Interim Results 2010

David Thompson

Chairman

Highlights

1. **H1 performance in line with targets**
    - Revenue growth, margins broadly level
2. **Good progress in strategy development**
    - New-build programme on track and performing ahead of target
    - Extensive roll out of innovative Retail Agreement
3. **Interim dividend of 2.1p per share**
4. **Clearly defined growth plans**
    - Focus on cashflow, good cost management, ROC

Improving performance and secure finance structure

Andrew Andrea

Finance Director

Financial Summary

Profit and loss account

26 weeks	2010	2009	% change
Revenue	£309.2m	£307.5m	+0.6%
Operating Margin	21.2%	21.3%	(0.1)%
Operating Profit	£65.5m	£65.4m	+0.2%
Profit before tax[1]	£27.8m	£27.7m	+0.4%
Adjusted EPS[1 2]	3.8p	5.8p	(34.5)%
Dividend[2]	2.1p	3.4p	(38.2)%

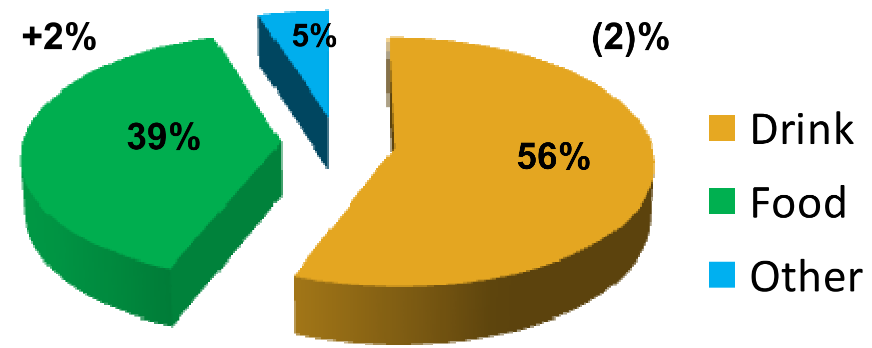
1 before exceptional items
2 prior year adjusted for impact of rights issue

Revenue and profit growth, earnings and dividend in line with expectation

Like-for-like performance

H1 performance

Like-for-like sales*	% change
Drink	+0.5%
Food	+2.5%
Accommodation	+1.1%
Machines	+1.9%
Total	+1.4%



