



# Preliminary Results 2018

**Ralph Findlay,**  
Chief Executive Officer

**Andrew Andrea,**  
Chief Financial Officer

*Fisherman's Cot, Tiverton*







## INTRODUCTION

- 1. Record revenue and underlying profit achieved**
- 2. 5<sup>th</sup> consecutive year of LFL sales growth in pubs**
  - Wet-led pubs outperformed food-led pubs
- 3. Strong growth in Brewing**
  - Charles Wells Beer Business acquisition performing
- 4. NAV of £1.51 per share underpinned by estate valuation**
- 5. Final dividend maintained at 4.8 pence per share**



**Andrew Andrea**  
**Chief Financial Officer**

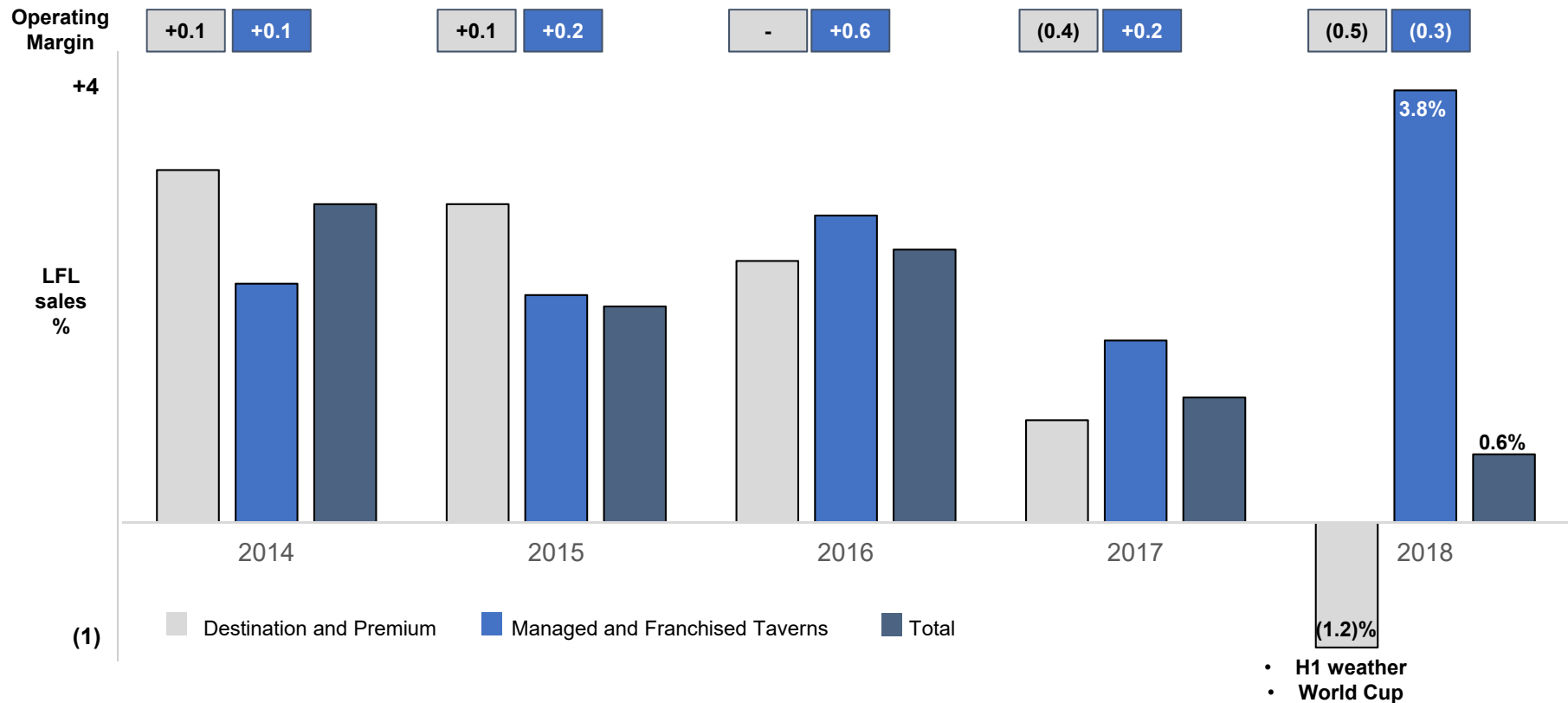
## FINANCIAL SUMMARY

	2018	YOY	
Revenue	£1,140m	 15%	Growth in all trading divisions
EBITDA	£223m	 4%	Growth in all trading divisions
Operating profit	£183m	 5%	Growth in all trading divisions
PBT*	£104m	 4%	Reflects higher finance costs
EPS*	13.9 pence	 2%	Reflects equity issuance in May 2017
Final dividend	4.8 pence		Dividend cover 1.9x

\*Underlying earnings position excluding exceptional and including other adjusting items

