



England has it.



Englan

# Interim Results 2009



**MARSTON'S**

**DRINK  
WITHIN  
YOUR  
BOUNDARIES**

**MARSTON'S**

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

# David Thompson Chairman



- 1. Challenging trading environment**
  - resilient performance
  - clear benefits from vertically integrated business model
  
- 2. Progress made in each division**
  - growth in food sales
  - growth in premium ale volume
  - supporting tenants and lessees
  
- 3. Dividend maintained at 4.80 pence per share**
  
- 4. Financing: bank facility extended to August 2013**
  - £295m of existing £400m facility

**profitable, cash generative business with high quality assets  
and brands**

# Andrew Andrea Finance Director



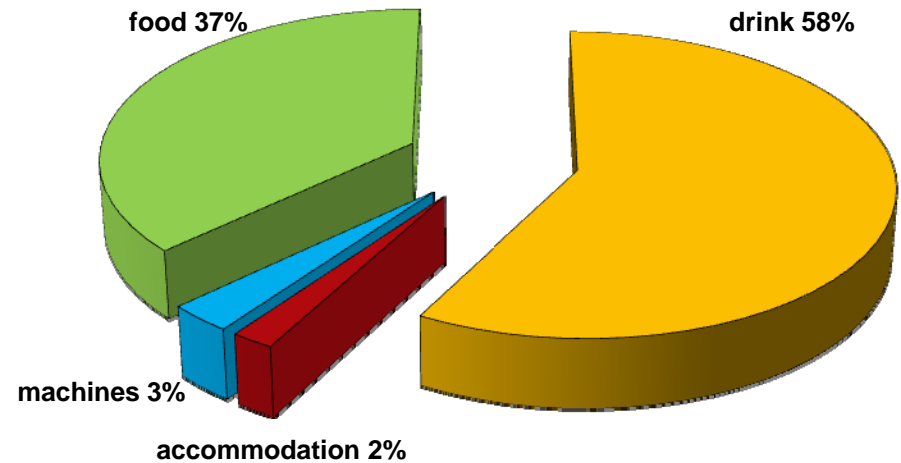
26 weeks to 4 April 2009		% change
Revenue	£307.5m	(2.8)%
EBITDA*	£87.7m	(7.3)%
Operating margin*	21.3%	(1.6)%
Operating profit*	£65.4m	(9.9)%
Profit before tax*	£27.7m	(20.9)%
EPS*	8.1p	(19.0)%
Dividend	4.80p	-

*\*before exceptional items*

**resilient performance in a challenging trading climate**

Like-for-like sales*	% change
drink	(3.4)%
food	+1.3 %
accommodation	+2.4 %
machines	(9.1)%
<b>TOTAL</b>	<b>(1.8)%</b>

## Turnover mix\*

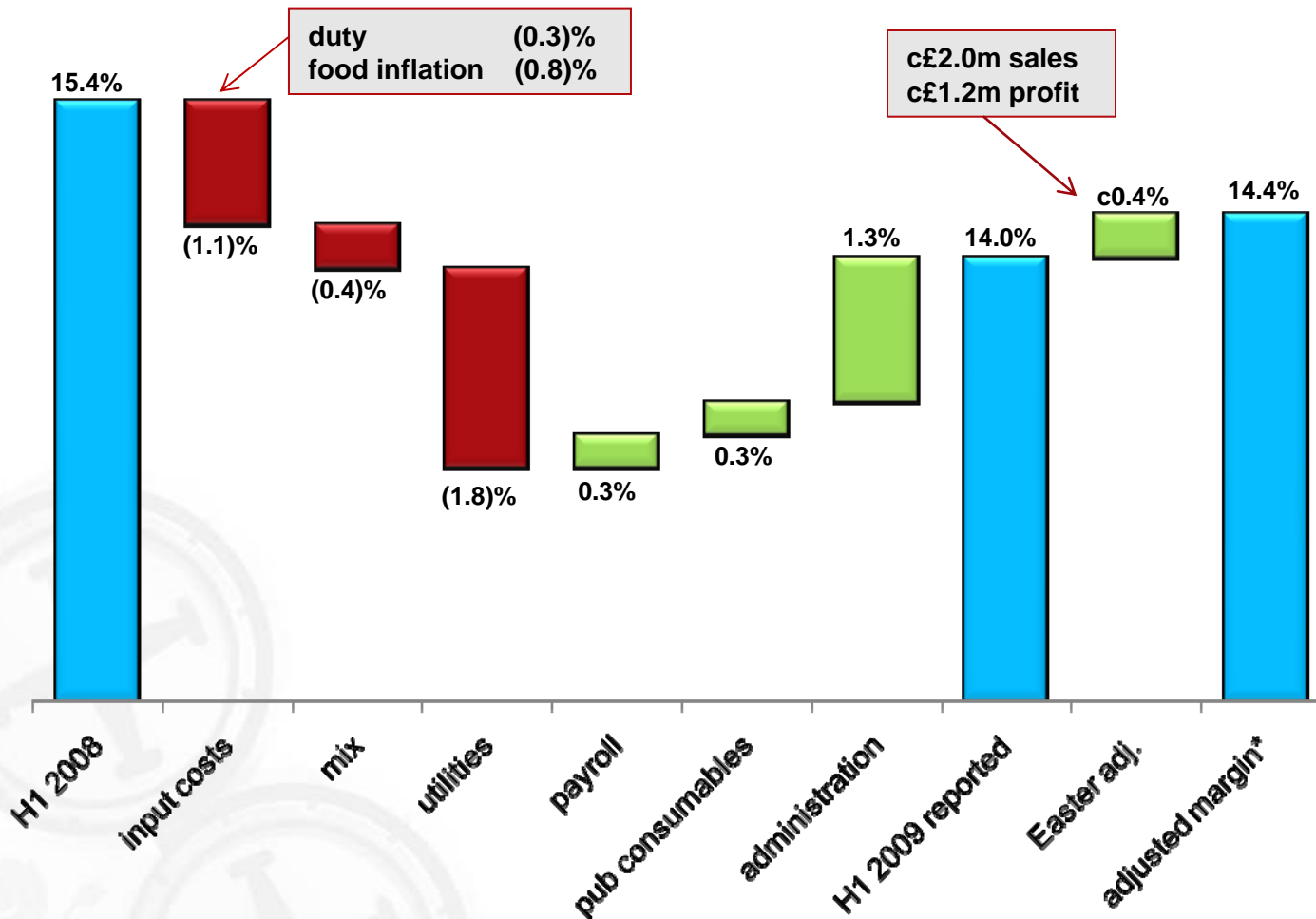


Like-for-like sales for 13 weeks to 16 May	% change
drink	(1.5)%
food	+5.6 %
<b>TOTAL</b>	<b>+1.0 %</b>

