

# Preliminary Results 2006



**W&DB**

# Preliminary results 2006 - highlights

## 1. Record results

- turnover and profit growth in each of our trading divisions

## 2. Earnings per share\* up 14.0%

- profit before tax\* up 13.2%

## 3. Dividend +10.0% to 42.75 pence per share

- consistent double digit growth over 30 years

## 4. £100m buy back planned this financial year

## 5. Name change to Marston's PLC

**acquisitions successfully integrated, clear organic development plans**



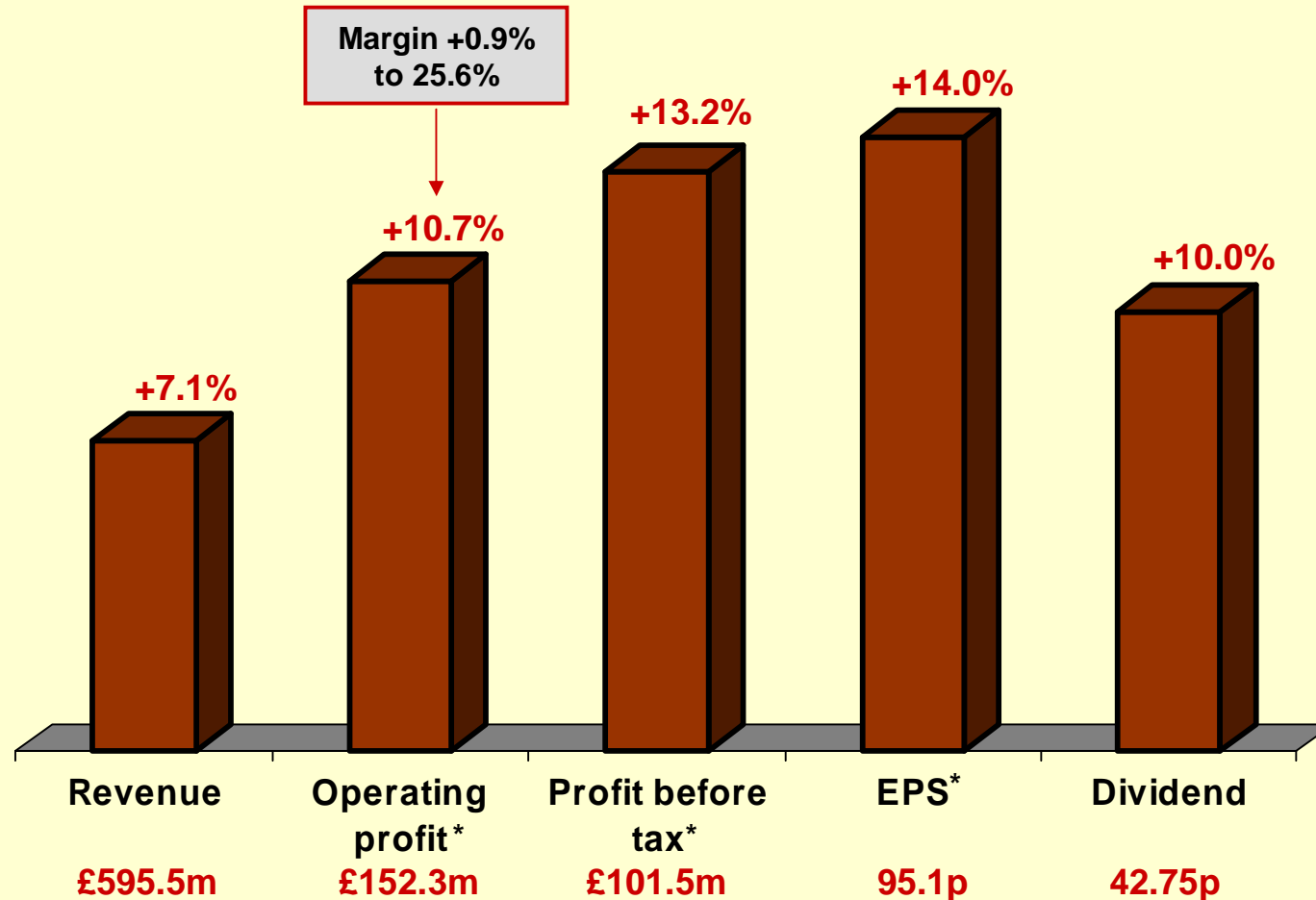
Preliminary Results 2006

A hand is holding a red sign with the words "NO MORE STOPS" written on it in white, bold, capital letters. The sign is tilted and appears to be part of a protest or demonstration. The background is blurred, showing other people and what looks like a street scene.

