ale markets



**Clear and consistent strategy delivers strong results**

# MARKET DYNAMICS

## 1. Sector supply

- Over-investment in high footfall “hotspots”, with unsustainable high rents
- Lower pressure on secondary/market towns regionally

## 2. National Living Wage

- Around 60% of Marston's employees under 25
- Majority of impact already included in plans
- Already guided £2m annualised additional cost
- Focus on improving return on people investment

## 3. Consumer outlook positive

- Wage inflation outpacing RPI
- Discretionary spend outlook positive
- Favourable tax credits decision
- Consumer is more demanding

## 4. BIS Review

- As previously guided – no material impact anticipated



**Positive consumer outlook; avoiding oversupplied locations**

# IMPROVING LONG-TERM RETURNS

New-builds	Broad appeal	Take control	Disposals
Better quality of earnings	Destination P&P, Revere Community Leased	Target 85% franchised + managed	Funds for new-build investment
Increase ROC	Maximise opportunity	Improve profit per pub	Increase ROC



Transformation of pub estate improving long-term returns

# ESTATE DEVELOPMENT: VISION AND PROGRESS

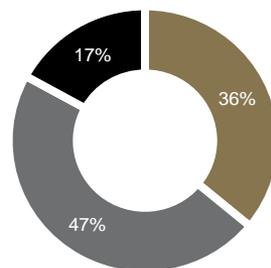
	2013	2014	2015	Operating Model
Destination and Premium	349	372	397	Managed
Taverns	1,316	974	859	Franchised, Managed
Leased	385	343	341	Leased
<b>TOTAL</b>	<b>2,050</b>	<b>1,689</b>	<b>1,597</b>	

Consistent progress on clearly stated strategy

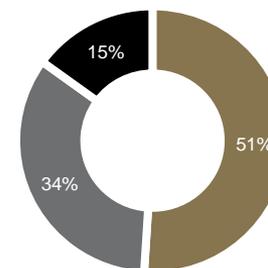
# PUB SEGMENTATION

2015	Operating profit £m	No. of pubs	Average no. of pubs	Average profit per pub vs LY %
Destination and Premium	83.6	397	382	+3
Taverns	55.9	859	913	+20
Leased	23.8	341	342	+4
<b>Total</b>	<b>163.3</b>	<b>1,597</b>	<b>1,637</b>	<b>+15</b>

2012 Profit Mix



2015 Profit Mix



Destination and Premium  
 Taverns  
 Leased

Average profit per pub

£73k

+37%  


£100k

Higher quality estate, half of earnings from Destination and Premium

# LEADING PUB INNOVATION

## 2015 Brand Development

Rotisserie  
re-design

Generous  
George

P&P, Revere  
e.g. Fire Station,  
Farmhouse

Franchise e.g.  
Goodfellowship

## Food & Drink Development

Pizza Kitchen

Burrito

Revere  
'Burger  
and Pizza'