\*28 weeks to 18 April 2009: excludes any pubs acquired in last 2 years

**food mix continues to grow, food sales more resilient**

# Retail margin performance



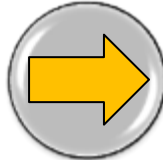
\*adjusted for the timing of Easter

**underlying\* margin only down 1% due to tight cost management**



# Margin drivers: stable performance

Volume



- rate of decline easing

Wet margin



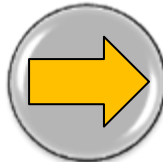
- annualised £1m additional discounts
- reduction in wine, spirit and mineral prices
- delayed supplier price increases

Rent



- annualised rent concessions of £0.8m
- non-substantive rents under pressure
- substantive agreements rent in growth

Debt



- bad debt as % of turnover level at 0.7%
- repayment plans increased

Costs



- higher agency costs vs last year
- administration savings

**downward pressures, recent stabilisation**

	No of pubs	Impairment value £m
High street pubs	82	(9.2)
Pubs not on substantive agreements	128	(22.7)
Pubs identified for disposal	78	(10.3)
	<u>288</u>	<u>(42.2)</u>

- over 350 pubs reviewed
- no upward valuations
- reflected in revaluation reserve
- 279 pubs sold 2 years ago – already disposed of weaker pubs

**pubs at risk have been reviewed and impaired**

Securitisation results	Actual	
• gross debt <sup>(1)</sup> outstanding as at 4 April 2009	£1,088.7m	
• EBITDA	£132.5m	
• free cash flow (FCF)	£113.9m	
• debt service (DSCR)	£77.3m	
Financial covenants	Actual	Covenant
• FCF : DSCR	1.5x	>1.1x <sup>(2)</sup>
• EBITDA : DSCR	1.7x	>1.5x <sup>(3)</sup>
• net worth	£487.6m	£90m

<sup>(1)</sup>before debt issue costs

<sup>(2)</sup>restricted payment covenant >1.3x

<sup>(3)</sup>restricted payment covenant only

**comfortable headroom for covenants**

	£m	
securitisation	1,089	• amortises to 2035
bank facility*	272	• £400m facility to August 2010 • £295m facility to August 2013
	<u>1,361</u>	• 90% at fixed rates
net cash	(43)	
debt issue costs	<u>(21)</u>	
net debt	<u><b>1,297</b></u>	• average cost of debt c.6.3%

- 1. No refinancing requirement until August 2013**
- 2. Debt position in line with expectations**
- 3. Objective to reduce net debt by the end of this financial year**

\* including loan notes

**secure long-term financing, focus on debt reduction**

## 1. Resilient trading performance

- food growth in managed houses
- relatively stable margins despite cost pressures

## 2. Balance sheet

- asset values predominantly freehold
- appropriate impairment of weakest assets

## 3. Financing

- no refinancing requirement until August 2013
- still have covenant headroom, despite challenging environment
- intention to reduce net debt this financial year, and thereafter

**robust performance and secure finance structure**

# Ralph Findlay

## Chief Executive



## 1. Pub operator – over 2,200 pubs

- Marston's Inns and Taverns – 503 managed pubs
- Marston's Pub Company – 1,718 tenanted/leased pubs
- situated across England and Wales

## 2. Brewer – Marston's Beer Company

- market leading position in premium ales

## 3. Vertically integrated business

- cost efficient
- more opportunities
- reduced risk

a leading pub operator and brewer with a flexible  
business model

## 1. Develop national, high quality pub estate

- mainly community pubs, substantially freehold estate
- refurbishment, new build-pubs or pub acquisitions
- managed and tenanted pubs

## 2. Develop greater food skills, broaden consumer appeal

- 'F' Plan – Food, Families, Females, Forty/Fifty somethings
- consistent with demographic changes/market trends

## 3. Recruit skilled tenants and lessees

- consistent with higher skill requirements

## 4. Maximise value through vertical integration

- focus on premium ale brands with provenance and heritage



**key strategic objective – to create shareholder value**



# Market drivers of strategy 2008

## Demographics

- ageing population
- rising female employment
- flexible working
- increasing diversity

## Market trends

- choice, vfm, service
- eating out
- provenance, authenticity
- on-trade vs. off-trade

## Competitors

- the home
- supermarkets
- other 'pubcos'
- restaurants

## Economic

- rising inflation
- rising costs
- low unemployment
- credit markets

## Political

- increasing employment costs
- increasing business taxes
- health & safety legislation
- EU legislation

## Social responsibility

- health
- under-age drinking
- behaviour
- advertising

**CSF's: estate quality, market position, strong balance sheet**

# Marked change in 12 months

## Market trends

- choice, vfm, service
- eating out
- provenance, authenticity
- on-trade vs. off-trade



## recent experience

- value for money
- 'local'
- high quality environment
- ale performance strong vs lager

## Economic

- rising inflation
- rising costs
- low unemployment
- credit markets



## recent experience

- rising unemployment
- low inflation
- 'deleveraging'
- higher disposable income



## relevant today

- value
- choice
- service, amenity
- product quality
- pub location

## Political

- increasing employment costs
- increasing business taxes
- health & safety legislation
- EU legislation