**Solid operational growth underpins dividend**

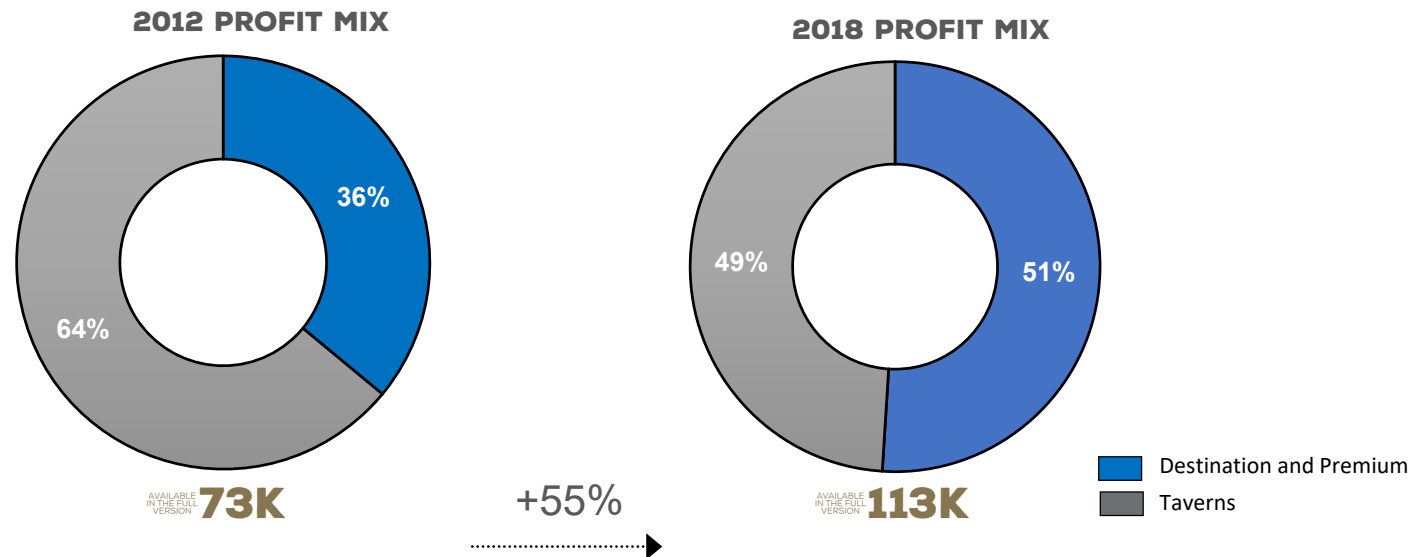
# MANAGED AND FRANCHISED LIKE-FOR-LIKE PERFORMANCE



**Robust long-term LFL sales performance, disciplined approach to margins**

## PUB SEGMENTATION

2018	Operating profit £m	No. of pubs	Average no. of pubs	Average profit per pub vs LY%
Destination and Premium	89.4	406	402	-3
Taverns	86.1	1,139	1,155	+4
<b>Total</b>	<b>175.5</b>	<b>1,545</b>	<b>1,557</b>	<b>+2</b>



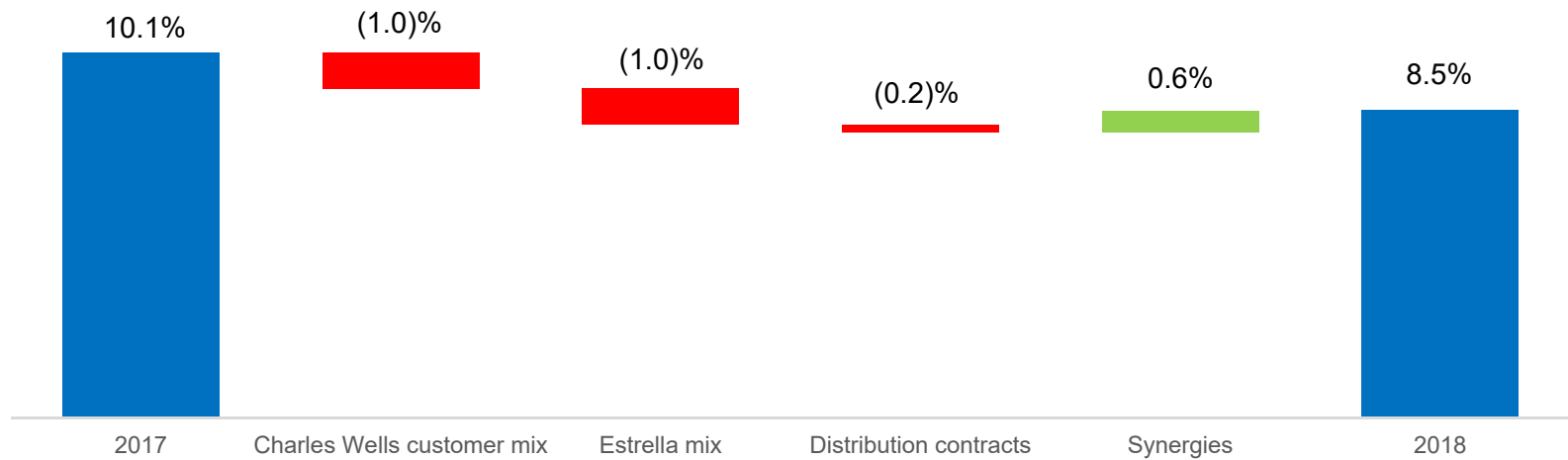
High quality and balanced portfolio delivering long-term profit growth

# BEER COMPANY

**Turnover: £378m ↑ 49%**      **Operating profit: £32m ↑ 26%**

- Charles Wells annualisation - £3m synergies achieved  
- at least £1m more in 2019
- Distribution contracts
- Underlying growth

**2yr profit growth : £9m : CWBB £8m : Underlying £1m**



**Strong profit growth, stable margins anticipated in 2019**

## COST GUIDANCE

	2019		Mitigation
Drink	c.2%	<ul style="list-style-type: none"> <li>c.85% fixed for 2019</li> <li>c.85% contracted to 2020</li> </ul>	<ul style="list-style-type: none"> <li>Price</li> <li>Premiumisation</li> </ul>
Brewing raw materials	2-3%	<ul style="list-style-type: none"> <li>Malt increase of c.£0.3m in 2019</li> </ul>	<ul style="list-style-type: none"> <li>Price</li> <li>Brewing efficiency</li> </ul>
Labour cost inflation - National Minimum Wage - National Living Wage	3-4%		<ul style="list-style-type: none"> <li>Call order/table service review</li> <li>Labour scheduling</li> </ul>
Rates	c.3%		<ul style="list-style-type: none"> <li>Business rates relief will support tenants and lessees</li> </ul>