Craft beers  
Coffee  
Non-alcoholic

## Looking Forward

New-build P&P,  
Revere

EPOS

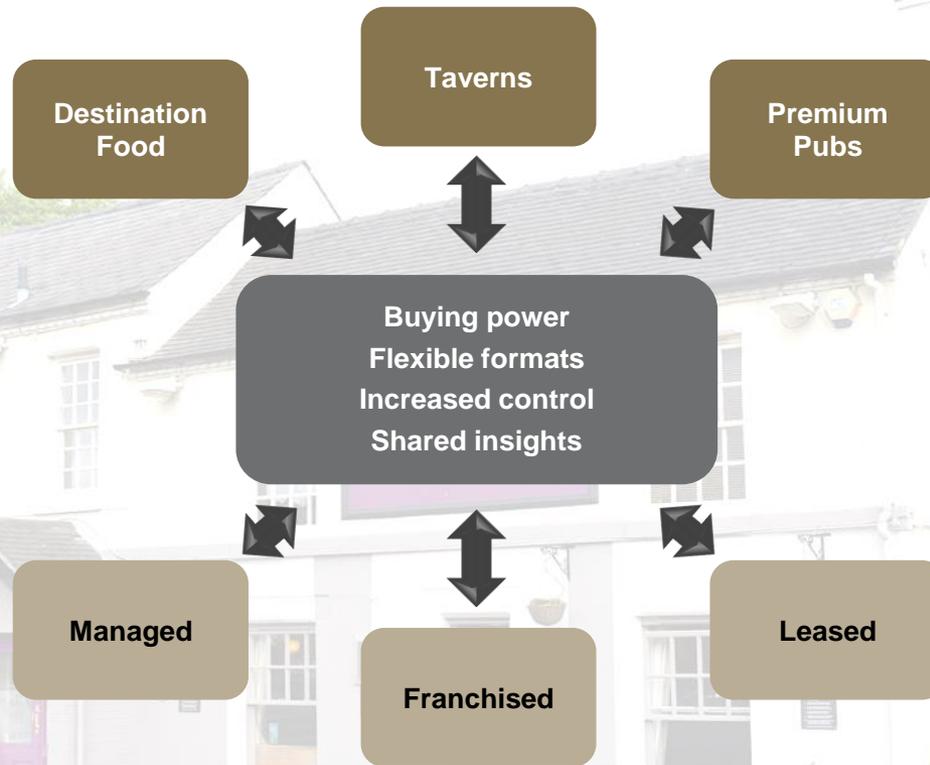
Digital

Pub of the  
Future



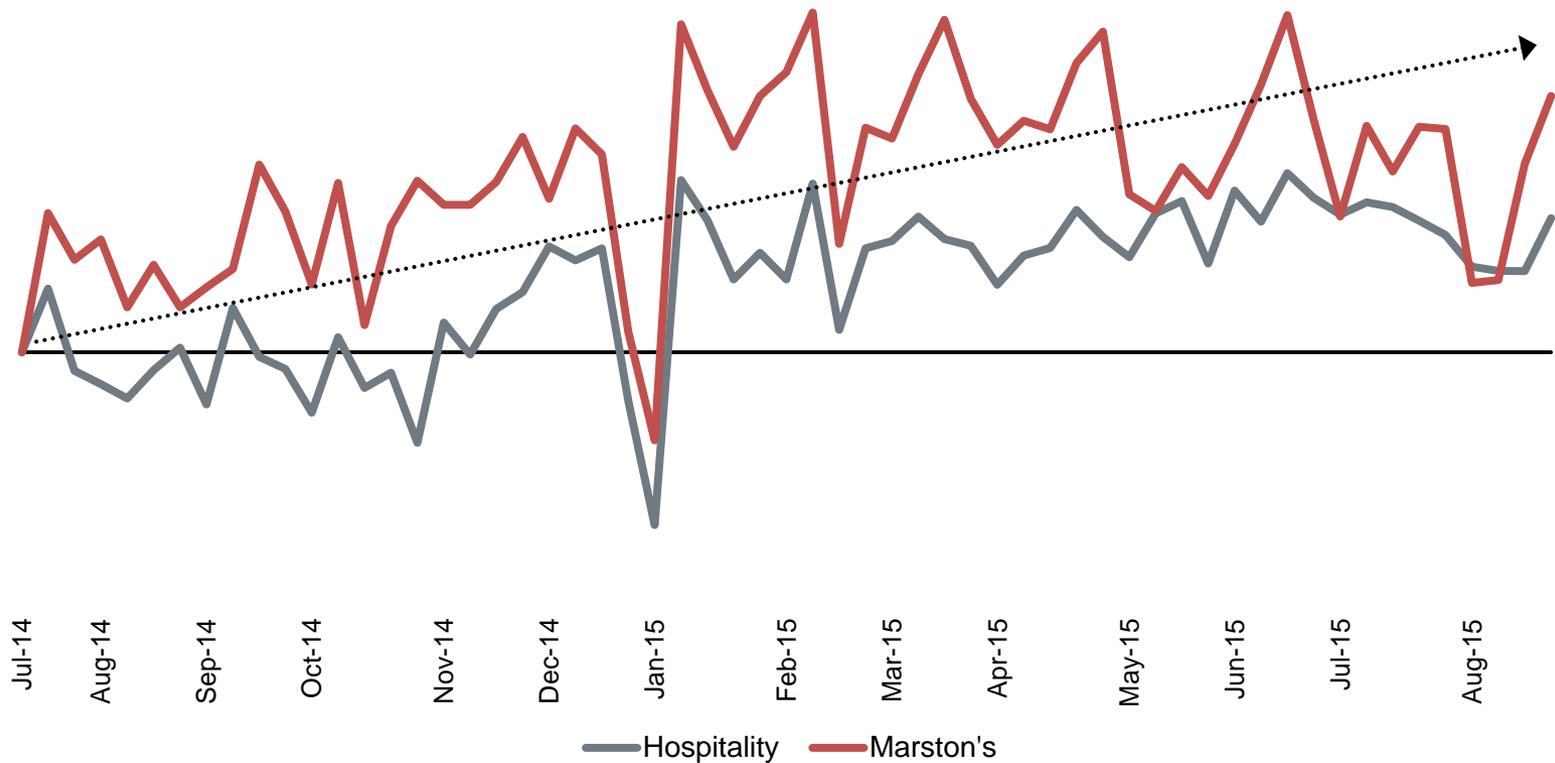
**Innovation and development key to maintaining competitive advantage**

# OPERATING FLEXIBILITY



Right model for right pub

# CUSTOMER SATISFACTION



*InMoment Hospitality Benchmark October 2015*

**Our customers more satisfied relative to improving sector**

# DESTINATION EXPANSION

## Site pipeline

- 25 new-build sites completed this year
- Good visibility on future site pipeline