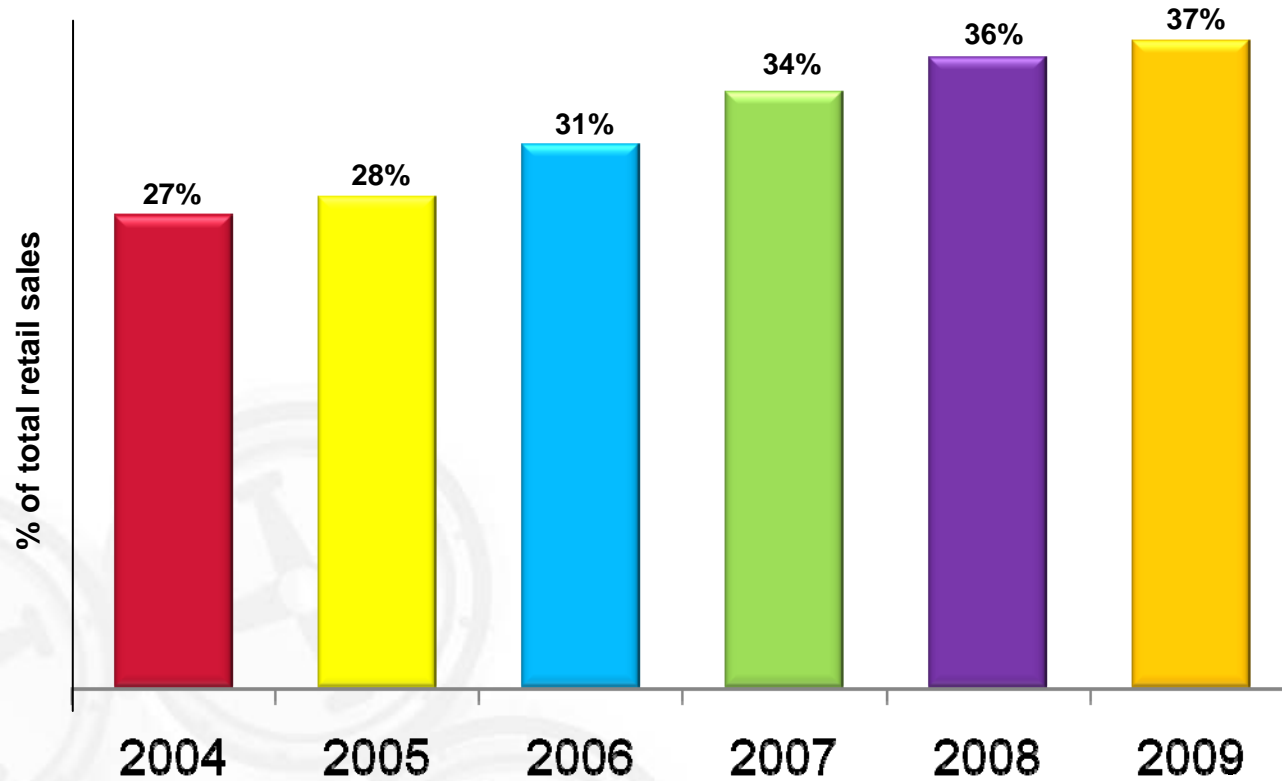
## recent experience

- more of the same

**what is relevant today is not new – but is in sharper focus**

# 'Eating out' continues to increase in importance

## Food as % of retail sales



**dining occasion drives 65% of customer visits**

# Food sales facts and figures

## 1. Average spend per head on food £6.09

- reduction of 3p on 2008
- volume growth in meals sold +7%
- shift from higher priced menus to value menus

## 2. Around 23m main meals sold each year

## 3. Other 'dishes' also in growth

- side orders +18%
- desserts +13%
- coffee + 3%



**strongest growth is in mid-range price point £5-£6 main meal**

## 1. Increase in value offers

- Two for One offers – main meals £7.25 - £8.25
- '2 Meals for £10' offers extended throughout week
- Pitcher & Piano - £5 meals including drink

## 2. Menu development

- 'hotpot' meals £7.00 - £7.75 per plate
- improved desserts range from £3.25
- carvery meals from £3.99

## 3. Attractive pub environment

- well invested, well maintained estate



value in attractive, well invested pubs is compelling

## 4. Cask beer focus emphasises quality, regionality

- own-brewed ale brands volume +1.6%
- premium ale volume +5.6%

## 5. Marston's Inns offer high quality, good value accommodation

- comfortable accommodation in a pub environment
  - free wifi and Freeview in all rooms
- rates from £49.95 per night including breakfast
- room income +4.9% in H1

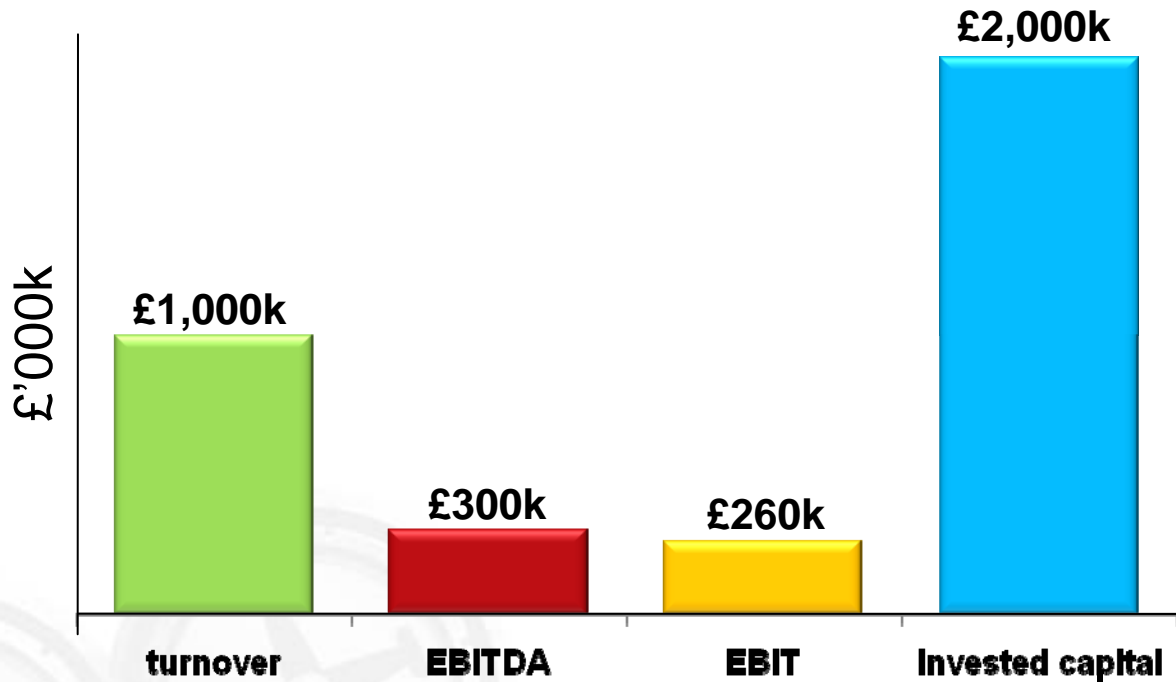
## 6. High service standard

- improved 'table-turn'
- reduced customer waiting times



**choice, quality and service are differentiators**

# New build developments offer high returns



- c.£20k per week
- 50–60% food sales
- low maintenance
- - energy efficient
- EBIT return 13%
- EBITDA multiple 6.7x
- site + build cost

high turnover, high food sales, high return on capital

# New-build plan improves average quality of estate



**over 50 pubs and bars built in the last 5 years**



# 'Sustainable growth, uncompromising standards'

## 1. Market context

- beer volumes down 9%; 40 pubs closing each week
- beer duty +20% in 2 years; VAT to increase Dec 2009