# Financial Review

Paul Inglett  
Finance Director

# Financial Highlights



**good progress in all key measures**



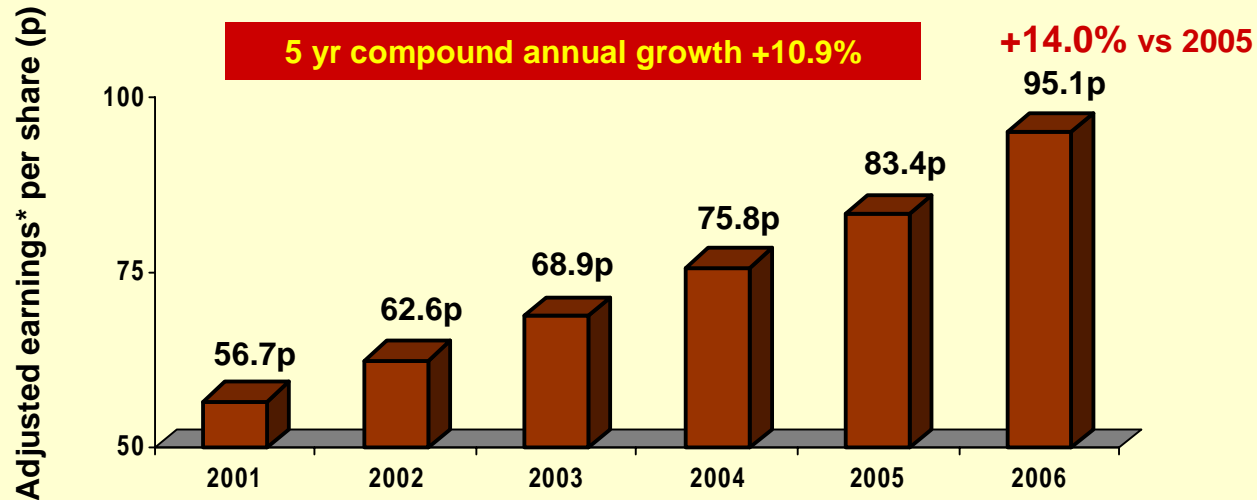
Preliminary Results 2006

\* before exceptional items

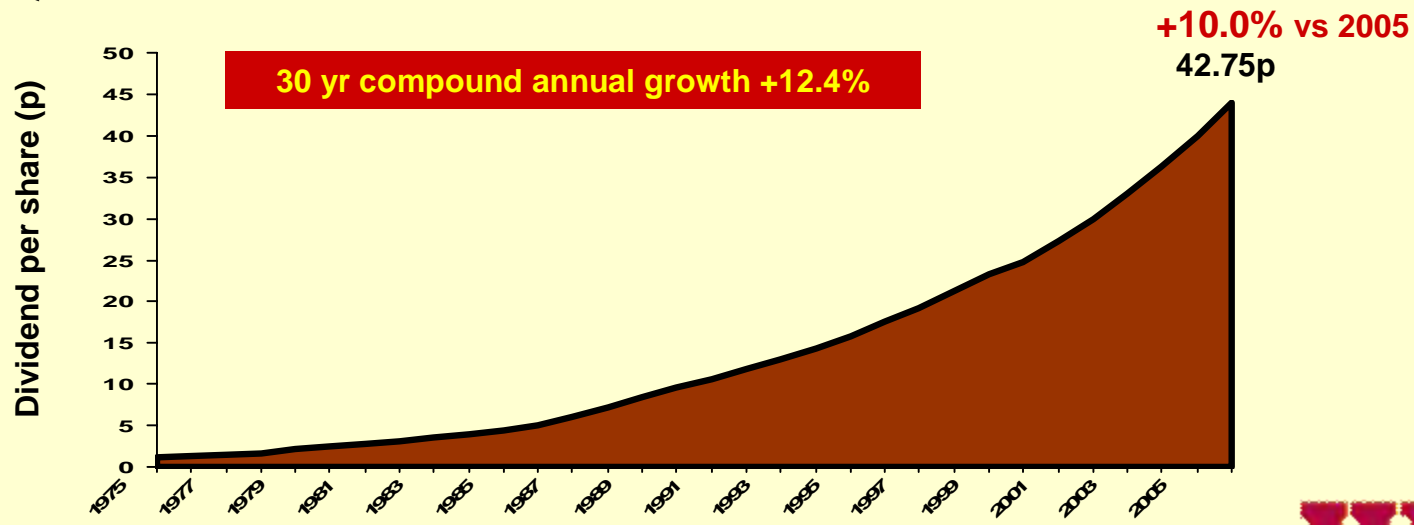
# Earnings and dividend growth



EPS



Dividend



**consistent growth over a sustained period**



Preliminary Results 2006

NB: 2004 and earlier are based on results under UK GAAP

# Operating performance

	2006	2005	
Revenue	<u>£m</u>	<u>£m</u>	<u>% change</u>
Pathfinder Pubs	330.7	317.4	+ 4.2
UPC	178.8	153.3	+16.6
WDB Brands	86.0	85.4	+ 0.7
<b>Group</b>	<b>595.5</b>	<b>556.1</b>	<b>+ 7.1</b>

## Operating profit\*

Pathfinder Pubs	63.5	63.3	+ 0.3
UPC	80.3	65.1	+23.3
WDB Brands	18.0	17.8	+ 1.1
Central	(9.5)	(8.6)	
<b>Group</b>	<b>152.3</b>	<b>137.6</b>	<b>+10.7</b>