## Build costs

- Modest pressure on site costs
- Higher standards of environmental compliance
- Build cost +£100-200k per site vs. 5 years ago

## Future plans

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

**Maintain expansion through high returning investment**

# ACCOMMODATION



2015	<b>Destination – 34 pubs</b> <ul style="list-style-type: none"> <li>• c.670 rooms</li> <li>• Occupancy 72%</li> <li>• RevPAR +14%</li> </ul>	<b>Revere – 10 pubs</b> <ul style="list-style-type: none"> <li>• c.130 rooms</li> <li>• Occupancy 70%</li> <li>• RevPAR +12%</li> </ul>
	<b>3 new lodges</b> <ul style="list-style-type: none"> <li>• Dunbar</li> <li>• Balloch</li> <li>• Whitby</li> </ul>	<b>2 conversions</b> <ul style="list-style-type: none"> <li>• Elephant at the Market, Newbury</li> <li>• Farmhouse, Derby</li> </ul>
Future	<ul style="list-style-type: none"> <li>• c.5 lodges per annum</li> <li>• Up to 40 rooms</li> <li>• Selective co-location</li> </ul>	<ul style="list-style-type: none"> <li>• 1-2 conversions p.a.</li> </ul>

Continue to expand quality rooms business



# PREMIUM

## Pitcher & Piano

- Branded
- Premium bars in a mainstream market
- High tempo, high energy
- Great food but not food-led
- Landmark locations

## Revere Town Centre

- Independent feel
- Great food – distinctive menus
- Premium drinks
- Town centre locations

## Revere Country

- Independent feel
- Great food – distinctive menus
- Relaxed, informal ambience
- Suburban/semi-rural locations

**Investment**



**2-3 new leasehold sites per annum  
Conversion from existing**

**Independent attitude and culture, shared Marston's objectives**

## LEASED

### Quality estate delivering growth

- LFL profit growth +4%
- £75k average EBITDA
- 2.5% rental growth

### Income stability

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

**Sustainable income through quality estate and strong support**

# EVOLUTION OF STRATEGY

## 2015

New-build c.£70m  
Freehold returns target 13-15%\*  
Leasehold returns 30%

### Destination

25-30 new-builds  
2-3 lodges

### Premium

2 conversions from Destination

### Taverns

Franchise rollout  
Disposal of smaller pubs



## Future

New-build £60-70m per year  
Freehold returns target 13-15%\*  
Leasehold returns 30%

### Destination

20-25 new-builds - mainly freehold  
c.5 lodges - leasehold

### Premium

2-3 new sites - leasehold  
Conversions from Destination

### Taverns

Franchise rollout  
New-build

*\*13% target for South East sites*

**Broader approach to capital allocation at attractive returns**

# BREWING: FOCUS ON PREMIUM AND BOTTLED

**Marston's leads PCA, PBA markets**

- 1 in 5 premium cask ales\*
- 1 in 5 premium bottled ales\*
- 2015 outperformance in both segments

**Off trade market in growth**

- Market growth 15% in 2015
- £0.5bn value - £1bn by 2020 at current growth
- Off trade >50% of beer market
- c.40% of PBA drinkers <44

**Innovation is key**

- Hobgoblin Gold – 20k barrels in Year 1
- NPD key to success – >20 launched per annum
- Craft Beer development
- Thwaites further establishes market leadership



*\*incl. Thwaites*

**Market leader in fastest growing part of market**

# BREWING: A TRANSFORMED BUSINESS

	2005	2015	Change
Premium ale mix	c.40%	c.70%	+30%
Take Home	c.30%	c.55%	+25%
External sales as % of total ale	c.70%	c.80%	+10%