## 2. Marston's unique approach

- 'plain English' agreements, BII accredited
- independent Rent Review Panel since 2003
- award winning training
  - 'The Pedigree People' programme
- sustainable rents; shared risks and rewards
- new 'flexible rent' agreement launched



## 3. Good, well run pubs continue to perform well

- 80% of pubs in the estate in-line with last year



**track record of meeting licensees requirements for  
openness and clarity**

# Substantive agreement performance

	% of total MPC	YOY % performance
No. of pubs	80	(1)
Rent	90	3
EBIT	91	-




**PATHWAY TENANCY**    **OPEN HOUSE LEASE**    **RENTAL AGREEMENT**  
**SHORT TERM AGREEMENT**    **VOLUNTARY TRANSFER AGREEMENT**

## Tell us about you

Please complete this form and return to:  
**Business Development**  
 Marston's Pub Company, The Brewery,  
 Redgrave Road, Bury St Edmunds, Suffolk IP14 2DQ.

Phone: 0144 808 3234  
 Fax: 01283 207 067  
 Email: [info@marstonpubcompany.co.uk](mailto:info@marstonpubcompany.co.uk)  
 Website: [www.marston.co.uk](http://www.marston.co.uk)

Please tick a package type appropriate to you:  
 Please tick a package type appropriate to your business (if any) here:

Please tick the type of agreement you are seeking:

**PERSONAL INFORMATION**

To Let/Don't Let/Name unknown  
 Married/Single  
 Name / Surname  
 Telephone / Mobile / Fax  
 Email / Website  
 Director / Partner  
 Recommended by another Marston's Pub Company  
 Other / please describe

**PERSONAL CONTACTS**

Mr/Ms/Ms/Ms  
 Surname  
 Forename(s)  
 Date of Birth  
 National Insurance Number  
 Age  
 Gender  
 Profession  
 Date of Birth  
 Age  
 National Insurance Number

**PERSONAL CONTACTS (continued)**

Home address (if not used 2 years)  
 Postcode  
 Home telephone number  
 Mobile telephone number(s)  
 Postcode  
 Home address (if not used 2 years)  
 Postcode  
 Home telephone number  
 Mobile telephone number(s)  
 Postcode

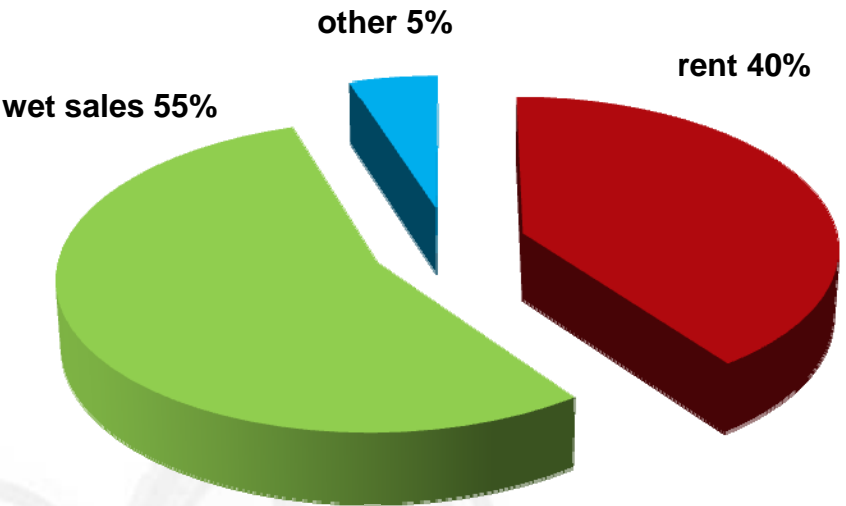
**PERSONAL CONTACTS (continued)**

Business address (if not used 2 years)  
 Postcode  
 Business telephone number  
 Mobile telephone number(s)  
 Postcode  
 Business address (if not used 2 years)  
 Postcode  
 Business telephone number  
 Mobile telephone number(s)  
 Postcode

What is the best time to contact you?  
 Email address

pubs on substantive agreements perform strongly

# Sustainable rents, fair pricing to tenants



Gross margin mix

- **wet margin 46.5%**
  - pricing control over 'own brewed' ales
  - supplier price increases held back
- **average rent per pub c£26k**
  - competitive by industry standards
- **'other' is mainly machine income**
- **net profit margin unchanged at 46.7%**



**operating profit 6.9% below last year – volume, tenant support**

## 1. Few closed pubs

- 9 pubs for re-let currently closed

## 2. 20% of estate not let on substantive agreements

- 6% of those currently in the process of being let
- 100 pubs to be sold over time – 25 sold in H1



## 3. Rent concessions increasing, but 'sustainable' strategy works

- 2.2% of rent roll (2008: 1.6%)
- 70 rent reviews, none went to arbitration
- 43 lease renewals in the period



tenant support estimated to be £2-3m in 2009

## 1. The tie offers opportunity

- low cost of entry vs. franchise vs. ownership
- existence of the tie provides imperative to support the business

## 2. Tenant/operator relationships are evolving

- market will cause operators to improve further
- licensee 'distress' has several causes
  - economic pressures; market trends



## 3. Sustainability and share of risks and rewards are key

- good pubs operated by capable licensees on fair rents

\* Business and Enterprise Committee

**'we would not wish to damage regional brewers' (BEC)**

- 1. Share of UK ale market c.9%<sup>(1)</sup>**
  - volume up by 18% in H1
    - level with last year excluding Wychwood Brewery
- 2. Share of on-trade premium cask ale 22.7%<sup>(1)</sup>**
  - volume up by 39% in H1
    - now 53% of our ale portfolio
- 3. Share of premium bottled ale market c. 18%**
  - 'number 1' in premium bottled ale