**turnover and profit growth in each trading division**

**W&DB**

Preliminary Results 2006

6

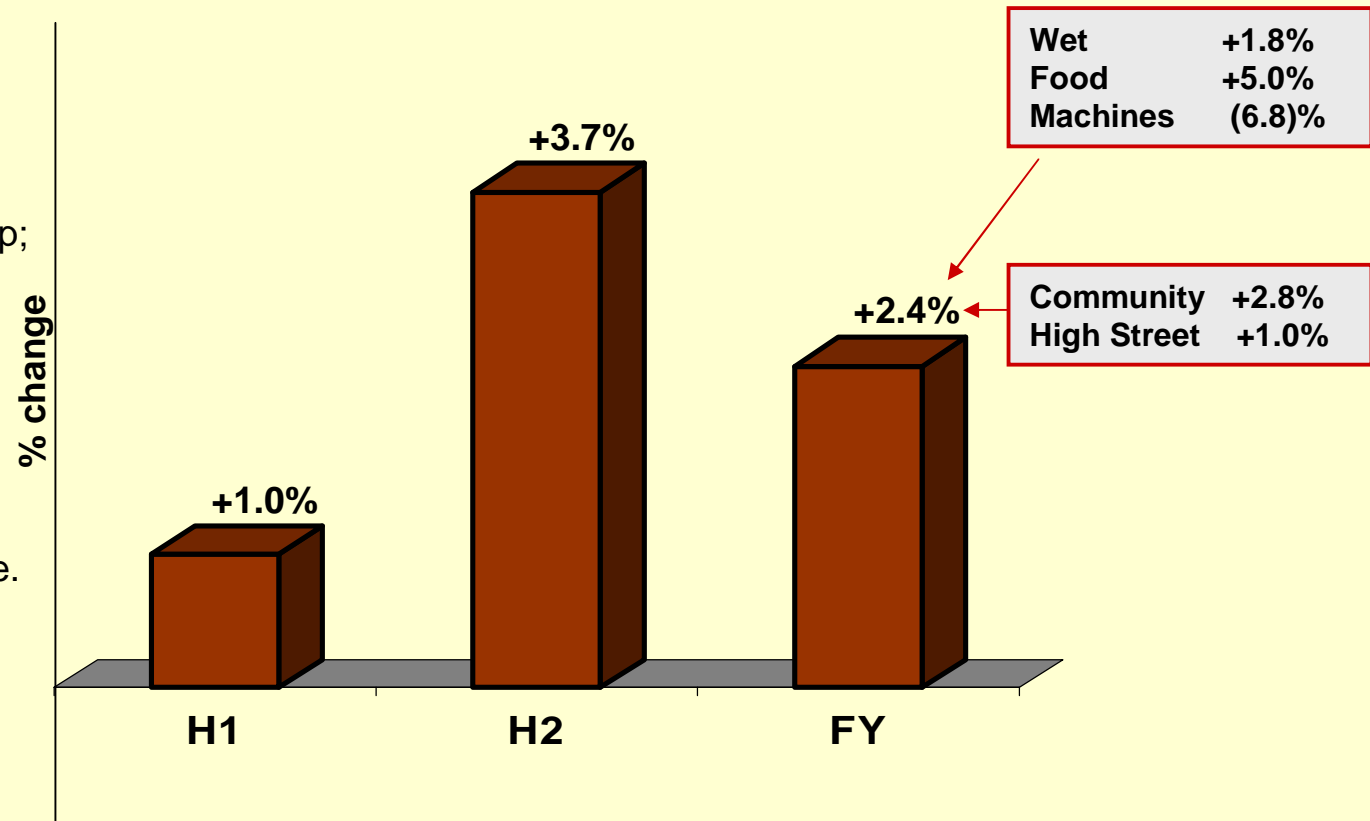
\* before exceptional items

# Pathfinder like-for-like sales



## H2 performance

- better weather, World Cup; +6.7% in June, July.
- volume not price driven.
- focused promotional activity.
- successful major refurbishment programme.
- momentum carried into new financial year; +9.1% in first 8 weeks.

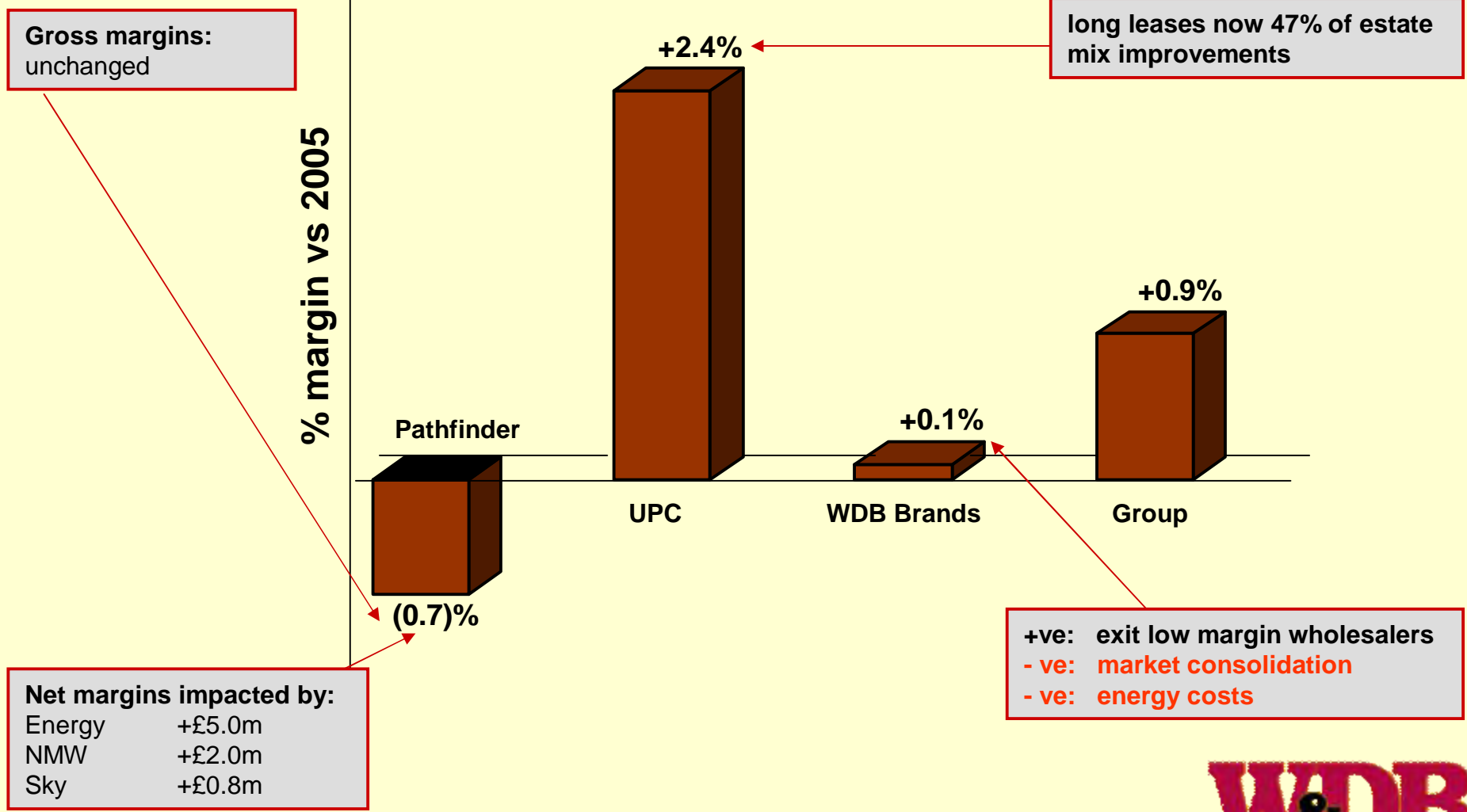


**increasing momentum in LFL performance**



Preliminary Results 2006

# Improved operating margin



**improving margins despite significant cost pressures**

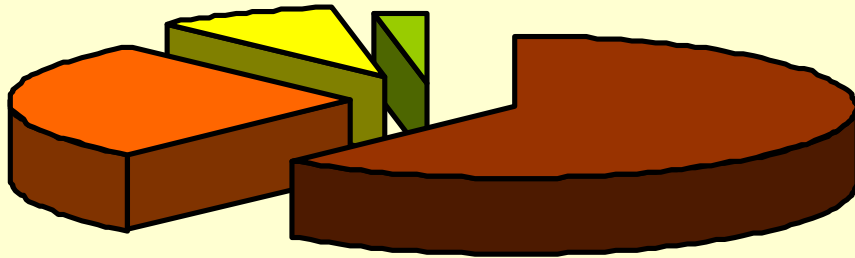




# Capital investment

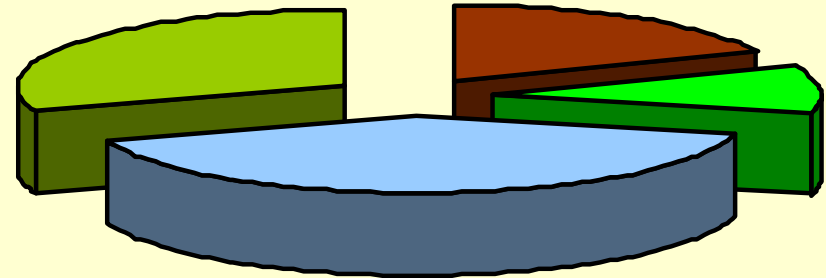
**Total spend: £98.9m (2005: £95.8m)**

**By division**



- Pathfinder £60.6m
- UPC £27.2m
- WDB Brands £8.5m
- Central £2.6m

**By nature of spend**



- New builds/sites £18.3m
- Single site acquisitions £10.0m
- Investment capex £40.6m
- Maintenance capex £30.0m