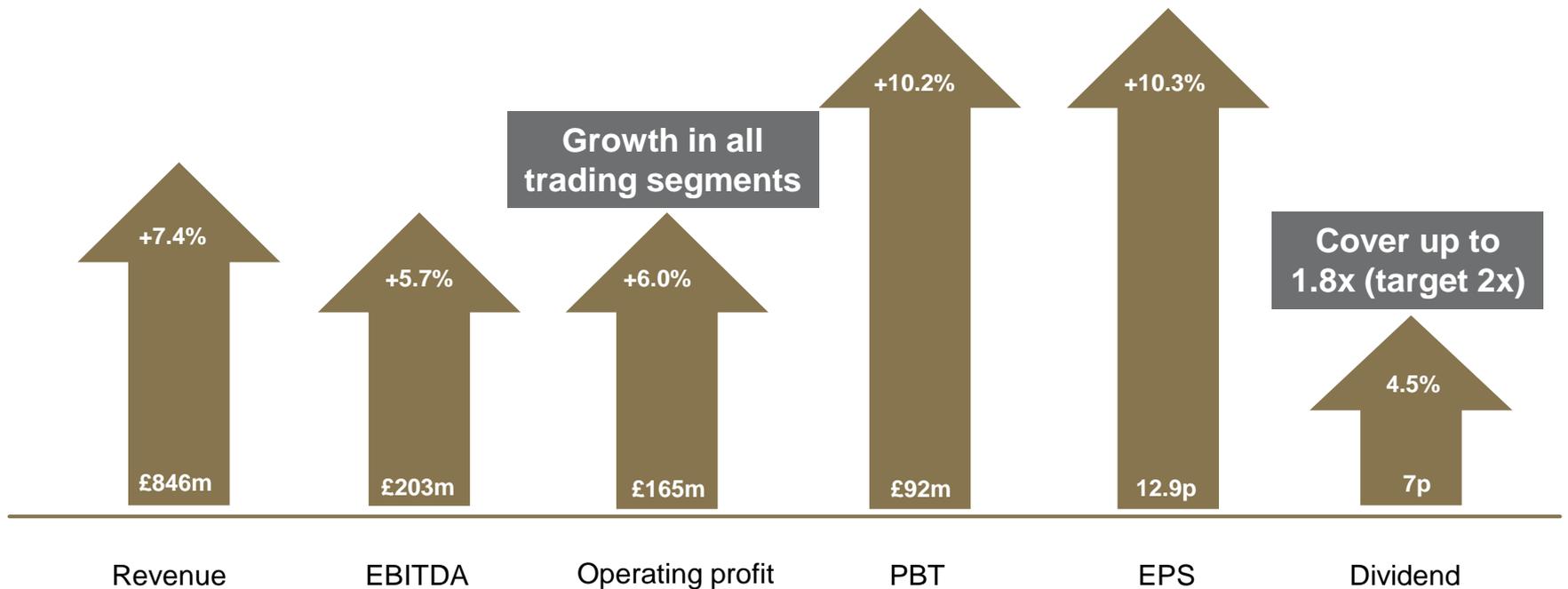
Transformed business appropriate for market trends



# Andrew Andrea Chief Financial Officer



# FINANCIAL SUMMARY



Revenue and profit growth despite disposals

# LIKE-FOR-LIKE PERFORMANCE

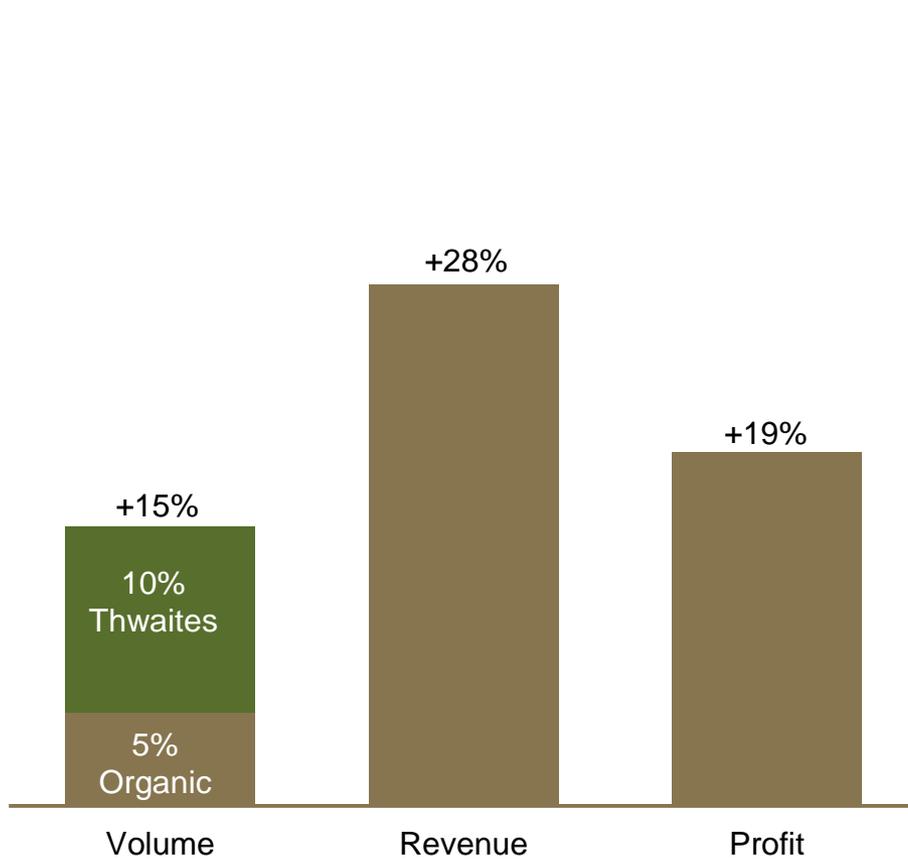
	Destination and Premium	Taverns
<b>Sales</b>	+1.8% +1.6% vs market*	+2.0% +0.9% vs. market*
<b>Growth drivers</b>	Volume and mix	Volume and mix
<b>Margin</b>	+0.1%	+0.2%