Current trading

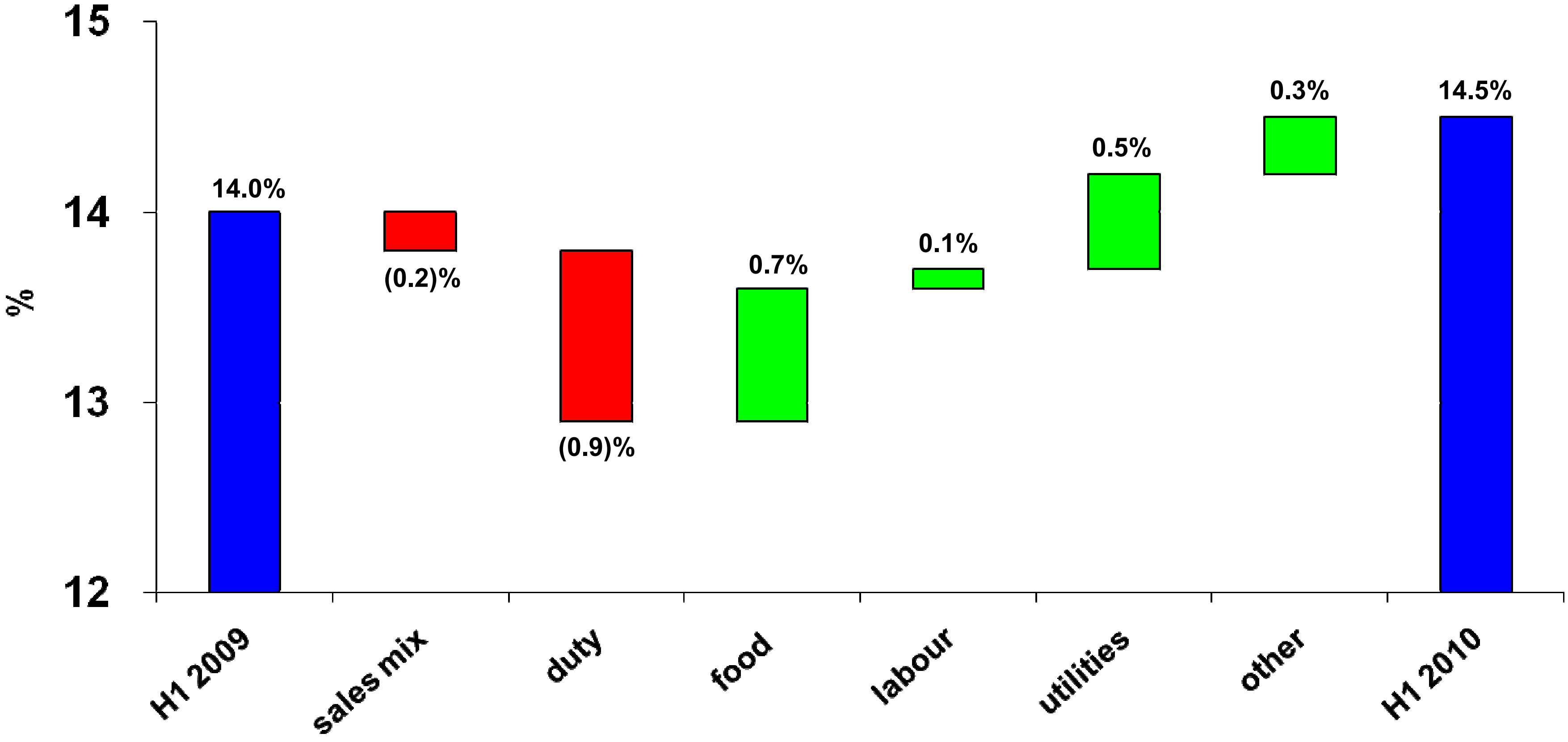
Like-for-like sales for 6 weeks to 15 May	% change
Drink	+0.8%
Food	+2.0%
Total	+1.2%

* *Excludes any pubs acquired in last two years*

Food mix continues to grow, drink sales moving forward

Retail margin performance

INNS AND TAVERNS



H2 margin trend guidance in line with H1

Continuing the improved margin performance

MARSTON'S

INNS AND TAVERNS

2011 Cost outlook

1.Labour

- Minimum wage impact £1.5m

2. Food

- Currently no inflationary headwinds

3. Lager

- New contracts commencing October 2010, no material cost impact anticipated

4. Utilities

- Electricity – in contract – flat costs
- Gas – in negotiation – anticipate flat

No significant cost burden anticipated currently

KPI analysis

	H1 2010	H1 2009
Total Pub Company		
YOY revenue	(4.8)%	(6.9)%
YOY EBIT	**(4.5)%**	**(6.9)%**
YOY profit per pub	(1.7)%	(6.9)%

Substantive estate		
% of estate	83%	80%
Rent per pub	+2%	+2%
Profit vs LY	+0.5%	Flat