**C.£20m cost increases, target full mitigation**



## CAPEX

£m	2018	2019 (Fcst)	YOY change	Comments
Maintenance capex	50	50	-	
Recurring growth capex	30	30	-	
Pub one-off	10	-	(10)	<ul style="list-style-type: none"> <li>• PY acquisitions + energy</li> </ul>
Beer Co one-off	10	-	(10)	<ul style="list-style-type: none"> <li>• £8m canning line</li> <li>• £2m vehicles</li> </ul>
<b>Organic Capex</b>	<b>100</b>	<b>80</b>	<b>(20)</b>	
New-site	63	50	(13)	<ul style="list-style-type: none"> <li>• 10 pubs and bars, 5 lodges, 15 Taverns pubs</li> </ul>
<b>Total Capex</b>	<b>163</b>	<b>130</b>	<b>(33)</b>	
Disposals	(47)	(45)	2	
<b>Net Capex</b>	<b>116</b>	<b>85</b>	<b>(31)</b>	

Some reallocation in 2018, c. £30m reduction in 2019

## CASH FLOW SUMMARY

	2018 £m	2017 £m	
<b>Operating cash flow*</b>	<b>182</b>	<b>181</b>	• Profit growth
Net interest	(80)	(78)	
<b>Pre-investment FCF</b>	<b>102</b>	<b>103</b>	
Organic capex	(100)	(85)	
Disposals	47	62	
Dividend	(47)	(44)	
<b>FCF pre new-build and acquisitions</b>	<b>2</b>	<b>36</b>	
New-build and acquisitions	(63)	(93)	
<b>Net underlying cash flow</b>	<b>(61)</b>	<b>(57)</b>	

\*Operating cash flow for 2017 adjusted for £33m working capital offset arising from CWBB acquisition

**Stronger operating cash flow, cash outflow reflects estate expansion**

## DEBT STRUCTURE

	2018 £m	2017 £m	Illustrative 2018 (all new-build leasehold) £m
Securitised (amortisation profile to 2035)	776	806	
Bank (£360m facility to 2023)	246	222	
<b>Debt excluding property leasing</b>	<b>1,022</b>	<b>1,028</b>	<b>1,022</b>
Property leasing (35-40 year financing)	364	301	-
<b>Net Debt</b>	<b>1,386</b>	<b>1,329</b>	<b>1,022</b>
<b>Leverage excluding property leasing</b>	<b>4.6x</b>	<b>4.8x</b>	<b>4.6x</b>
Leverage including property leasing	6.2x	6.2x	4.6x
Fixed charge cover	2.5x	2.6x	2.5x
EBITDA outside securitisation	47%	45%	c.47%
Freehold mix	93%	94%	86%

Long-dated financing of freehold asset base, increased bank facility since year-end

## ESTATE VALUATION AND PENSION

### 1. Estate value broadly in line at £2.2bn

- Upsides from new-builds and franchised pubs
- Reduced values for value end of Destination
- Impairment of £31m - £39m recognised in P&L offset by increase in revaluation reserve

### 2. September 2017 triennial pension valuation concluded

- Deficit reduced to £40m from £50m in 2014
- Contributions maintained – can be ceased when deficit is cleared
- Current target to clear deficit by 2021 assuming no gilt yield benefit



NAV of £1.51 underpinned by strong asset values and limited pension exposure

## MEDIUM TERM CASH FLOW OPPORTUNITIES

Beyond 2020	From
Business growth	Ongoing
Reduced pension contributions	2021
Organic capex reduction	2020
Interest – securitised refinancing	2020-2023

- Target: £20-30m additional free cash flow within 3 years
- Target: 1x reduction in leverage in 3-5 years
- Maintain minimum fixed charge cover of 2.5x



Clearly identified medium-term cash flow opportunities



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

# CONSISTENT STRATEGY, CLEARER TARGETS

## PUBS

New-builds Sector wide

Quality of earnings

Food-led  
Wet-led

Pubs with rooms  
Lodges

## BREWING

Leading brands

Leading service

Premium ale  
Regional beers  
Craft beers  
World lagers

Well invested,  
skilled supply  
chain

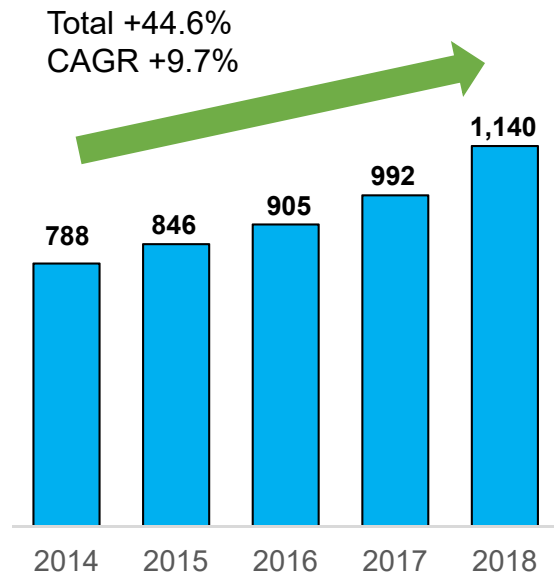
Financial goals: growth, increase ROC, cash generation



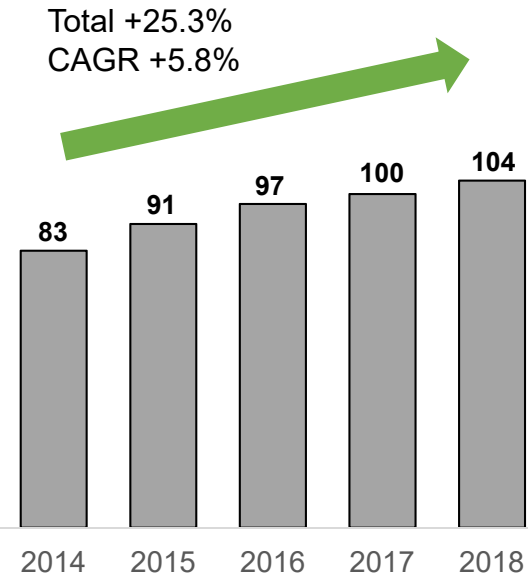
Strategy underpinned by balanced business model