\*Peach Tracker MAT to September 2015 outside London

**Volume driven LFL sales outperformance, maintained margin growth**

# BREWING



Revenue and profit growth from core business and acquisition

## 2016 COST GUIDANCE

Food and drink inflation	c.1-2%
Brewing raw materials	c.1-2%
Energy inflation - 50% fixed	c.1-2%
Labour cost inflation - National minimum wage up 3% to £6.70 - Living wage up 7.5% to £7.20 for over 25s from April - Annualised impact of NLW vs existing plans £2m	4%
Head office rent	+£0.5m

**No material change to cost outlook – NMW/NLW increase manageable**

# CASH FLOW SUMMARY

	2015 £m	2014 £m	Comments
<b>Operating cash flow</b>	<b>162</b>	<b>128</b>	<b>EBITDA and working capital</b>
Net interest	(72)	(79)	
<b>Pre-investment FCF</b>	<b>90</b>	<b>49</b>	
Organic capex	(74)	(64)	
Disposals	72	144	2014: NewRiver £90m disposal
Dividend	(39)	(37)	
<b>FCF pre new-build and acquisitions</b>	<b>49</b>	<b>92</b>	
New-build capex	(68)	(78)	25 pubs
Thwaites	(29)	-	
Net underlying cash flow*	(48)	14	

FCF= free cash flow

\* before swap termination costs

**Stronger operating cash flow**

# FINANCING STRUCTURE

	Securitised	Bank and cash	Total (excluding property)	Property Leasing	TOTAL
	Visible, smooth amortising debt to 2035*	£287.5m bank facilities		Property leases 35-40 year term	
Debt £m	866	177	1,043	202	1,245
Debt: EBITDA	7.5x	2.0x	5.1x		6.1x
<b>2015 Proforma (inc. Thwaites)</b>	<b>7.5x</b>	<b>1.9x</b>	<b>5.0x</b>		<b>6.0x</b>
2014	7.4x	2.1x	5.4x		6.2x

\*Amortisation schedule in appendices

**Long-dated debt structure, leverage reducing**

# PROPERTY AND PENSIONS

## Property

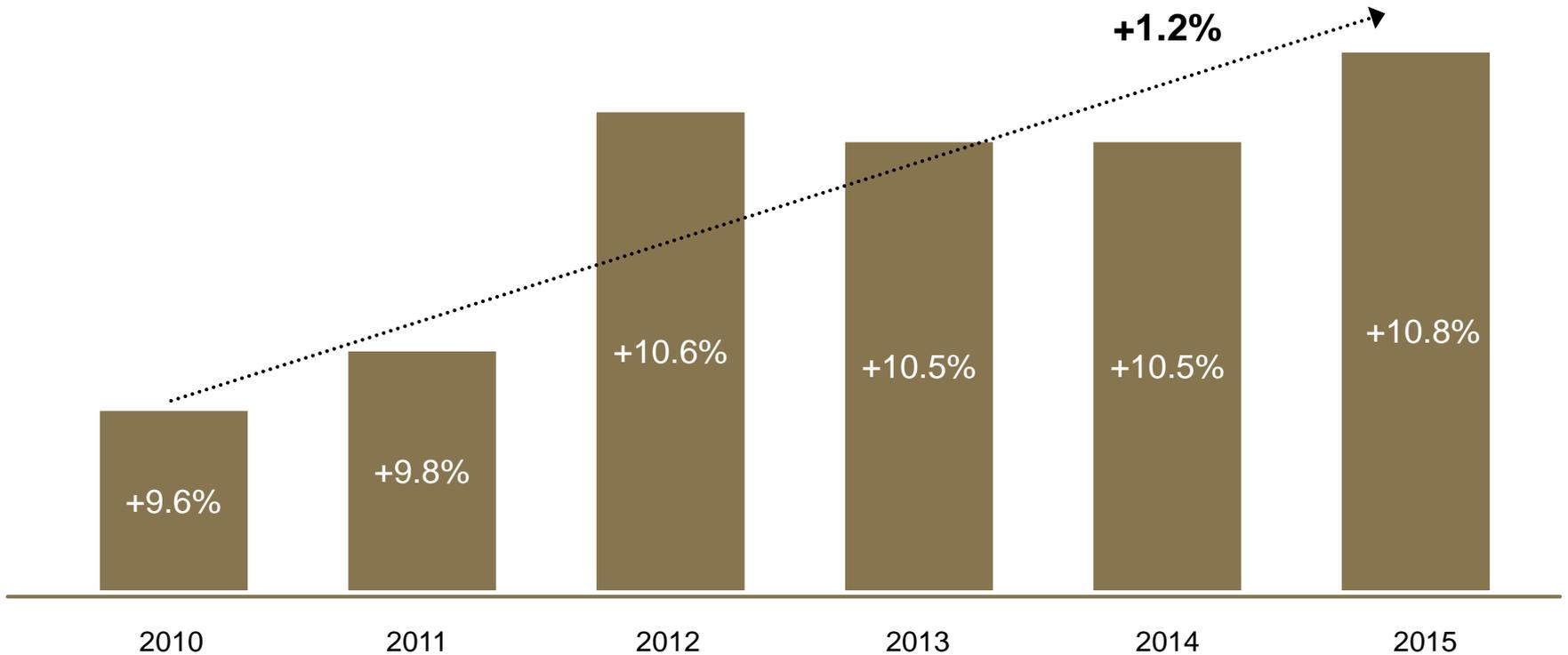
- H1 external valuation concluded £54m uplift
- New-build valuation demonstrates value accretion
  - 40% uplift in valuation on new sites
  - 2% uplift on mature sites
- 96% freehold tenure