Substantive: 85% of estate as at 14 May

Trend improvement on all metrics, focus on profit growth

Tenant health check issues

MARSTON'S PUB COMPANY

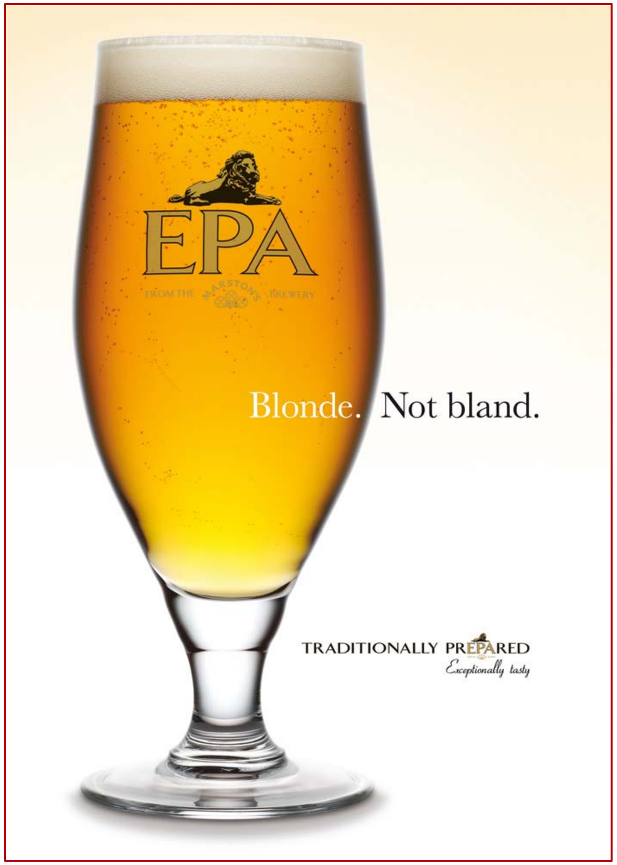
1. **Rental management**
   - Concessions easing
   - 2% increase in average rent per pub to £25.8k*
   - Historical 'fair rent' approach remains appropriate
   - Introduction of innovative, flexible agreements to drive growth
2. **Pub closures**
   - 18 closed pubs
     - seven closed for Retail Agreement refurbishment
     - two closures due to flood/fire
     - three have retailer identified and due to open
     - six seeking retailer
3. **Disposals**
   - 60 sites on the market
   - We will only sell at the right price
   - If the pub has a profitable, sustainable, future we will keep it

** substantive agreements*

Strong performance compared to market, adapting to new challenges

Strong performance maintained

1. **Strong top-line growth**
   - Revenue up 8.6%
     - Improved premium ale volume - up 4%
     - Stronger Take Home volume - up 8%
2. **Solid margin performance**
   - Decline of 0.9% driven by off-trade mix
   - 2011 cost outlook neutral
3. **Strong cash return on net assets**
   - EBITDA return on assets strong at 16.5%
   - Tetley brewing contract in 2011 will improve asset utilisation



Strong top-line growth and ROC

Cashflow summary

£m	H1 2010	H1 2009	YOY	Comments
Operating cashflow	**81.3**	**53.5**	**+£27.8m**	Working capital and tax
Net interest	(36.9)	(40.4)	+£3.5m	
Pre-investment FCF	**44.4**	**13.1**	**+£31.3m**	
Net capex*	(31.4)	(22.2)	£(9.2)m	New-build/less disposals
Pre-dividend FCF	**13.0**	**(9.1)**	**+£22.1m**	
Final dividend	(21.0)	(22.9)	+£1.9m	
Net cashflow	**(8.0)**	**(32.0)**	**+£24.0m**	

** Includes disposal proceeds*
FCF = Free cashflow

Stronger free cashflow

Securitisation highlights: year to 3 April 2010

Securitisation results	Actual	
• Gross debt[1] outstanding as at 3 April 2010	£1,070.1m	
• EBITDA	£126.8m	
• Free cashflow (FCF)	£115.7m	
• Debt service (DSCR)`	£77.6m	
Financial covenants	**Actual**	**Covenant**
• FCF : DSCR	1.5x	>1.1x[2]
• EBITDA : DSCR	1.6x	>1.5x[3]
• Net worth	£531.6m	£90m

(1)before debt issue costs
(2)restricted payment covenant >1.3x
(3)restricted payment covenant only

Headroom on covenants, flexibility to transfer profit

Financing structure

	£m	
Securitisation	1,070	• Amortises to 2035
Bank facility*	98	• Interest cover: 4.8x vs covenant >2.7x • Debt to EBITDA: 1.6x vs covenant <4.8x
	1,168	• 100% at fixed rates
Net cash	(42)	
Debt issue costs	(17)	
Net debt	**1,109**	• Average cost of net debt c.6.7%
Debt:EBITDA	5.8x	

- No refinancing requirement until August 2013
- Flexibility to transfer profit between finance structures
- Debt position in line with expectations
- Objective to reduce leverage over next three years to 5x debt: EBITDA

** including loan notes of £4.8m*

Secure long-term financing, focus on leverage reduction

Pension update

1. Agreed pension scheme changes

- Move future accruals to 80ths basis rather than 60ths
  - Employees can pay additional contributions to achieve 60ths
- Move minimum retirement age with no actuarial reduction to 61 from 60
  - Long term intention to align to state retirement age
- Scheme closed to new entrants in 1997