# DELIVERING FINANCIAL GROWTH

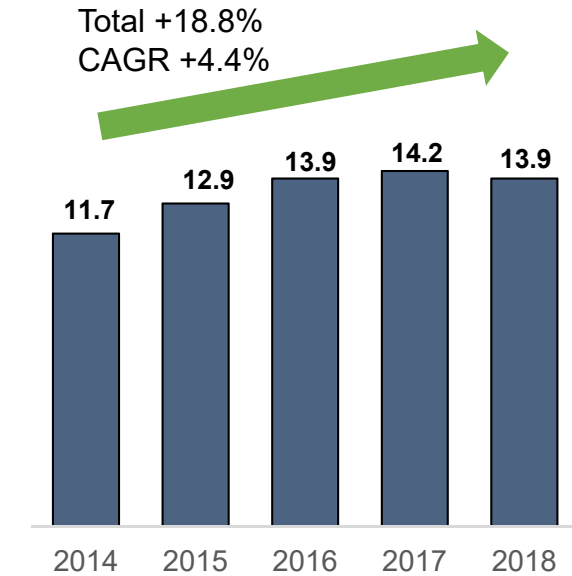
## 1. Turnover £m



## 2. PBT\* £m



## 3. EPS\* pence



\*Underlying

Consistent strategy, delivering growth



# MARKET DYNAMICS

## Consumer

- Leisure spend still growing
- Eating out vs drinking out
- Continued consumer caution
- Corporate responsibility
  - plastics, environment
- Health



## Sector

- Ingrained discounting
- Structural change
  - alternative supply
  - rising costs
- Oversupply
  - c.4,000 restaurants in 5 years\*
- Pubs > casual dining



## Economic, Political

- Regulatory tax cost increases
- Limited direct interest rate exposure
- Brexit uncertainty
  - staff
  - supply chain
- Health objectives
  - obesity
  - alcohol
- Rising cost of fuel, energy



\*source: CGA

Dynamics remain unchanged – challenging but opportunities for growth

# DESTINATION & PREMIUM – balancing sales and margin

## 1. Location

- Avoid hotspots (city centre locations), increased focus on urban sites

## 2. The brand – Marston's, the pub

- Pub values, brewing heritage and quality
- The pub experience vs. a fast food or restaurant experience
  - celebration, convenience, socialising

## 3. Consumer insight – in-house team

- Quality, freshness
- Health, 'flexitarians'
- Gen Z

## 4. Relentless focus on service, standards, quality

- Sourcing – established relationships matter, eg. meat, CO<sub>2</sub>
- Training – Marston's in-house Talent Academy



Continuous development to maintain market advantage

## DESTINATION & PREMIUM – balancing sales and margin (cont'd)

### 5. Breadth of offer

- Family mainstream to premium 'independent'
- Cross-sector learning

### 6. Technology

- EPOS investment to complete
  - Speed of service, customer data
  - Margin control
- Superfast broadband – Marston's Telecoms