**total forecast spend 2007: £120m**

**W&DB**

Preliminary Results 2006

# Key metrics of pub estate



**Average turnover/pub/wk**

**2006**

**% increase**

**£13.2k**

**+10.0%**

**Food mix**

Drink: 64%  
Machines: 4%  
Other: 1%

**→ 31%**

**+1.2%**

**Average EBITDA p.a. per pub**

**£202.3k**

**+6.4%**



**Longer leases**

**892**

**+24.4%**

**Average EBITDA p.a. per pub**

**£57.4k**

**+5.0%**

**improving quality of estate**



Preliminary Results 2006

# Cashflow

<u>£m</u>	<u>2006</u>	<u>2005</u>	<u>% change</u>
<b>Cashflow from operating activities</b>	<b>190.0</b>	<b>99.2*</b>	<b>+91.5</b>
Interest	(45.9)	(49.7)	
Maintenance capex	<u>(30.0)</u>	<u>(25.0)</u>	
<b>Free cashflow</b>	<b>114.1</b>	<b>24.5</b>	<b>+365.7</b>
Investment capex	(69.1)	(73.1)	
Disposals/other	<u>32.3</u>	<u>(31.8)</u>	
<b>Cash generated pre-acquisitions and returns to shareholders</b>	<b>77.3</b>	<b>(80.4)</b>	
Acquisitions	(50.3)	(206.0)	
Dividends, shares bought/issued	(48.9)	(24.9)	
<b>Net increase in debt</b>	<b>(21.9)</b>	<b>(311.3)</b>	

**strong cash generation**

**W&DB**

Preliminary Results 2006

11

\* includes £62m of exceptional costs relating to refinancing in August 2005

# Flexible debt structure

## Net debt

Bank facility

£m

155

- existing facility £275m

Loan notes

9

Cash

(53)

Securitisation

783

- 67% of estate securitised

---

894

---

---

- average debt maturity 14 yrs

## Key financing ratios

Average rate

<6.0%

% fixed rate

88%

EBIT interest cover

3.0x

EBITDA interest cover

3.8x

Net debt: EBITDA

4.7x

**capacity to gear up balance sheet**

**W&DB**

Preliminary Results 2006

12



# Balance sheet efficiency

## 1. Target financing ratios

- interest cover: target lower end of range of 2.5x – 3.0x
- net debt/EBITDA: target 5.0x - 5.75x

## 2. Dividends/share buybacks

- £33m dividends: +12.4% 30 year CAGR
- bought back 1.1m shares at total cost of £14.8m in FY06
- announced plans to return around £100m in FY07

## 3. Financing capacity

- opportunity to securitise remaining 33% of pub estate
- ability to fund acquisitions of £400m without recourse to equity

**retain flexible financing structure to take advantage of opportunities**





# Real estate investment trusts

## 1. Potential opportunity

- tax savings
- enhance shareholder value

## 2. Considerations

- legislation only just emerging
- detail complex
- operational constraints
- reduced financial flexibility
- significant conversion and re-financing break costs
- short term benefits vs longer term asset appreciation

## 3. Next steps

- more detailed analysis with advisors
- continue to keep under review

**potential future opportunity, but with significant complexity**



Preliminary Results 2006

## 1. Reported on IFRS basis

- minimal impact on P&L
- < £1m reduction in profit; reduced tax charge

## 2. Pensions

- triennial valuation
- more conservative assumptions used offsetting +ve investment returns
- deficit before tax increased from £45.6m to £53.1m
- £7.2m additional annual contributions for 9 yrs

## 3. Exceptional items

- no exceptional items in 2006
- P&L includes:
  - costs of managed to tenanted transfers of £1m+
  - abortive acquisitions costs of <£1m
  - net property profits of c£1m

**no material changes**



# Financial summary

## 1. Good progress in all key financial measures

- continued double digit earnings and dividend growth

## 2. Turnover and profit growth in each division

- improved margins

## 3. Improving quality of pub estate

- average profit per pub; Pathfinder +6.4%, UPC +5.0%

## 4. Flexible debt structure

- £100m buy back planned this financial year
- capacity to gear up balance sheet

## 5. Share split

- 4 for 1 split from 8 January 2007

**strong performance, well placed to take advantage of opportunities**



Preliminary Results 2006



A hand is holding a red sign with white text. The sign has 'NO MORE' written vertically and 'SAYS' written horizontally. The background is a blurred image of a hand holding a pen over a document.

# **Business Development**

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

## 1. Pub operator – 2,352 pubs

- Pathfinder Pubs – 459 managed pubs
- The Union Pub Co. – 1,893 tenanted/leased pubs
- Situated across England and Wales
- 95% community/neighbourhood estate, 96% freehold