2. Impact

- Reduce future liability and exposure to higher cash contributions
  - 40% of future liability reduced
- P&L benefits of circa £0.5m per annum

Continued focus on minimising pension costs

Summary

1. Returning to growth

- Trends improving in all three divisions
- Group operating margins broadly flat, MIT improvement

2. Stronger cashflows

- Tight working capital management driving improvement
- Pension liability management will mitigate medium term cashflow risks

3. Financing

- No refinancing requirement until August 2013
- Securitisation with flat amortisation profile
- Covenant headroom and flexibility
- Intention to reduce leverage in the medium term

Profits in growth, stronger cashflow, stable finance structure

Ralph Findlay

Chief Executive

Profitable growth in a challenging environment

1. **2010: growth despite challenging environment**

    - Improvement in all trading divisions
    - Strong growth in free cashflow
    - Substantial freehold asset base

2. **Clear strategy and return criteria**

    - Appropriate for difficult economic and political backdrop
    - Reflects longer term market trends
    - Affordable from existing resources
    - High degree of visibility/certainty

Opportunities exist to achieve growth, strategy is clear

Clear divisional strategies

Inns and Taverns	Pub Company	Beer Company
Organic growth through 'F-Plan' New-build investment	Innovative agreements Increased control of retail offer	Localness Focus on premium ale

Marston's PLC

Sustainable growth
Maximise return
Increase ROC

Three divisions, three clear strategies, all focused on growth and return

'F-Plan' drives consistent growth

Food LFL	c11m meals served	Margins	Food mix 39%
+2.5%	+5.4%	+1.0%	+2.0%
Consistent growth since 2001	Sales £62m	Food spend per head £6.00	50% growth in six years

'F-Plan': <u>F</u>ood, <u>F</u>amilies, <u>F</u>emales, <u>F</u>orty/<u>F</u>ifty somethings

Improving sales, margin and mix in a currently weak market

MARSTON'S

INNS AND TAVERNS

New-build investment

1. Investment plans to build 60 pubs over next three years

- £140m investment
- Target returns:15% EBITDA , 13% EBIT
- Target £21m EBITDA upside by 2013

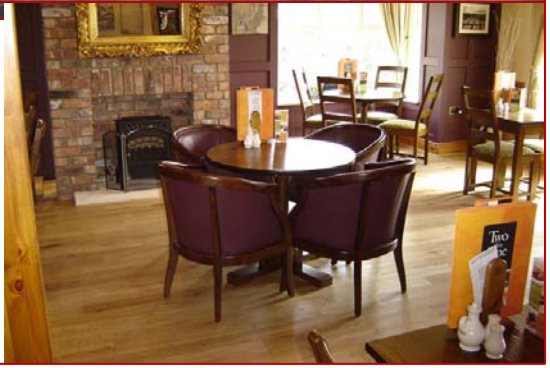
2. Build programme on track

- 2010 plan to open 15 sites
  - 8 sites are open, including 1st Magnum
  - Remainder on site
- 45 sites identified for 2011 and 2012
- Attractive returns helped by less active competition

3. Aim to maintain 25 pub programme after 2012

- Equivalent to £50m "acquisition" spend per annum
- Circa £300m of new-build investment 2010-2015
- Target EBITDA return of 15%

The Tawny Owl, Fernwood, Notts.



Key driver of growth, intention to continue beyond 2012

New-build performance

	2010 new-builds	2010 target	Pre 2010 sites
Number of pubs	**6**	**15**	**30**
Turnover per week	£23k	£20k	£20.5k
EBITDA conversion	**31%**	**30%**	**30%**
Food mix	61%	55%	57%
Food spend per head	**c.£6.50**	**c.£6.00**	**c.£6.00**
EBITDA ROC*	16.9%	15.0%	15.7%
LFL sales			**+4.5%**

**annualised pro-forma*

2010 programme outperforming, pre 2010 still growing

Development of tenanted and leased pubs

1. **MPC performance has benefited from relationships based on:**
   - Openness, transparency
   - Fair rents, fair share of risks and rewards
   - Sustainability