### 7. Improving our pubs in 2019

- £50m maintenance capex
- £30m organic growth capex

### 8. Customer 'C' Plan

- Covers, culture, conversion, consistency

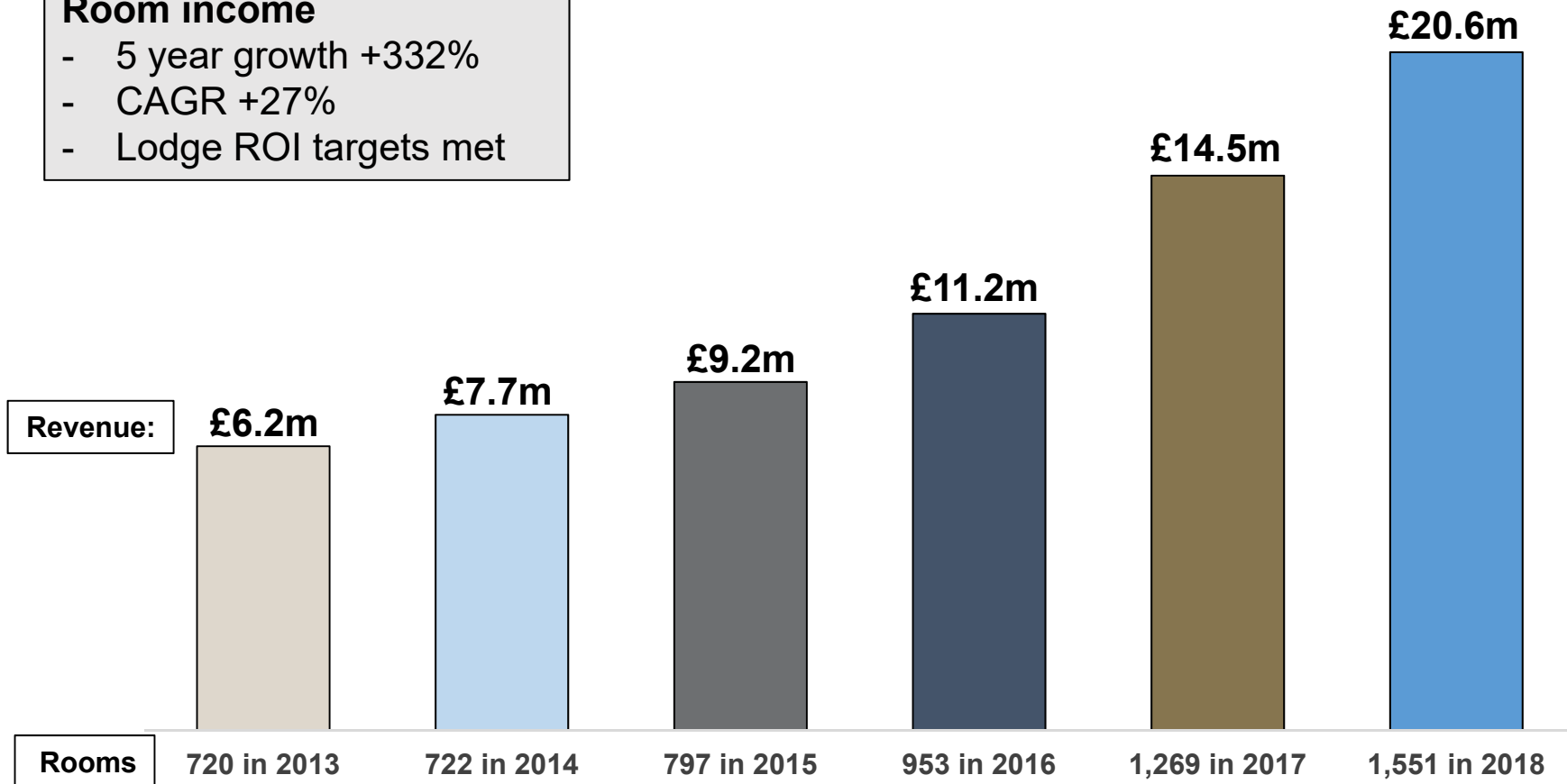


Continuous development to maintain market advantage

## GROWTH IN ACCOMMODATION

### Room income

- 5 year growth +332%
- CAGR +27%
- Lodge ROI targets met



The goal: a 4,000 rooms business generating £50m turnover

## TAVERNS – growth in an improved wet-led market

### 1. Reduced capacity\*

- 57,000 pubs in 2008, 48,000 pubs in 2018 – mostly wet-led

### 2. Growth in franchise-style pubs, improvements to T&L model

- Low risk model pioneered by Marston's in 2009 – most peers have introduced them
- More support for tenants and lessees following Pub Code of Conduct

### 3. 'Drink better, not more'

- Craft beer 280% growth over 4 years
- Premium gin 2,689% growth over 4 years
- Growth in 'world lager' vs 'classic lager' (+38% in 2 years)
- Authentic brands

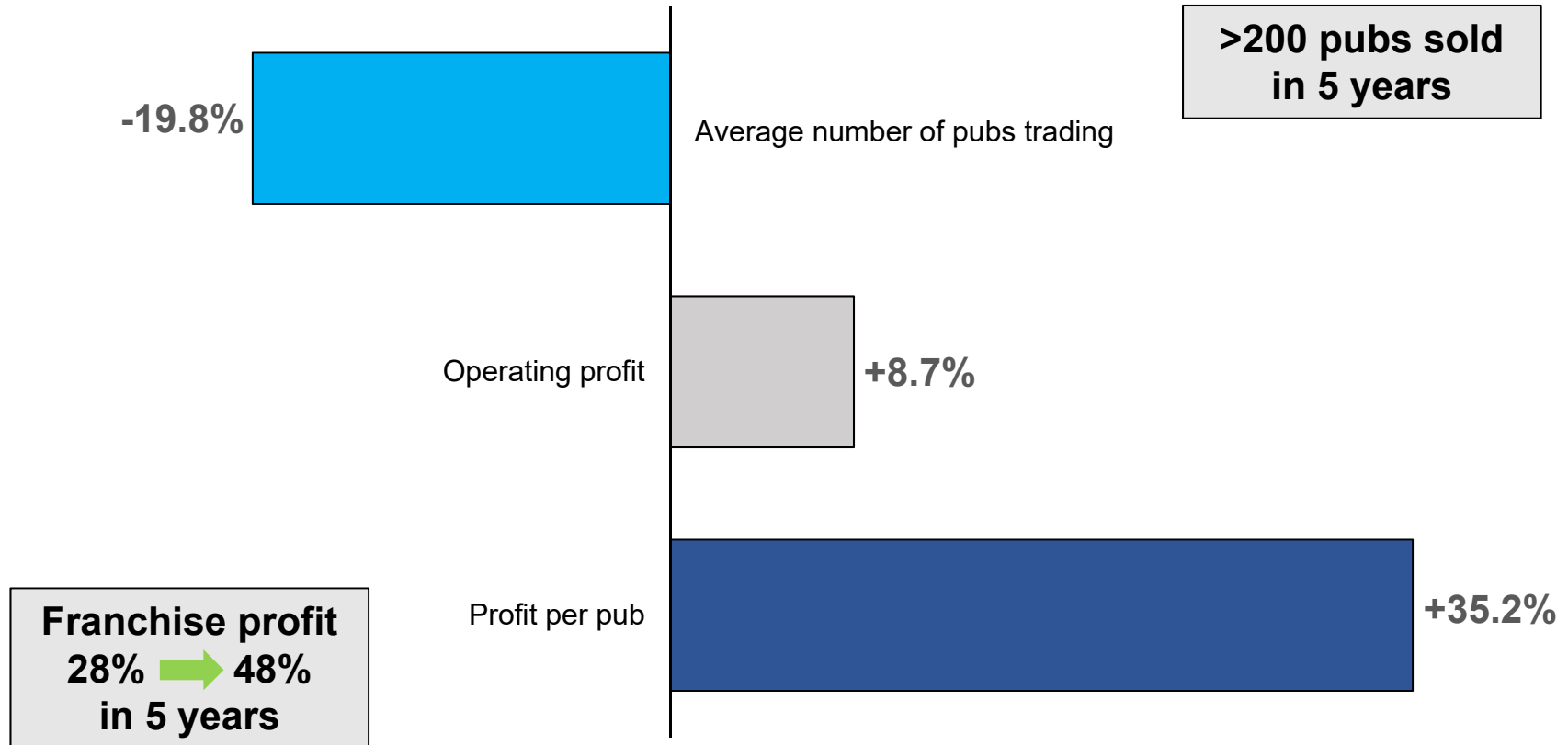
### 4. Lifestyle

- Non-alcoholic drinks: beer +46%, gin +182%
- Low sugar content soft drinks +65%
- Social occasions – bonding, socialising, 'place to be seen'