<sup>(1)</sup> based on industry data

**performance demonstrates the success of our unique regional approach**

# Progress made in each channel of trade

## Turnover mix



## Profit vs last year



**strong performance in on and off-trade**

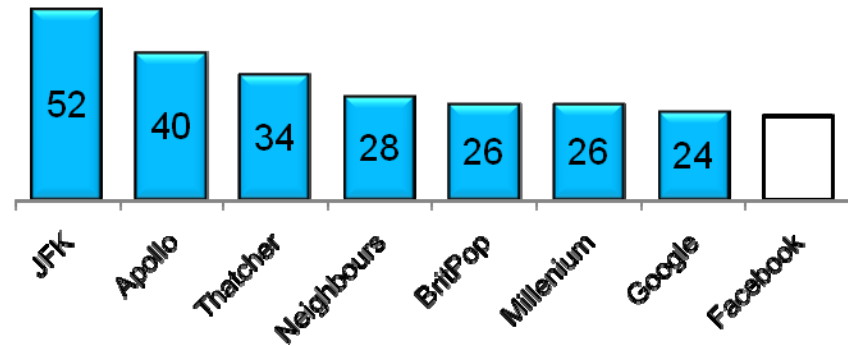
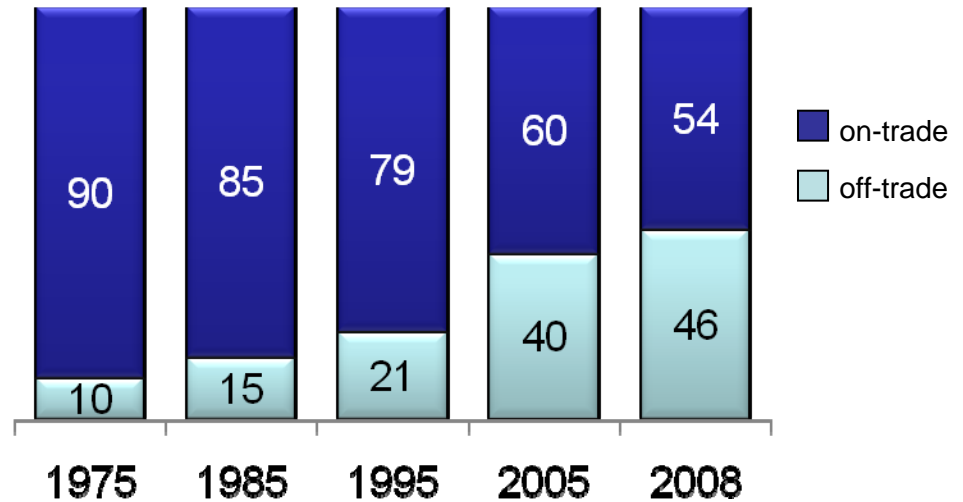




# Switch from on to off-trade

- The switch of drinking from the On Trade to the Off Trade is accelerating
- 20m adults (43% of the population) drink alcohol at home every week
- 1 in 5 lapsed pub users say they now drink more at home.
- The average age of men when % drinking at home overtakes % drinking in the on trade is getting younger