2. **Licensees have benefited from:**
   - Flexibility on rents, discounts where required
   - Significant levels of business development support

3. **Our view: regulatory and market pressures are here to stay**
   - Competitive pressures on independent operators will continue
   - The 'bar' for successful operators is being raised: regulation, market trends, funding, quality, value
   - A different approach is needed

The 'bar' for long term success has been raised

The Retail Agreement is different

1. Not a traditional tenanted agreement

- 'Franchise-style' agreement
- Retailer earns a percentage of sales revenue
- Marston's responsible for all bills other than staff costs

2. Viable business model for smaller, well located pubs

- Target outlet revenue £3.5k per week
- Target EBITDA conversion 25%

3. Not an alternative to disposal

- Will continue to sell pubs at the right price
- Disposal decision not driven by financing requirements

Increased control over retail offer

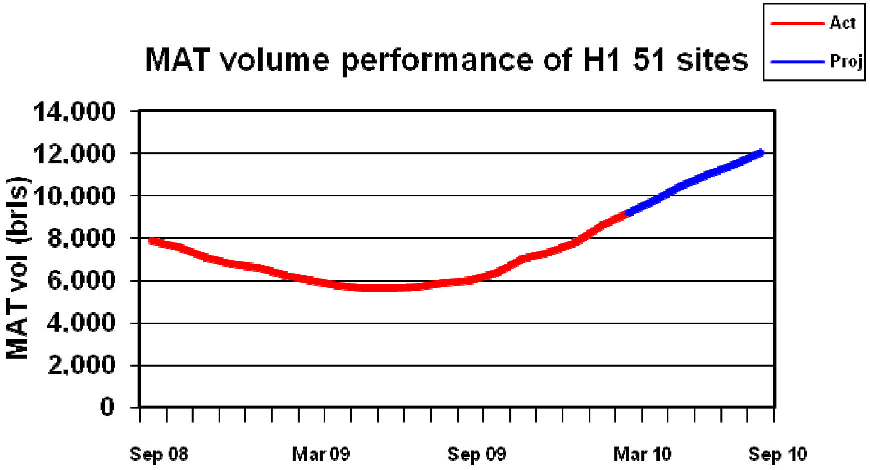
Retail Agreement – learnings from trials

1. **Improved consumer proposition**
   - Pub standards
   - Consistency
   - Value for money
   - Extension of ‘F-Plan’ into tenanted pubs

2. **Significant revenue/volume uplift**
   - Consumer driven – takes time

3. **Wider pool of skilled retailers**
   - Low risk/sales incentive model attractive

4. **Leverages value of integrated model**
   - MIT role in defining retail offer, food and drink
   - MIT role in recruiting retailers
   - MIT operating systems provide framework
   - Group buying power facilitates VFM position



Retail agreement trials successful

MARSTON'S PUB COMPANY

Retail Agreement: target – 600 pubs

1. Target EBITDA uplift - £10k per pub (20% EBITDA ROC) p.a.

Cumulative	2010	2011	2012	2013	2014
Retail Agreements*	100	300	500	600	600
Target profit uplift £m*	1.0	1.5	3.5	5.3	6.0

2. Key objectives

- Increased consumer appeal
- Increased market share
- Response to market trends – 'F-Plan'
- Reduced overheads
- Reduction in % of income derived from traditional leased model

Clear growth plan focused on delivery of high ROC

Development of lease agreements

1. **C.1,000 pubs will continue to be operated as leases**
    - 5 – 30 years
    - Assignable
2. **Widespread availability of Advance agreement**
    - Free trade pricing model
    - Direct debit payment, online ordering
    - Rent adjustment puts value back into pub
3. **Free of Tie option to be made available from July 2010**
    - We anticipate limited take up
    - Will include the machine tie