\*Source: BBPA

## TAVERNS – transformation 2014 - 2018



A high quality wet-led estate fit for the future

## **TAVERNS GROWTH – Aprirose pubs, organic investment**

### **1. 15 pubs to be acquired**

- 7 in November 2018 and 8 in January 2019

### **2. Well located, wet-led pubs**

- England, Midlands and South

### **3. Minimum target**

- £4m investment, 25% CROCCE (yr 2)

### **4. 2019 organic growth capital**

- £11m, target CROCCE 25%
- 2016 – 18: £14.4m invested, 206 sites, CROCCE 30%

**Attractive growth potential, highly cash generative business**

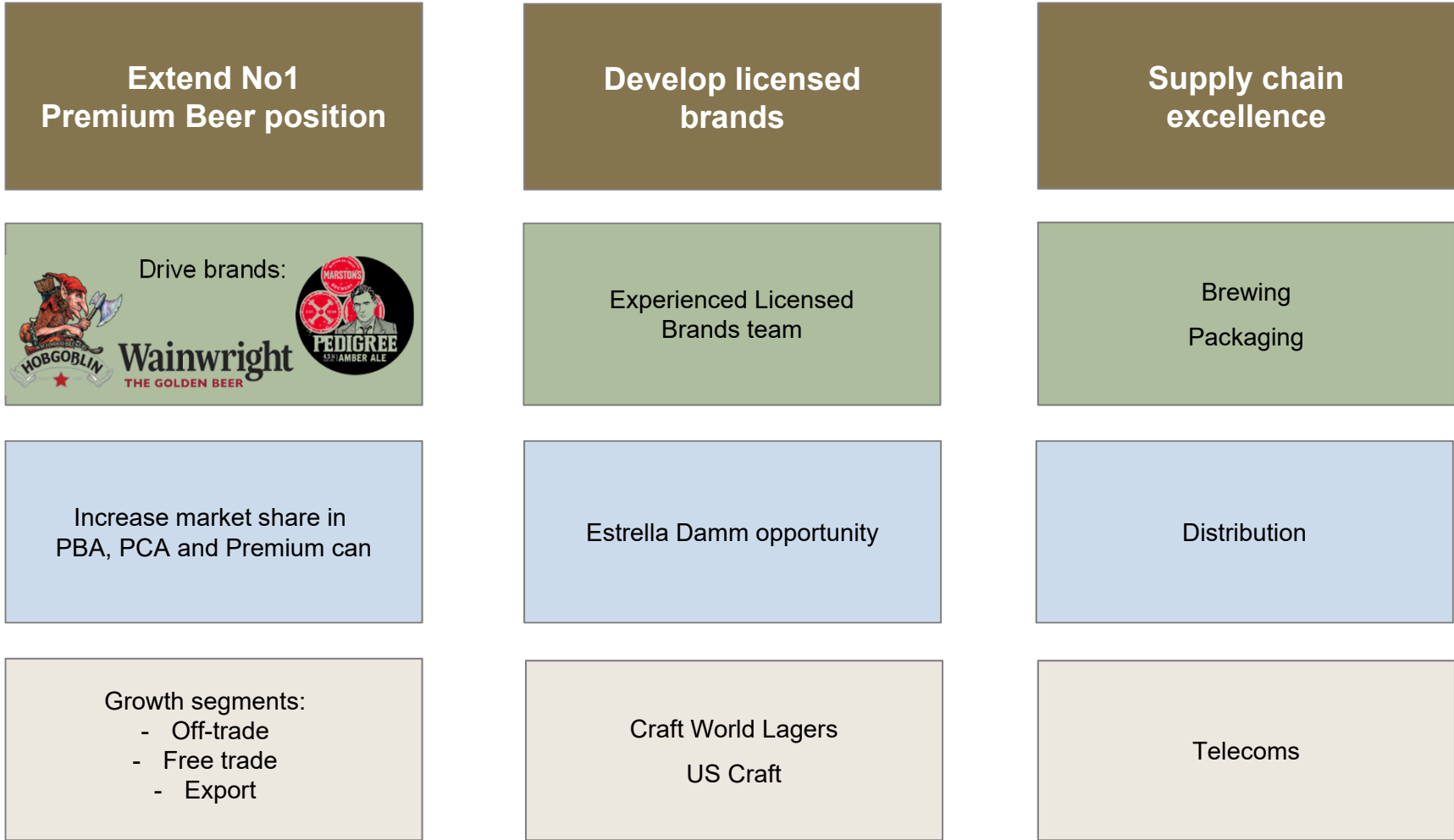
# MARSTON'S BEER COMPANY TODAY

UK No.1 Premium Ale Brewer	Developing licensed brands	Supply chain excellence with scale	Proven acquisition capability
27% of PBA market	<p>MAT +10%</p>	<b>Packaging</b> 40% of PBA market New £8m canning line	<b>Ringwood - 2007</b> £19 million
20% of PCA market		<b>Distribution</b> Around 1 in 4 pubs in UK	<b>Refresh – 2008</b> £14 million
90% external sales 75% premium brands		<b>Brewing</b>	<b>Thwaites brewing - 2015</b> £25 million
		<b>Charles Wells brewing - 2017</b> £55 million	

Proven organic and acquisition-led growth



# OUR GROWTH STRATEGY



**Highly skilled team, strong brands, focused business**

## BEER COMPANY – Charles Wells one year on

### 1. Acquired for £55m

- Trailing EBITDA £6.1m
- £4m synergies by 2019

### 2. Integration synergies on track

- £3m synergies to date, £1m + in 2019
- £8m canning line investment in Burton

### 3. Strong brand portfolio

- Bombardier, McEwan's rebrand
- Licensed portfolio +158%
  - Estrella Damm, Founders

### 4. Export capability

- Volume +81%
- Key markets – Russia, France, Canada, US all performed strongly



The acquisition has contributed to a transformation of Marston's Beer Co.