## Pension

- Accounting surplus £15m
- Concluded 2014 triennial valuation
  - cash deficit reduced to £50m due to 2014 gilt yield reduction
  - cash contributions reduced by £6m per annum to £8m

Property values underpinned, well managed pension scheme

# RETURN ON CAPITAL



*CROCCE calculations included in Appendices*

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

# SUMMARY

## 1. Transformed pub estate fit for future

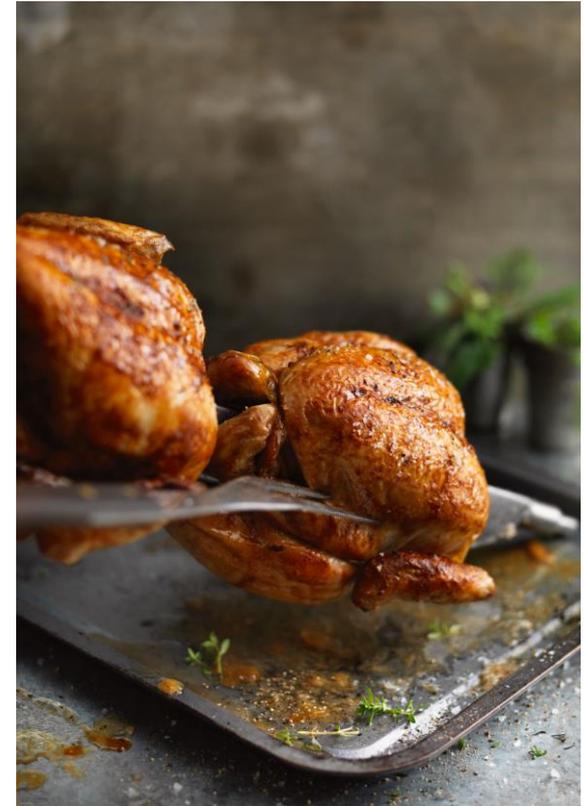
- Well managed estate outperforming market
- Profit per pub increased to £100k
- Clear and consistent expansion plans
- Disposal programme largely complete

## 2. Market leading brewing business

- Strong beer portfolio outperforming market
- Focus on Premium and Craft reinforces position as market leader
- Potential acquisition opportunities

## 3. Delivering shareholder value

- Dividend up 4.5%
- Return on capital growth
- Strengthening balance sheet



**Transformed business delivering long-term shareholder value**



# Appendices

# SEGMENTAL PROFIT

	2015 £m	2014 £m	YOY %
<b>Turnover</b>			
Destination & Premium	408.1	376.9	8.3%
Taverns (inc AHFS)	214.7	225.1	(4.6)%
Leased	53.6	53.1	0.9%
Beer Division	169.1	132.5	27.6%
Total	845.5	787.6	7.4%
<b>EBITDA</b>			
Destination & Premium	99.8	91.4	9.2%
Taverns (inc AHFS)	63.0	63.9	(1.4)%
Leased	25.6	25.4	0.8%
Beer Division	29.4	24.9	18.1%
Group Services	(14.5)	(13.2)	(9.8)%
Total	203.3	192.4	5.7%
<b>EBIT</b>			
Destination & Premium	83.6	76.0	10.0%
Taverns (inc AHFS)	55.9	55.7	0.4%
Leased	23.8	23.5	1.3%
Beer Division	20.7	17.4	19.0%
Group Services	(18.6)	(16.5)	(12.7)%
Total	165.4	156.1	6.0%
<b>Margin %</b>			
Destination & Premium	20.5%	20.2%	0.3%
Taverns (inc AHFS)	26.0%	24.7%	1.3%
Leased	44.4%	44.3%	0.1%
Beer Division	12.2%	13.1%	(0.9)%
Total	19.6%	19.8%	(0.2)%
<b>Finance Costs</b>	<b>(73.9)</b>	<b>(73.1)</b>	<b>(1.1)%</b>
<b>Profit Before Tax</b>	<b>91.5</b>	<b>83.0</b>	<b>10.2%</b>