Proactive response to regulatory interest

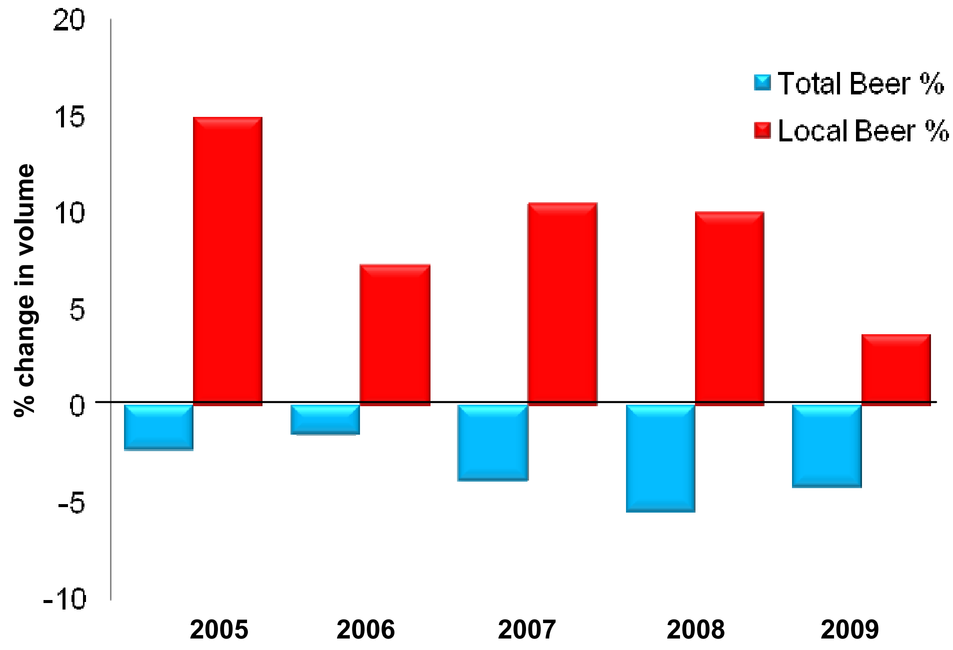
Localness strategy

1. **Local brand growth still strong**
   - Jennings +9%
   - Ringwood +15%
   - Wychwood +9%

2. **Leverage growth in Free Trade**

3. **ROC is key performance metric**
   - 16.5% EBITDA return on assets
   - Tetley brewing contract will increase capacity utilisation

Local Beer/Total Beer*



** sources: SIBA Annual Surveys, BBPA Beer Barometer*

Localness consistent with long term trends and driving growth

Premium ale focus

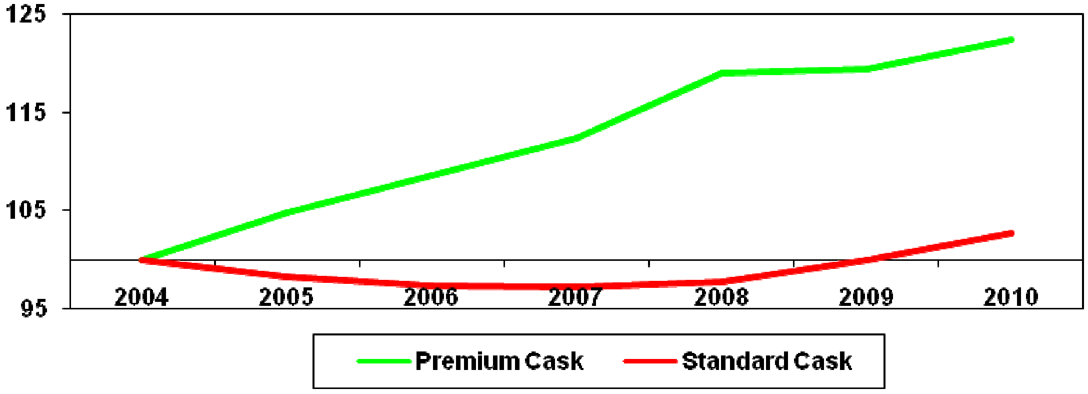
1. **Long term growth in on- and off-trade**