## SUMMARY

- 1. Continued growth across all segments of the business**
- 2. Clear plans to deliver growth:**
  - 10 pubs and bars, 5 lodges, 15 Taverns in 2019
  - Targeting full mitigation of cost increases
  - Addressing market challenges in organic business
- 3. NAV of £1.51 per share underpinned by estate valuation**
- 4. Clearly identified opportunities to increase cash flow and reduce leverage**

**Well placed for continued growth**



# Appendices

## FINANCIAL SUMMARY – STATUTORY BASIS

	2018	YOY
Revenue	£1,141m	+13%
Operating profit	£133.4m	-22%
PBT	£54.3m	-46%
EPS	7.1 pence	-50%

## SEGMENTAL PROFIT

	2018 £m	2017 £m	YOY %
<b>Turnover</b>			
Destination & Premium	450.7	438.0	2.9%
Taverns	312.0	301.3	3.6%
Beer Division	377.7	252.9	49.3%
<b>Total</b>	<b>1,140.4</b>	<b>992.2</b>	<b>14.9%</b>
<b>EBITDA</b>			
Destination & Premium	105.8	104.5	1.2%
Taverns	95.3	93.7	1.7%
Beer Division	42.7	36.0	18.6%
Group Services	(21.2)	(20.5)	(3.4)%
<b>Total</b>	<b>222.6</b>	<b>213.7</b>	<b>4.2%</b>
<b>EBIT</b>			
Destination & Premium	89.4	88.9	0.6%
Taverns	86.1	84.1	2.4%
Beer Division	32.0	25.5	25.5%
Group Services	(25.0)	(24.0)	(4.2)%
<b>Total</b>	<b>182.5</b>	<b>174.5</b>	<b>4.6%</b>
<b>Margin %</b>			
Destination & Premium	19.8%	20.3%	(0.5)%
Taverns	27.6%	27.9%	(0.3)%
Beer Division	8.5%	10.1%	(1.6)%
Total	16.0%	17.6%	(1.6)%
<b>Finance Costs</b>	<b>(78.5)</b>	<b>(74.4)</b>	<b>(5.5)%</b>
<b>Profit Before Tax</b>	<b>104.0</b>	<b>100.1</b>	<b>3.9%</b>

## PUB NUMBERS

	Destination and Premium	Taverns	Total
2017 Closing	397	1,171	1,568
New-build additions/Acquisitions	14	-	14
Transfers	(3)	3	-
Disposals	(2)	(35)	(37)
2018 Closing	406	1,139	1,545
2017 average numbers	387	1,177	1,564
2018 average numbers	402	1,155	1,557

## HISTORICAL TOTAL LFL

	Destination and Premium	Taverns	Total
52 wks to 04/10/14	3.1%	2.1%	2.8%
52 wks to 03/10/15	1.8%	2.0%	1.9%
52 wks to 01/10/16	2.3%	2.7%	2.4%
16 wks to 21/01/17	1.5%	1.5%	
26 wks to 01/04/17	1.1%	1.1%	1.1%
30 wks to 29/04/17	1.6%	1.7%	
12 wks to 22/07/17	0.6%	2.1%	
42 wks to 22/07/17	1.3%	1.9%	
10 wks to 30/09/17	(0.8%)	0.3%	
52 wks to 30/09/17	0.9%	1.6%	1.1%
16 wks to 20/01/18	(0.9%)	2.6%	0.3%
26 wks to 31/03/18	(1.8%)	2.9%	-
16 wks to 21/07/18	(1.2%)	5.0%	0.9%
42 wks to 21/07/18	(1.5%)	3.8%	0.3%
10 wks to 29/09/18	0.1%	3.8%	1.6%
52 wks to 29/09/18	(1.2%)	3.8%	0.6%