## 2. Brewer

- leading ale brands
- largest brewer of cask ale in the UK

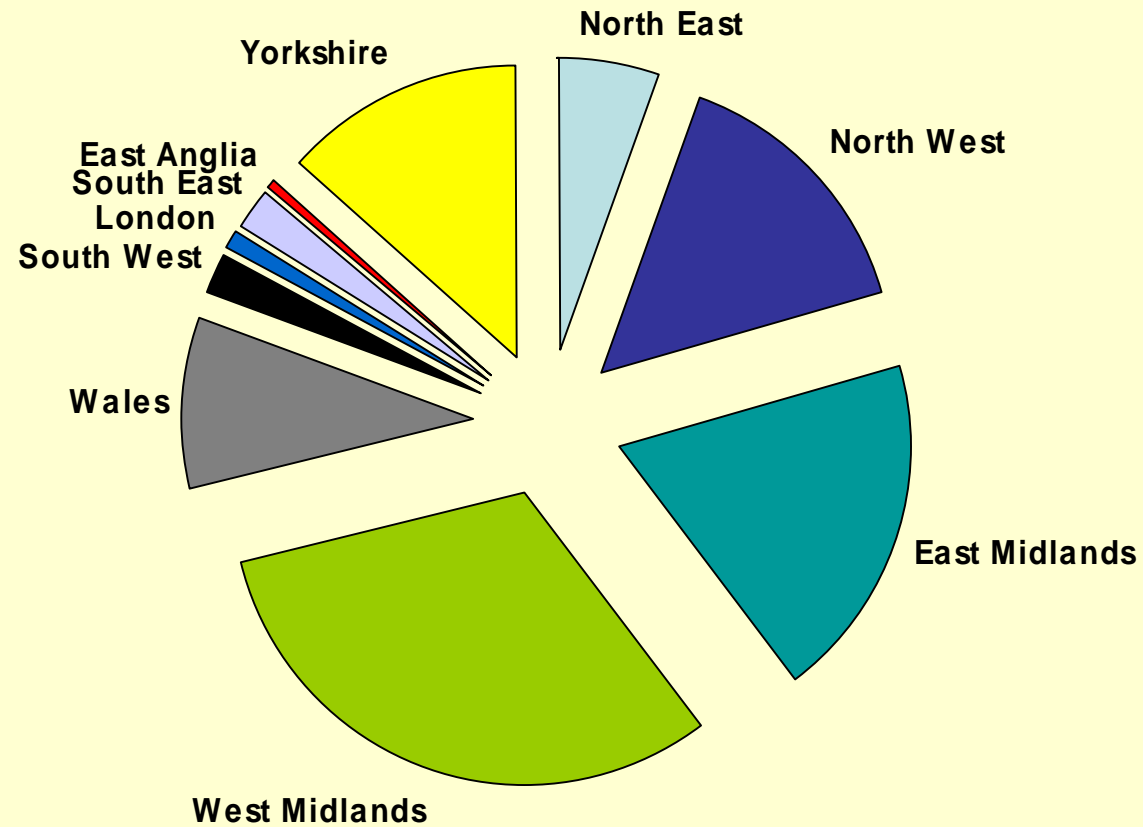
## 3. Vertically integrated business

- clearly differentiated market position
- consistent record of strong financial performance

**a leading pub operator and brewer with a flexible business model**



# Pub estate geography\*



**national pub estate throughout England and Wales**



Preliminary Results 2006

\* 2,352 pubs as at September 2006

## 1. Growth through development of national, high quality pub estate

- corporate acquisitions
- new build pubs/acquisition of existing pubs
- pub refurbishment
- predominantly community pubs
- continued investment in people and skills

## 2. Increase market share of WDB Brands' beers

- exploit benefits of integrated model

## 3. Maintain a strong, efficient balance sheet

- predominantly freehold ownership
- long-term, low cost debt financing
- gearing to reflect stable income, risks

**clear, consistent and straightforward strategy**



## 1. Significant developer of new-build pubs

- relies on detailed knowledge, specialist capabilities
- time consuming activity, difficult to replicate
- typically 2 year time-span from site identification to opening
- 12 new builds in 2006, 20 planned in 2007



## 2. Higher reward, lower risk

- freehold development
- EBITDA returns c17%, equivalent to 6x multiple
- investment is ideally situated – location, position
- construction of modern food pubs



**potential for higher value creation through new build pubs**

# Organic development: new build pubs(2)



## 3. Value creation from new-build pubs



- new builds open
- 2007 sites
- trading pubs acquired

### Illustrative 5 year programme

20 pubs p.a. @ £2m per pub

investment multiple 6.0x EBITDA

exit multiple 9.0x EBITDA after 5 years

value creation **c£75m** - discount factor 10%



**Pathfinder Pubs are a leading developer of new build pubs**



Preliminary Results 2006

# Organic development: managed community pubs



## 1. New consumer segments

- **Taverners' Carvery (12 pubs)**
  - great value carvery offer
  - traditional pub ambience
  - food 55% of sales
  - average sales per week c £18k
- **2 for 1 (54 pubs)**
  - every day fixed offer
  - high retail standards, high service level
  - food 60% of sales
  - average sales per week c £15k



## 2. Progressive menu development

- Bostin' Local
- Carvery
- Service That Suits
- Two For One



**focused on families, females, food and mature customers**



Preliminary Results 2006

# Organic development: high street(1)

## 1. Pitcher & Piano (25 units)

- sold – Leeds and Norwich
- recent openings – Taunton, Brighton
- development sites – Poole, Derby
- average sales per week £23k



## 2. Bluu

- 4 sites acquired in July 2006
  - Nottingham, London, Manchester, Glasgow
  - also acquired Fat Cats in Derby and Glasgow
  - sale of both Glasgow units completes 7 December
- upmarket food/bar positioning
- managed by Pitcher & Piano team, Hammersmith London
- average sales per week £20k



**selective development of branded high street bars planned**

**W&DB**

Preliminary Results 2006



## Organic development: high street (2)

### 3. Unbranded high street (total 50 bars)

#### Rack & Tenter, Moorgate, London

- £250k refurbishment
- sales uplift +55% to £28k per week
- estimated EBIT return 80%



#### Pavilion End, Watling Street, London

- £280k refurbishment
- sales uplift +65% to £20k per week
- estimated EBIT return 50%