## PUB NUMBERS

	Destination and Premium	Taverns	Leased	Total
2014 Closing	372	974	343	1,689
New-build additions	8			8
Disposals		(65)		(65)
<b>H1 2015 Closing</b>	<b>380</b>	<b>909</b>	<b>343</b>	<b>1,632</b>
New-build additions	17			17
Transfers		2	(2)	-
Disposals		(52)		(52)
<b>2015 Closing</b>	<b>397</b>	<b>859</b>	<b>341</b>	<b>1,597</b>
2013 average numbers	339	1,379	390	2,108
2014 average numbers	357	1,082	348	1,787
<b>2015 average numbers</b>	<b>382</b>	<b>913</b>	<b>342</b>	<b>1,637</b>

## ESTATE REVALUATION

	No of Sites	Old NBV (£m)	New NBV (£m)	Change (£m)
<b>Managed</b>				
New-Build post 2009	103	332	404	72
Other Managed	369	840	879	39
<b>Total Managed</b>	<b>472</b>	<b>1,172</b>	<b>1,283</b>	<b>111</b>
Tenanted, Franchise and Leased	929	653	610	(43)
Disposals	234	65	54	(11)
Other – Industrial and ULP	190	62	59	(3)
<b>Total</b>	<b>1,825</b>	<b>1,952</b>	<b>2,006</b>	<b>54</b>

Significant value creation from new-builds

# HISTORICAL LFL

	Destination and Premium				Taverns
	Total	Food	Wet		Total
26 wks 30/03/13	0.0%	2.0%	(2.0%)		0.0%
16 wks to 20/07/13	5.4%	6.3%	4.8%		0.0%
42 wks to 20/07/13	2.1%	3.7%	0.5%		0.0%
11 wks 05/10/13	2.2%	4.0%	(0.7%)		0.0%
53 wks 05/10/13	2.2%	3.9%	0.2%		0.0%
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%