2. **Volumes up 4% vs LY**

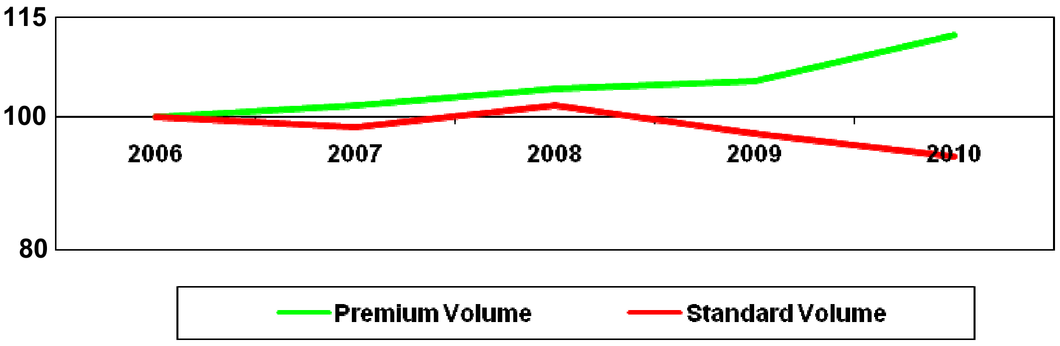
3. **No. 1 market share**
   - Premium cask ale: 23.1%*
   - Premium bottled ale: 24.4%*

4. **Innovation**
   - Fast**cask**™ - opportunity to drive further gains in distribution and market share

On-Trade Cask Ale vs Total Ale (BBPA SVS)



Off-Trade Ale Performance 2006-2010 (Nielsen)



**source: BBPA market trader*

Focus on premium and cask exploiting long term growth trends

Summary

1. **Revenue and profit growth**

   - Progress in all three trading divisions
   - Strong balance sheet
   - Worst is over, but pace of recovery uncertain

2. **Future growth achieved from focussed and clearly stated divisional strategies**

   - MIT – New-builds and organic growth through 'F-Plan'
   - MPC – Retail Agreement – the first tenanted growth strategy coming out of recession
   - MBC – 'Localness' and premium strategies exploiting long term structural growth trends

Improving trends, clear agenda for growth

Appendices

MARSTON'S

2,167 pubs
+
BEER COMPANY

Marston's Pubs Limited

273	Managed pubs
1,574	Tenanted pubs
1,847	

Other Group companies

218	Managed pubs
102	Tenanted pubs
320	

+
BEER COMPANY

85% of pubs are securitised

INNS AND TAVERNS

		2010	2009	% change
Revenue	£m	**175.4**	173.7	+1.0%
EBITDA	£m	**35.3**	35.9	(1.7)%
Operating profit	£m	**25.5**	24.3	+4.9%
Operating margin	%	**14.5**	14.0	+0.5%
Average no. of pubs		**493**	504	

		2010	2009	% change
Revenue	£m	**82.2**	86.3	(4.8)%
EBITDA	£m	**43.3**	45.4	(4.6)%
Operating profit	£m	**38.5**	40.3	(4.5)%
Operating margin	%	**46.8**	46.7	+0.1%
Average no. of pubs		**1,682**	1,729	

		2010	2009	% change
Revenue	£m	**51.6**	47.5	+8.6%
EBITDA	£m	**11.5**	11.6	(0.9)%
Operating profit	£m	**7.2**	7.1	+1.4%
Operating margin	%	**14.0**	14.9	(0.9)%

Pub numbers	Marston's Inns and Taverns	Marston's Pub Company	Marston's
	496	1,688	2,184
New-builds/single site acquisitions	5	-	5
Disposals	(10)	(12)	(22)
3 April 2010	**491**	**1,676**	**2,167**