further development of ex-Wizard estate planned in 2007

**W&DB**

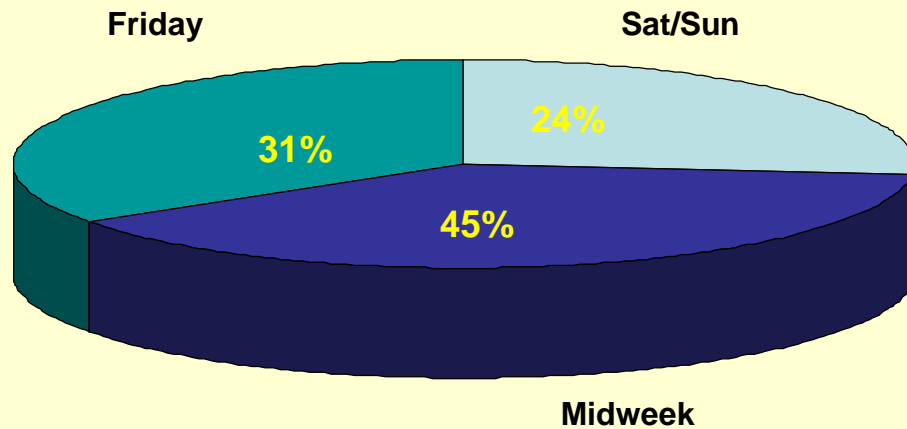
Preliminary Results 2006

25

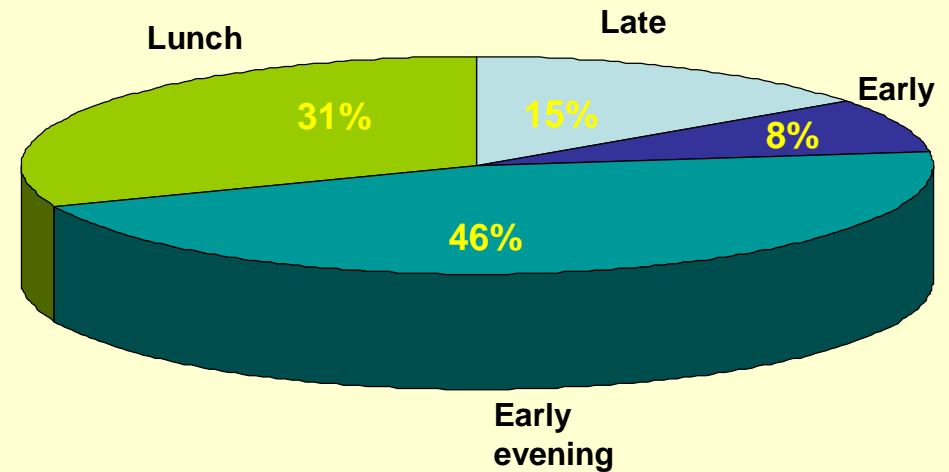


## Split of like for like sales growth in Pathfinder Pubs

1. By day



2. By hour



licensing reform has had a limited impact on trade



# Organic development: tenanted and leased pubs(1)

## 1. Strong support

- first operator to commit funds and guidance during licensing reform process
  - total cost c£3m
- £10m investment ahead of smoking ban
- launch of uniON
  - intranet service for licensees
- training days
  - 1,500 attendees on 'Skills Pool'
- food development
  - headed by Ben Bartlett, the Publican 'HQ Pub Food Champion'
  - food development forums
  - menu development DVD



**support essential in a challenging environment**

**W&DB**

Preliminary Results 2006

# Organic development: tenanted and leased pubs(2)

## 2. Growth in leased estate

- 47% of estate leased (2005: 41%)
- average rent per leased pub: +36% vs average



- attractions
  - ability to generate significant capital
  - assignability and security attractive to lessees
  - full repairing leases
  - range of rent/discount options available
  - controls in place over assignment process

**pubs with opportunities are attractive to lessees**

**W&DB**

Preliminary Results 2006

# Organic development: tenanted and leased pubs(3)



## 3. Capital investment potential

- £27.2m investment in 2005/6
  - £40m+ is planned in 2006/7
  - smoking ban 'defence'
  - further development of Celtic Inns, Jennings and Burtonwood estates
- individual pub acquisitions
  - more pubs coming to market pre smoking ban
  - **but** prices remain high, market is competitive



investment driven by food capability, outside areas, demographics



Preliminary Results 2006

# Operational issues: tenanted and leased pubs



## 1. Tenant cost and legislative pressures

- energy
- Sky TV
- NMW
- licensing reform

## 2. Impact on tenants

- rent concessions <0.6% rent roll
- no rent reviews taken to arbitration
- bad debts unchanged at 0.3% of turnover
- over 400 fully funded approved applicants
- average lease assignment premium £82k



**challenging trading conditions, but good tenants continue to prosper**

**W&DB**

Preliminary Results 2006

# Preparation for the smoking ban<sup>(1)</sup>

## 1. Investment

- £20m planned to be invested by April 2007
- significant progress already made
  - over 1,500 tenants/lessees already 'signed up'
  - plans substantially complete in Pathfinder Pubs

## 2. Disposal of 'the tail'

- >900 pubs sold in last 5 years
  - estate well positioned through churn, investment
- scale of future disposal programme: <3% by value

## 3. Risks/opportunities

- downside risk – wet sales, machine income
- opportunity – new customers, food sales