% of beer volume

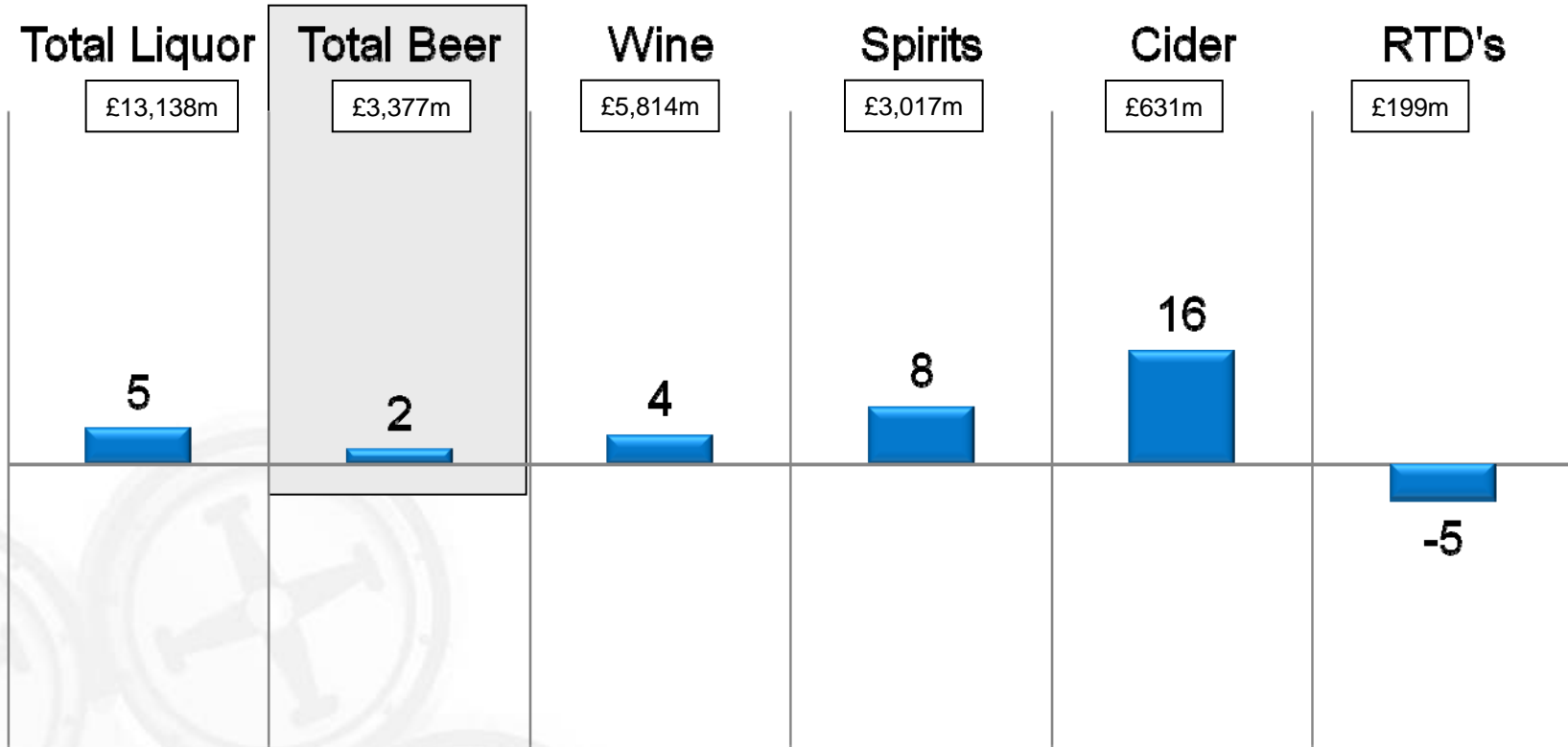


Source: TNS AlcoVision/Marston's

**trend likely to continue**

# Off-trade drinks category development

Total off-trade value: % change vs LY

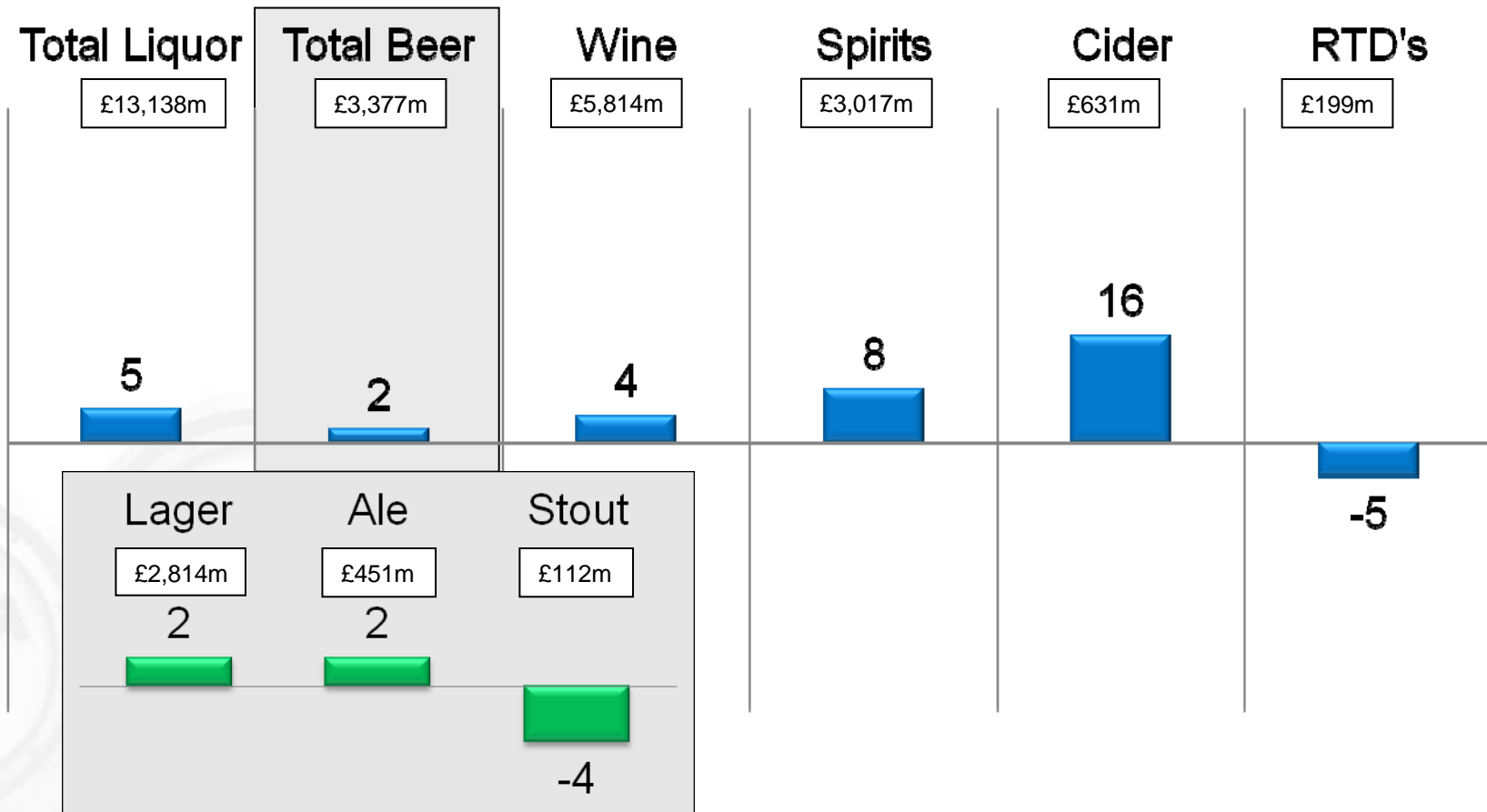


Source: Nielsen Scantrack/DMSO MAT to April 2009

**valuable category, in growth**

# Off-trade drinks category development

Total off-trade value: % change vs LY

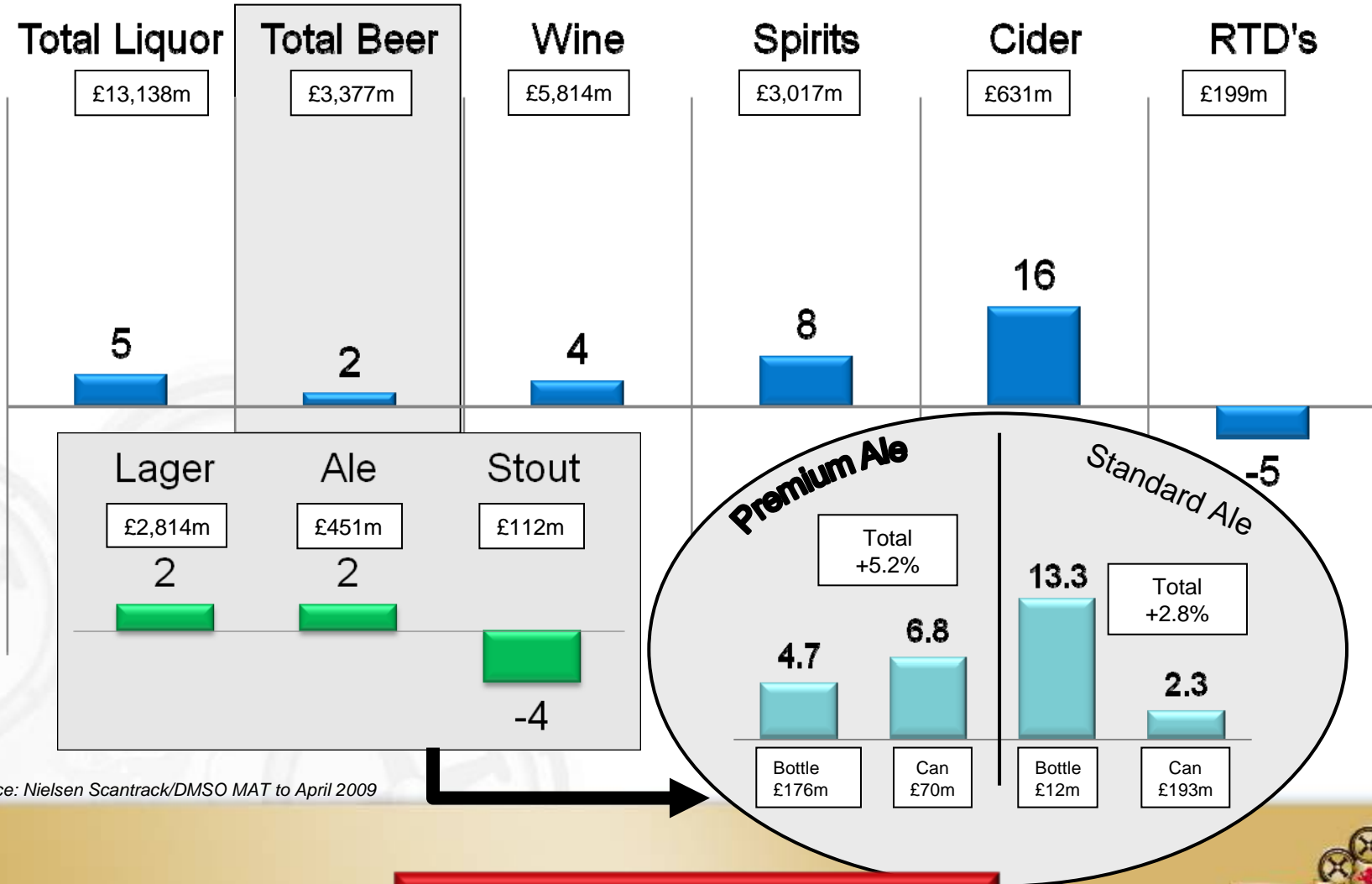


Source: Nielsen Scantrack/DMSO MAT to April 2009

**valuable category, in growth**

# Off-trade drinks category development

Total off-trade value: % change vs LY



Source: Nielsen Scantrack/DMSO MAT to April 2009

**valuable category, in growth**

# Interest in bottled ale has never been greater



Morrissey/Fox & Oz Clarke/James May TV programming;  
increased editorial exposure in lifestyle mags & press



themes: regionality, flavour, food-matching, quality, ingredients