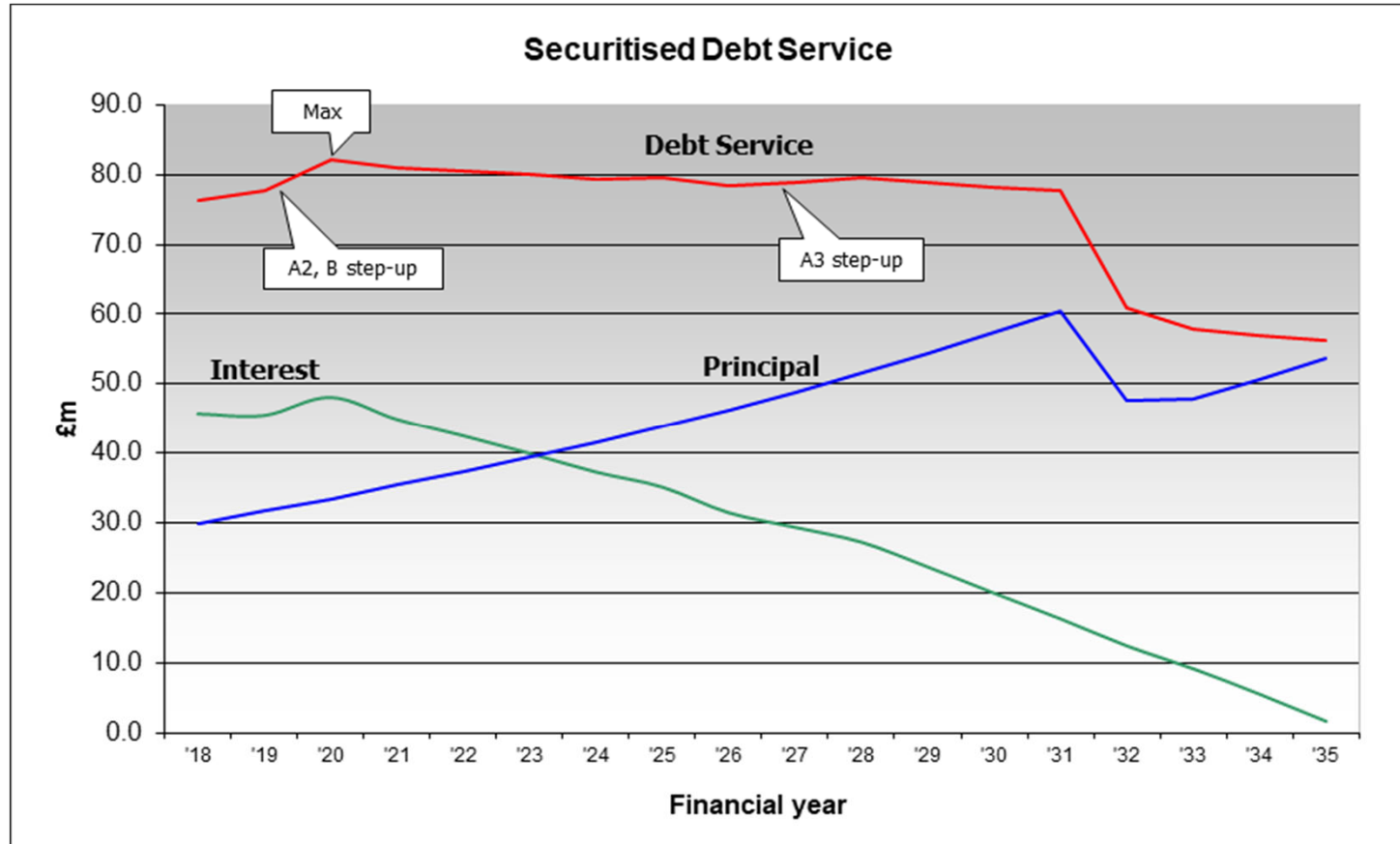
## CAPEX, TAX AND SHARE CAPITAL

	Actual 2018	Forecast 2019
New-build capex	£63m	c.£50m
Organic capex	£100m	c.£80-85m
Total	£163m	c.£130-135m
Disposals	£47m	c£40-45m
Net capex	£116m	c£85-95m
Tax rate	15.5%	16-17%
Average number of shares in 2018	633.1m	
Shares in issue at 29 September 2018	632.6m	
Additional dilutive number of shares	6.7m	

## SECURITISED DEBT PROFILE

Tranche	Type	Principal outstanding at 29 September 2018	Step-up date	Final maturity date
A1	Floating	£40.1m	July 2012	2020
A2	Fixed/Floating	£214.0m	July 2019	2027
A3	Fixed/Floating	£200.0m	April 2027	2032
A4	Floating	£172.0m	October 2012	2031
B	Fixed/Floating	£155.0m	July 2019	2035
Total		£781.1m		

# SECURITISATION PROFILE



		FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035
Principal	£m	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	45.7	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	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	FY2018				FY2017**				FY2016				FY2015	FY2014	FY2013*
	Bal	Depn	Reval	Adj	Bal	Depn	Reval	Adj	Bal	Depn	Reval	Adj	Adj	Adj	Adj
<b>NON-CURRENT ASSETS:</b>															
Goodwill	230.3			230.3	230.3			230.3	227.5			227.5	227.5	224.2	224.2
Other intangible assets	70.0	6.2		76.2	67.6	6.8		74.4	37.3	7.5		44.8	44.2	30.4	30.2
Property, plant and equipment	2,408.1	187.5	(627.2)	1,968.4	2,360.7	196.6	(624.2)	1,933.1	2,199.4	201.6	(623.1)	1,777.9	1,694.5	1,628.0	1,674.2
Other non-current assets	9.6			9.6	10.3			10.3	10.4			10.4	12.1	11.5	12.8
<b>CURRENT ASSETS:</b>															
Inventories	44.6			44.6	40.2			40.2	28.7			28.7	28.2	23.0	21.5
Assets held for sale	2.3			2.3	2.7			2.7	6.6			6.6	18.0	38.3	59.9
Trade and other receivables	104.9			104.9	108.4			108.4	85.0			85.0	84.3	72.9	69.0
<b>LIABILITIES:</b>															
Creditors***	(279.0)			(279.0)	(286.9)			(286.9)	(234.3)			(234.3)	(228.5)	(199.0)	(188.4)
<b>CASH CAPITAL EMPLOYED</b>	<b>2,590.8</b>	<b>193.7</b>	<b>(627.2)</b>	<b>2,157.3</b>	<b>2,533.3</b>	<b>203.4</b>	<b>(624.2)</b>	<b>2,112.5</b>	<b>2,360.6</b>	<b>209.1</b>	<b>(623.1)</b>	<b>1,946.6</b>	<b>1,880.3</b>	<b>1,829.3</b>	<b>1,903.4</b>
								<b>2,001.9</b>							
<b>EBITDA</b>				<b>222.6</b>				<b>213.7</b>				<b>212.7</b>	<b>203.3</b>	<b>192.4</b>	<b>199.1</b>
<b>CROCCE</b>				<b>10.3%</b>				<b>10.7%</b>				<b>10.9%</b>	<b>10.8%</b>	<b>10.5%</b>	<b>10.5%</b>

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

\*\* 2017 calculated on average net assets to reflect significant acquisition activity during the second half year

\*\*\* Creditors comprise trade and other payables, other non-current liabilities and provisions for other liabilities and charges



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Bridge, Duffield