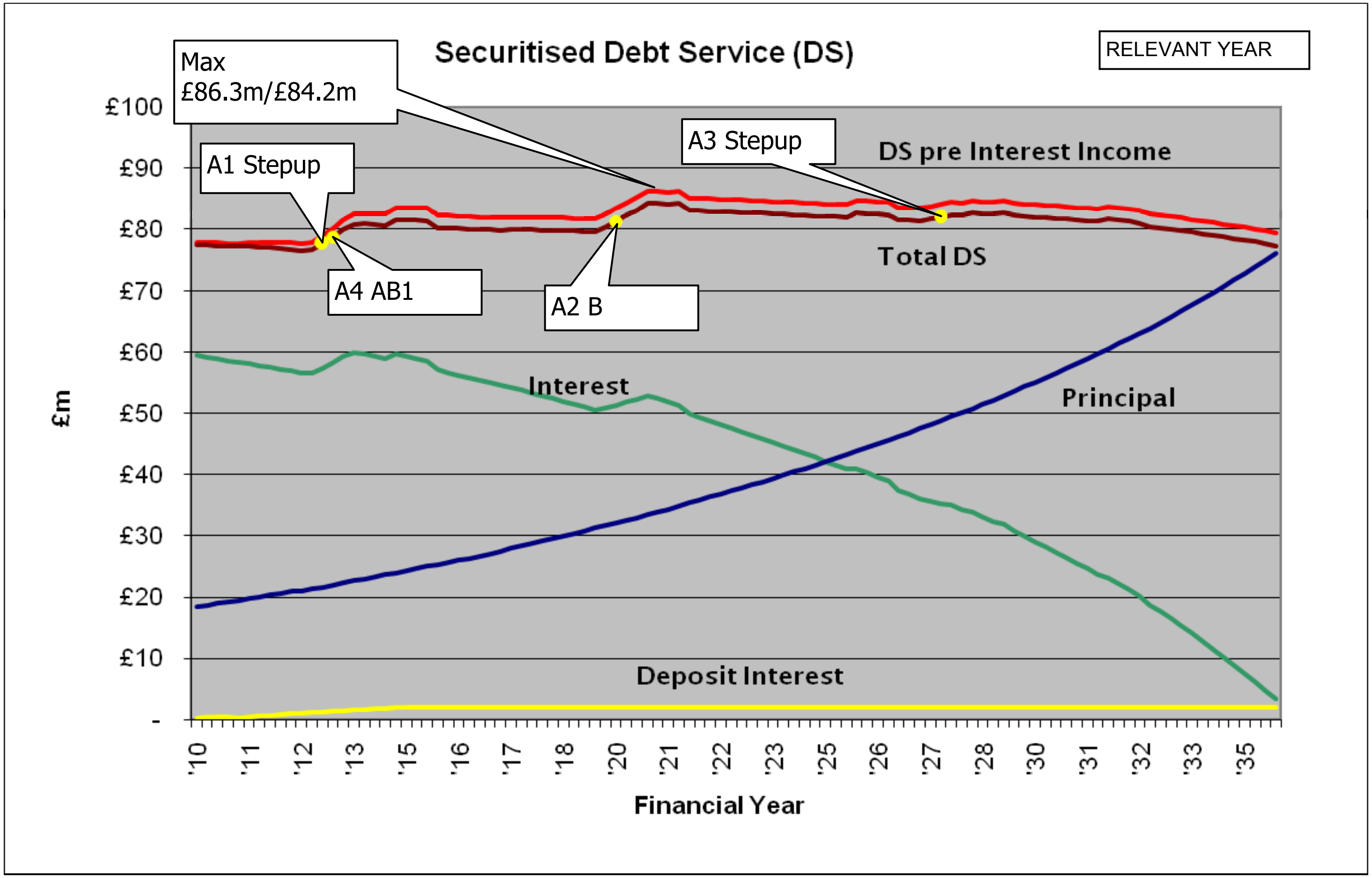
- Average number of shares in H1 2010 569.2m
- Number of shares in issue as at 19 May 2010 569.2m
- Additional dilutive number of shares 1.7m

		Forecast 2010	Forecast 2011
• Forecast tax rate		c.22%	23%-25%
• **Capex forecast**:	Existing business	£35-40m	£35-40m
	Retail Agreements	£3m	£10m
	New-builds/sites	£42m	£45-50m
		£80-85m	**£90-100m**
• Forecast disposal proceeds		£15-£20m	c.£15m

Securitisation debt profile

Tranche	Type	Principal outstanding At 3/04/2010	Step-up Date	Final Maturity Date
A1	Floating	183.0	July 2012	2020
A2	Fixed/Floating	214.0	July 2019	2027
A3	Fixed/Floating	200.0	April 2027	2032
A4	Floating	238.1	October 2012	2031
AB1	Floating	80.0	October 2012	2035
B	Fixed/Floating	155.0	July 2019	2035
Total		**1070.1**		

Securitisation profile



www.marstons.co.uk