# Bottled ale market shares – top 10

## 1. Marston's Pedigree

- MAT volume\* +15.9%
- last quarter\* +25.8%

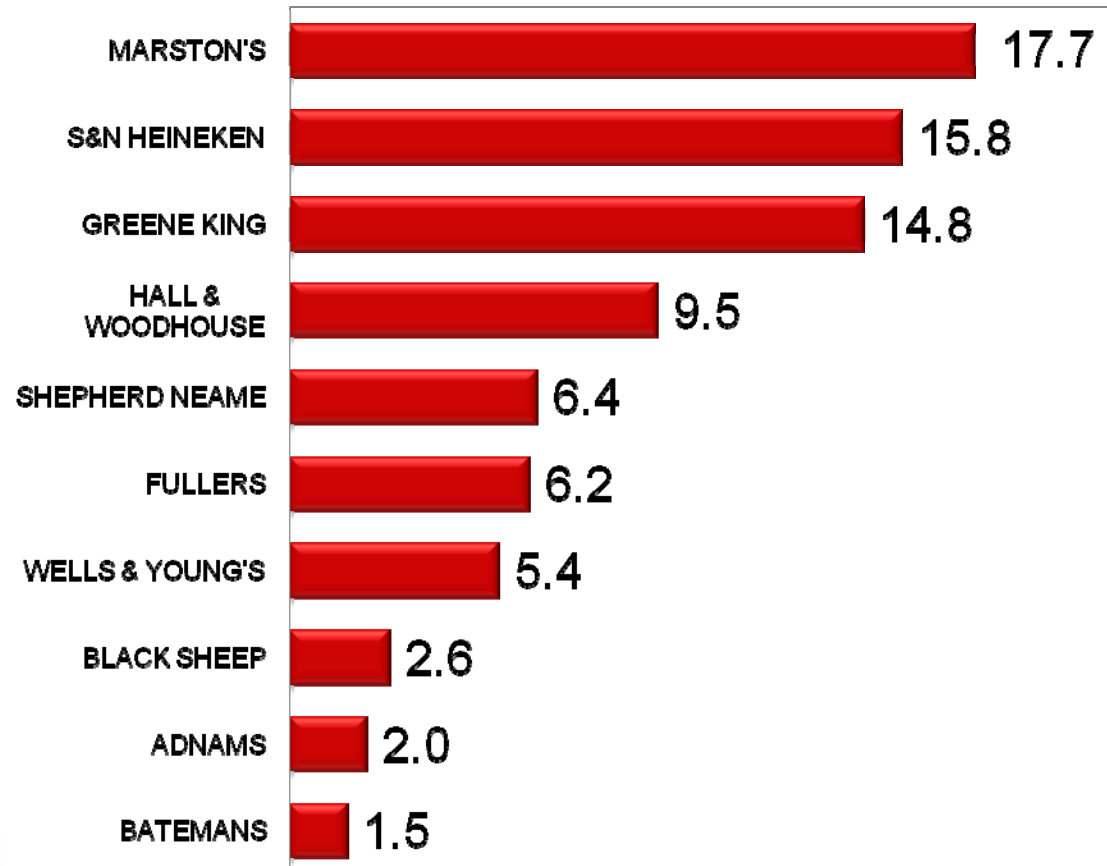
## 2. Hobgoblin

- MAT volume\* +10.5%
- last quarter\* +14.9%

## 3. Brakspear Oxford Gold

- MAT volume\* +13.9%
- last quarter\* +39.4%

MAT Market share\*(%)



\*source: Nielsen data to March 2009

**category leader in growing market**

# Marston's Pedigree: 'wholehearted' English beer



local marketing leverages local brewery strategy

- 1. Resilient performance in a very challenging market**
  - good progress against key operating priorities
- 2. Clear objective to reduce debt this financial year**
  - financing structure sound, no refinancing requirement
- 3. Dividend maintained at 4.80 pence per share**
  - dividend cover 1.7x
- 4. Current trading**
  - encouraged by modest improvement in recent weeks
  - remain cautious because of the economy