**90% of our pubs have good outside trading areas**

**W&DB**

Preliminary Results 2006

## Preparation for the smoking ban(2)



investment designed to provide attractive outside trading areas

**W&DB**

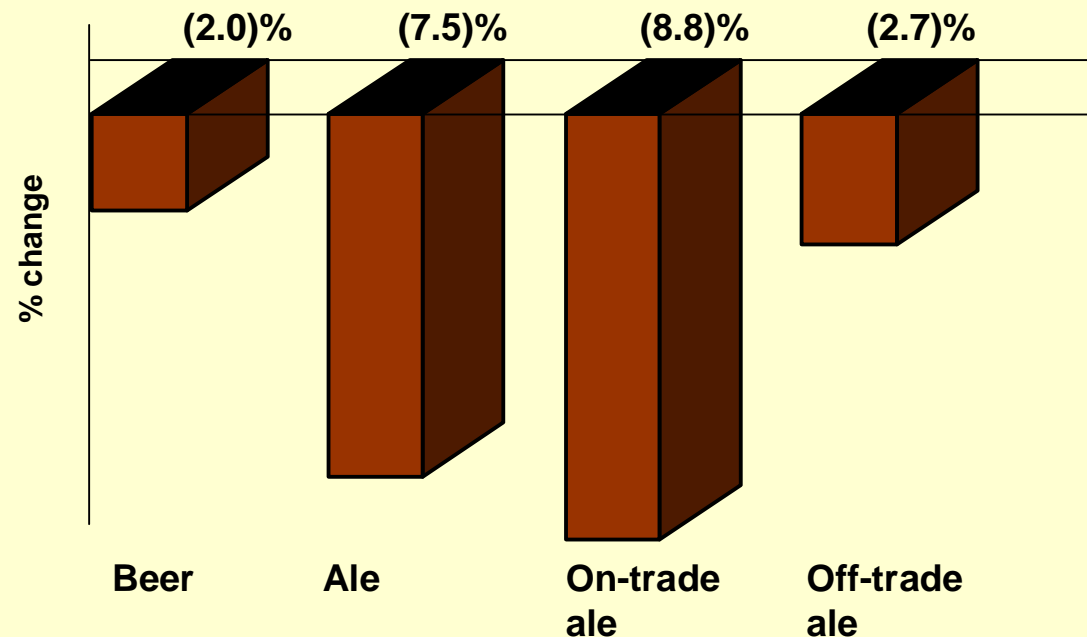
Preliminary Results 2006



# Organic development: WDB Brands (1)

1. The UK beer market\* remained weak in 2005/6
  - WDB Brands increased share of the ale market

## UK beer market : 12 months to September 2006



**WDB Brands has a 16% share of UK draught premium ale**



Preliminary Results 2006

\* Source: industry statistics

# Organic development: WDB Brands (2)

## 2. WDB Brands increased volume and market share in premium ale

- premium ale volume +3%
- market share gain +0.8%
  
- draught premium ale volume +4%
- market share gain +1.4%
  
- off trade premium ale +3%
- bottled premium ale +17%



## 3. WDB Brands increased market share in on-trade standard ale

- but market remains weak

premium ale performing significantly better than standard ale



Preliminary Results 2006

# Organic development: WDB Brands (3)

## 4. Strong performance from Jennings

- Jennings premium cask ale +29%



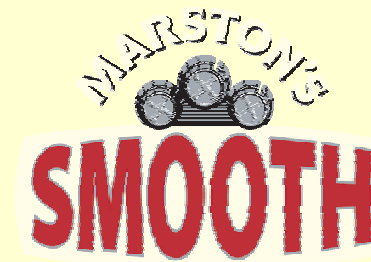
## 5. Key new product development

- Old Empire +9.5% volume increase
  - Old Empire launched in a can
- Marston's Smooth +104% volume increase
  - Marston's Smooth launched in a can



## 6. Increased marketing investment

- trade initiative – 'Cask Force II'
- 'Official beer of England' cricket sponsorship



**strong contribution from new products**



Preliminary Results 2006

# Organic development: WDB Brands (4)



Thursday 20 September 2006  
No.314 £1.75  
www.morningadvert.co.uk

# Morning Advertiser

OFFICIALLY THE PUB TRADE'S FAVOURITE

## Marston's and MA launch CaskForce II

Marston's has teamed up with the MA to launch the second year of CaskForce – an initiative to drive the quality of beer in pubs, while also offering the lucky reader their favourite a year.

From new until April 2007, Marston's is sending out its team of beer quality experts to pubs to deliver the nationally-awarded BEER award for Beer and Cask Quality (BCQ).

After taking part in the scheme, brewers can enter the prize draw in which



May the Force be with you: a look at the campaign from MA editor Andrew Price, (second in WDB's photo) and MA and Paul Henry of CaskForce

## October CaskForce winners

Wayne and Jenny Massey from the Crown in Hyde Lea, Stafford, have won the October draw for Marston's and the *Morning Advertiser's* CaskForce initiative. The win earns them a place in the grand draw next May and the chance to get their pub rent paid for a year.



Previous winners of the *Morning Advertiser's* Village Pub of the Year award, the Enterprise lessees will also win a supply of free cask ale

for a month. They have only been licensees for three years but have had a meteoric rise, with accolades for their ale from Camra, Cask Marque and *The Good Beer Guide*.

The couple are the first winners of the draw, which will take place every month until May. Ten pubs will win Cask Marque accreditation and one of these winners will also receive a month's supply of free beer and a place in the final draw.

In addition to the monthly draws, we're giving away 1,000 qualifications on the BII-accredited ABCQ cellar training course. Having passed the course, pubs can then register to be included in the monthly draw.

For more information and to request free training or register your pub in the monthly draws, call 0800 0281969 or visit [www.caskforce.co.uk](http://www.caskforce.co.uk).



Wayne and Jenny Massey: winners of this month's CaskForce draw

## CASKFORCE Profile

# Blaize bounces back

Marston's CaskForce logo and other branding.

Instead of being a silent partner, Sue McIntyre found herself running the Bishop Blaize single-handedly – despite having virtually no trade knowledge. Jo Grobel looks at how a zest for training built a sound reputation



Sue McIntyre was just two months into her first month when a licensee came to her asking for help. She had been part of a silent partnership for three years, but she had no trade knowledge. She had been part of a silent partnership for three years, but she had no trade knowledge. She had been part of a silent partnership for three years, but she had no trade knowledge.

She had been part of a silent partnership for three years, but she had no trade knowledge. She had been part of a silent partnership for three years, but she had no trade knowledge. She had been part of a silent partnership for three years, but she had no trade knowledge.

She had been part of a silent partnership for three years, but she had no trade knowledge. She had been part of a silent partnership for three years, but she had no trade knowledge. She had been part of a silent partnership for three years, but she had no trade knowledge.



Preliminary Results 2006

# Marketing campaigns: WDB Brands



**W&DB**

Preliminary Results 2006



# Change of name(1)

## 1. Development of company

- national trading area (England and Wales)
  - recruitment
  - site acquisition
- national marketing campaigns eg. ECB sponsorship

## 2. Promotion of company values

- tradition, heritage of the business and employees
- badge of quality for all products – pubs and brewing

## 3. Showing pride in our pubs

- allows use of our name on our high quality pubs
- point of difference vs pure pubcos

**to be effective from 8 January 2007**

**W&DB**

Preliminary Results 2006

Change of name(2)



# Change of name(3)



badge of quality on pubs

**W&DB**

Preliminary Results 2006



## Change of name(4)



clear visibility of Marston's name on pub signage



Preliminary Results 2006

**1. Strong performance in 2005/6**

**2. Flexible financing structure**

- around £100m to be returned to shareholders, subject to preserving flexibility
- active in evaluating acquisition opportunities

**3. Name change to Marston's PLC**

**4. Clear, value enhancing organic growth strategy**

- well prepared for smoking ban

**5. Strong current trading**

- overall in line with expectations
- Pathfinder Pubs like-for-like sales growth +9.1%\*