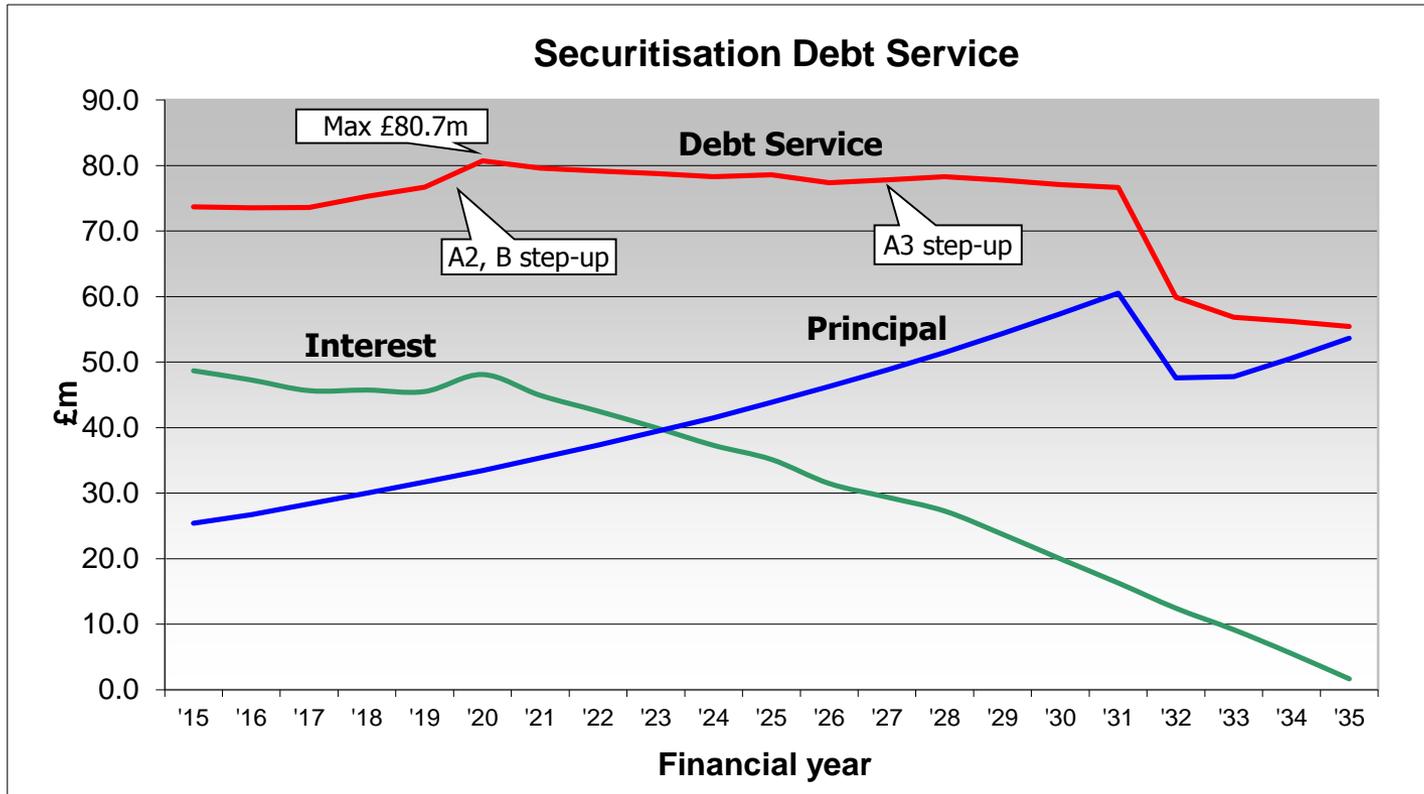
## CAPEX, TAX AND SHARE CAPITAL

		<b>Actual 2015</b>	<b>Forecast 2016</b>	<b>Comments</b>
New-build capex		£68m	c.£70m	
Pub growth		£26m	£25m	
Pub maintenance		£26m	£25m	
Brewing and Group		£22m	£20m	
<b>Total</b>		<b>£142m</b>	<b>c.£140m</b>	
Disposals		£72m	c.£60m	
Net capex		£70m	c.£80m	
Tax rate		19.3%	c.20%	
Average number of shares in 2015		572.2m		
Shares in issue at 3 October 2015		573.9m		
Additional dilutive number of shares		6.1m		

## SECURITISED DEBT PROFILE

<b>Tranche</b>	<b>Type</b>	<b>Principal outstanding at 3 October 2015</b>	<b>Step-up date</b>	<b>Final maturity date</b>
A1	Floating	£97.8m	July 2012	2020
A2	Fixed/Floating	£214.0m	July 2019	2027
A3	Fixed/Floating	£200.0m	April 2027	2032
A4	Floating	£199.4m	October 2012	2031
B	Fixed/Floating	£155.0m	July 2019	2035
<b>Total</b>		<b>£866.2m</b>		

# SECURITISATION PROFILE



		FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035
Principal	£m	26.7	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	46.8	45.2	45.3	45.0	47.3	44.2	41.8	39.4	36.8	34.7	31.1	29.0	26.8	23.4	19.7	16.1	12.3	9.1	5.6	1.8
Debt Service	£m	73.5	73.6	75.3	76.7	80.7	79.6	79.1	78.8	78.3	78.6	77.4	77.8	78.3	77.8	77.1	76.6	59.9	56.9	56.2	55.4

# CROCCE

	FY2015				FY2014				FY2013*				FY2012	FY2011	FY2010
	Bal	Depn	Reval	Adj	Bal	Depn	Reval	Adj	Bal	Depn	Reval	Adj	Adj	Adj	Adj
<b>FIXED ASSETS:</b>															
Goodwill	227.5			227.5	224.2			224.2	224.2			224.2	224.2	224.2	224.2
Other intangible assets	37.6	6.6		44.2	25.1	5.3		30.4	24.1	6.1		30.2	28.7	28.1	27.5
Property, plant and equipment	2,122.6	187.9	(616.0)	1,694.5	1,990.0	183.9	(545.9)	1,628.0	2,063.6	185.9	(575.3)	1,674.2	1,653.3	1,800.1	1,747.3
Free trade loans	12.1			12.1	11.5			11.5	12.8			12.8	14.3	17.1	19.2
<b>CURRENT ASSETS:</b>															
Inventories	28.2			28.2	23.0			23.0	21.5			21.5	22.2	18.8	17.2
Assets held for sale	18.0			18.0	38.3			38.3	59.9			59.9	39.2	6.5	16.0
Debtors	84.3			84.3	72.9			72.9	69.0			69.0	62.5	74.5	65.3
<b>LIABILITIES:</b>															
Creditors	(228.5)			(228.5)	(199.0)			(199.0)	(188.4)			(188.4)	(175.2)	(169.2)	(148.3)
<b>NET ASSETS</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>2,286.7</b>	<b>192.0</b>	<b>(575.3)</b>	<b>1,903.4</b>	<b>1,869.2</b>	<b>2,000.1</b>	<b>1,968.4</b>
<b>EBITDA</b>				<b>203.3</b>				<b>192.4</b>				<b>199.1</b>	<b>198.5</b>	<b>195.7</b>	<b>188.5</b>
<b>CROCCE (Closing Net Assets)</b>				<b>10.8%</b>				<b>10.5%</b>				<b>10.5%</b>	<b>10.6%</b>	<b>9.8%</b>	<b>9.6%</b>

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



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

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