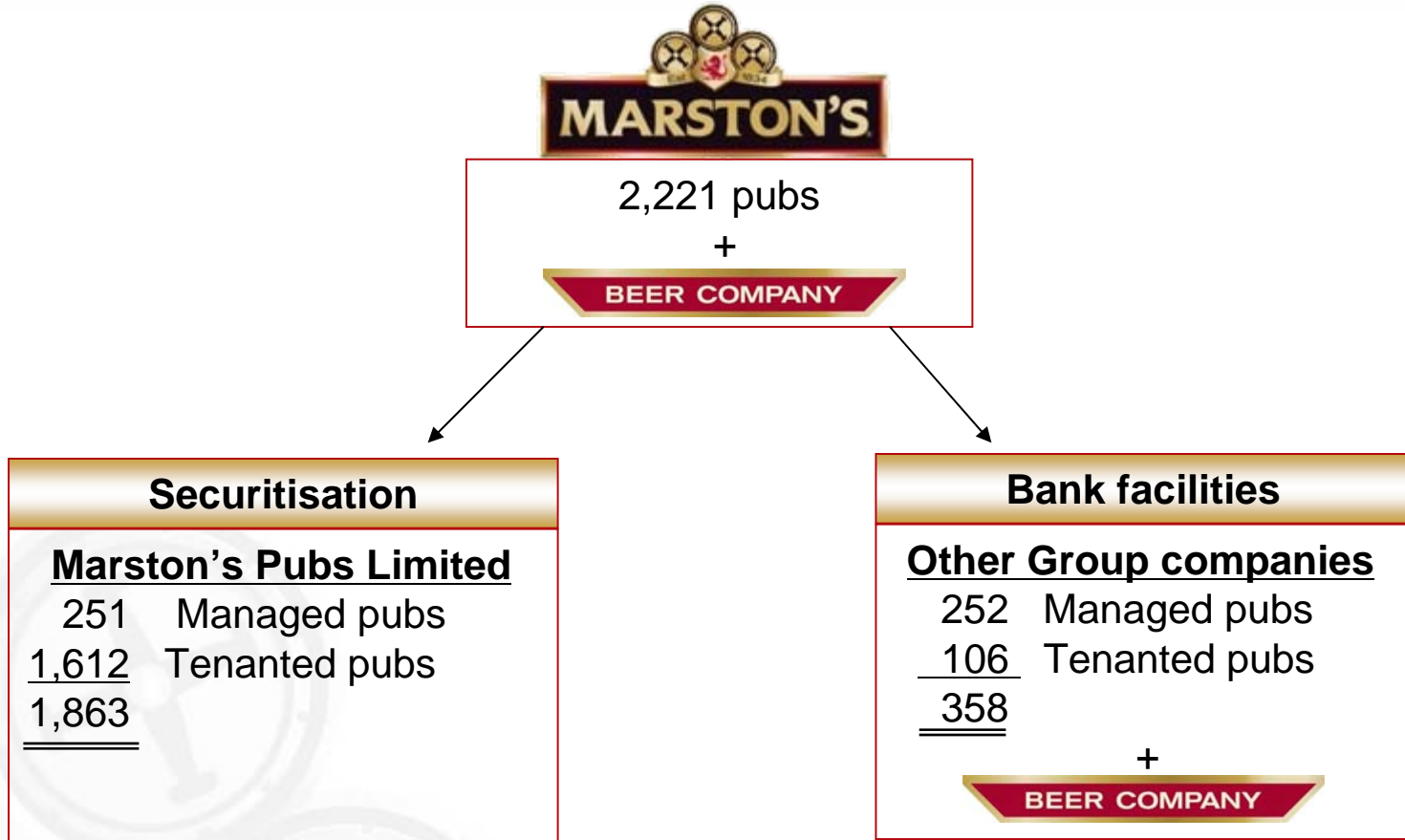
**plans in place for the current economic conditions**



# Appendices



# Split of assets\*



\* as at 4 April 2009

**84% of pubs are securitised**

## INNS AND TAVERNS

		<u>2009</u>	<u>2008</u>	<u>% change</u>
Revenue	£m	<b>173.7</b>	183.8	(5.5)%
EBITDA	£m	<b>35.9</b>	39.9	(10.0)%
Operating profit	£m	<b>24.3</b>	28.3	(14.1)%
Operating margin	%	<b>14.0</b>	15.4	(1.4)%
Average no. of pubs		<b>504</b>	550	




<sup>1</sup>before exceptional items

<b>PUB COMPANY</b>		<u>2009</u>	<u>2008</u>	<u>% change</u>
Revenue	£m	<b>86.3</b>	92.7	(6.9)%
EBITDA	£m	<b>45.4</b>	48.7	(6.8)%
Operating profit	£m	<b>40.3</b>	43.3	(6.9)%
Operating margin	%	<b>46.7</b>	46.7	-
Average no. of pubs		<b>1,729</b>	1,723	

\*before exceptional items

BEER COMPANY		<u>2009</u>	<u>2008</u>	<u>% change</u>
Revenue	£m	<b>47.5</b>	39.9	19.0%
EBITDA	£m	<b>11.6</b>	10.9	6.4%
Operating profit	£m	<b>7.1</b>	7.0	1.4%
Operating margin	%	<b>14.9</b>	17.5	(2.6)%

\* before exceptional items

<u>Pub numbers</u>			
<b>4 October 2008</b>	<b>506</b>	<b>1,743</b>	<b>2,249</b>
New builds/single site acquisitions	4	-	4
Disposals	(7)	(25)	(32)
<b>4 April 2009</b>	<b><u>503</u></b>	<b><u>1,718</u></b>	<b><u>2,221</u></b>



# Additional information and guidance

- Average number of shares in H1 2009 270.3m
- Number of shares in issue as at 22 May 2009 270.3m
- Additional dilutive number of shares 2.0m
  

	<b>Forecast 2009</b>	<b>Forecast 2010</b>
• Forecast tax rate	c21%	24%-26%
• <b>Capex forecast:</b>		
existing business	£45m	
new builds/sites	£10m	
pub acquisitions	<u>£ -</u>	
	<b><u>£55m</u></b>	<b>£45-£55m</b>
• Forecast disposal proceeds	>£20m	>£20m



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