**good start to the new financial year**

**W&DB**

Preliminary Results 2006

42

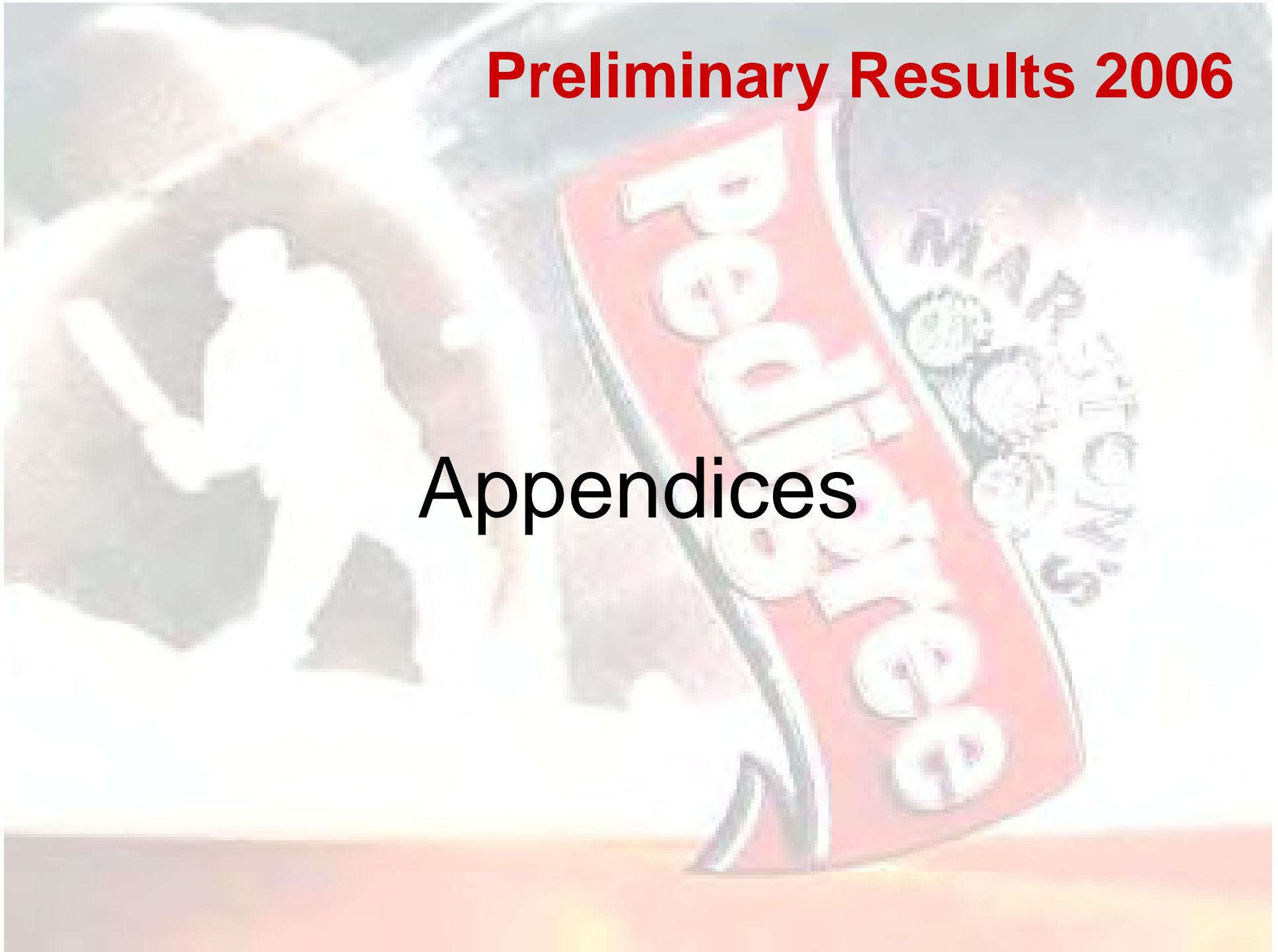
# Preliminary Results 2006



**W&DB**

# Preliminary Results 2006

## Appendices





# Key financials<sup>(1)</sup>

		<u>2006<sup>1</sup></u>	<u>2005<sup>2</sup></u>	<u>% change</u>
Revenue	£m	<b>330.7</b>	317.4	+ 4.2%
EBITDA	£m	<b>83.4</b>	82.9	+ 0.6%
Operating profit	£m	<b>63.5</b>	63.3	+ 0.3%
Operating margin	%	<b>19.2</b>	19.9	(0.7)%



Preliminary Results 2006

<sup>1</sup> includes the results of 93 pubs transferred to UPC during H2

<sup>2</sup> before exceptional items and restated for IFRS



## Key financials(2)

		<u>2006</u>	<u>2005*</u>	<u>% change</u>
Revenue	£m	<b>178.8</b>	153.3	+16.6%
EBITDA	£m	<b>89.8</b>	74.4	+20.7%
Operating profit	£m	<b>80.3</b>	65.1	+23.3%
Operating margin	%	<b>44.9</b>	42.5	+2.4%



## Key financials<sup>(3)</sup>

		<u>2006</u>	<u>2005*</u>	<u>% change</u>
Revenue	£m	<b>86.0</b>	85.4	+0.7%
EBITDA	£m	<b>25.0</b>	24.3	+2.9%
Operating profit	£m	<b>18.0</b>	17.8	+1.1%
Operating margin	%	<b>20.9</b>	20.8	+0.1%



Preliminary Results 2006

\* before exceptional items and restated for IFRS

# Taxation

		2006	2005	
		<u>Total</u>	<u>Pre-excep.</u>	<u>Total</u>
PBT	£m	101.5	89.7	54.2
Tax	£m	(28.2)	(26.8)	(15.1)
Tax rate	%	27.8%	29.9%	27.9%
Cash outflow	£m	(4.0)*	(19.9)	
Cash tax rate	%	3.9%	22.2%	

**2007 forecast tax rate 28% - 29%**



Preliminary Results 2006

48

\* includes £14m of tax relief relating to refinancing in 2005



# Estate movement

<u>Pub Numbers</u>	<u>Managed</u>	<u>Tenanted</u>	<u>Group</u>
September 2005	542	1,748	2,290
Acquisitions/new builds	26	69	95
Disposals	(7)	(26)	(33)
Transfers	(102)	102	-
September 2006	<u>459</u>	<u>1,893</u>	<u>2,352</u>

## Additional information and guidance

- Average number of shares in 2006 77.1m
  - Number of shares in issue as at 1 Dec 2006 76.2m
  - Additional dilutive number of shares 0.8m
- Forecast  
2007**
- Forecast tax rate 28% - 29%
  - **Capex forecast:** Existing business £70m
    - : New builds/sites £40m
    - : Pub acquisitions £10m**£120m**
  - Forecast disposal proceeds £25m+



# Preliminary Results 2006



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

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

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

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

**W&DB**