Interim Results 2008

MARSTON'S

DRINK
WITHIN
YOUR
BOUNDARIES

MARSTON'S

www.drinkaware.co.uk

MARSTON'S

David Thompson
Chairman

Highlights

1. **Challenging trading environment**
   - smoking bans, higher costs, weaker consumer confidence

2. **Impact of smoking bans as expected**
   - good growth in food sales, consistent with long-term trends
   - declines in higher margin wet sales and machine income

3. **Consistent progressive dividend policy**
   - dividend +10.1% to 4.80 pence per share

4. **Financing**
   - £330m securitisation tap completed November 2007
   - competitive cost, increased operational and financial flexibility

well positioned to exploit favourable long-term trends

Paul Inglett
Finance Director

Financial highlights

26 weeks to 29 March 2008		% change
Revenue	£316.4m	+3.6 %
EBITDA*	£94.6m	+2.8 %
Operating profit*	£72.6m	+1.8 %
Profit before tax*	£35.0m	(15.9)%
EPS*	10.0p	-
Dividend	4.80p	+10.1 %

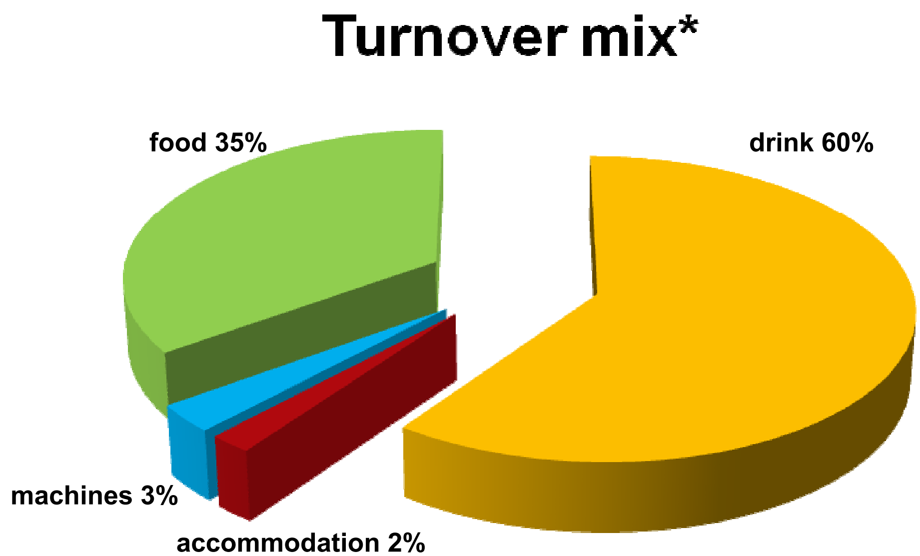
Impact of £150m share buy-backs

*before exceptional items

continued double digit growth in dividends

Like-for-like sales

Like-for-like sales growth*	% change
Drink	(3.1)%
Food	+7.8 %
Machines	(10.3)%
TOTAL	**+0.3 %**

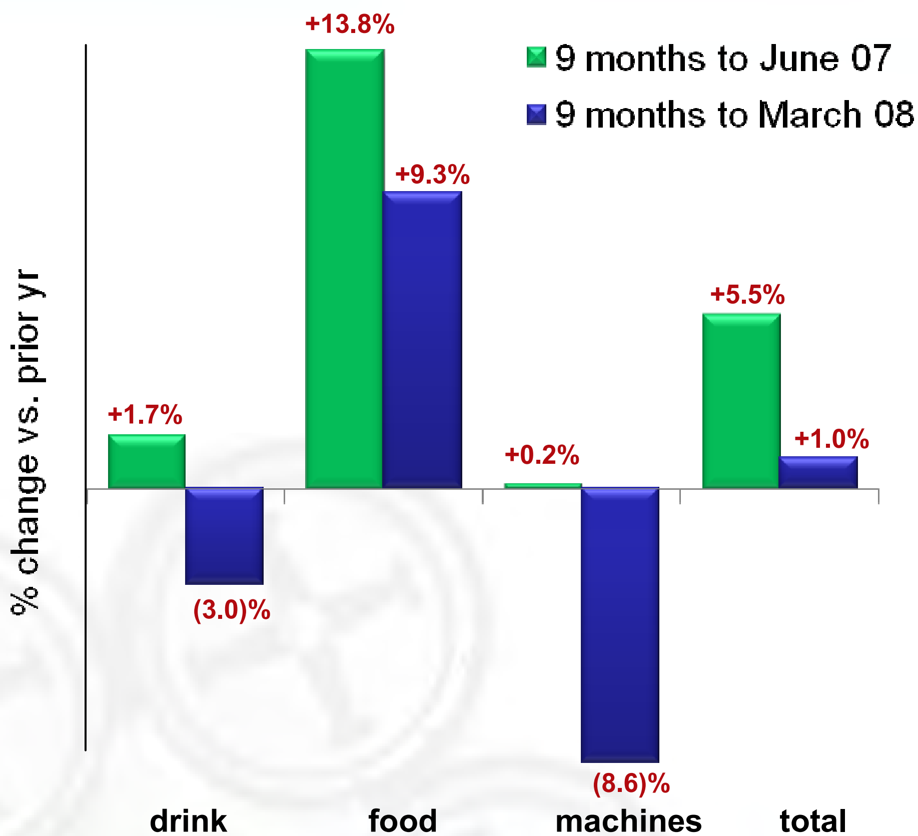


*24 weeks to 15 March 2008, excluding any pubs acquired in last 2 years

food sales continue to be key driver of growth

Impact of smoking ban

Like-for-like sales growth*: pre smoking ban vs. post smoking ban



*excluding any pubs acquired in last 2 years

robust trading despite very challenging environment

Impact on 2007/2008 margins

Average selling prices flat*	• competitive pressures
Drink margins	• re-negotiation of lager contracts
Food margins	• food cost inflation
Net margins	• increased food mix • additional costs to serve

** drink and food*

net margins affected by sales mix and rising costs

Margin outlook 2008/2009

1. **Wage costs**
   - NMW increase of 3.8% from October 2008
   - cost of additional 4 days holiday pay from October 2008 £1.0m p.a.
2. **Utilities**
   - gas costs fixed to October 2010
   - electricity costs fixed until June 2008 - expected increase £3m p.a.
3. **Food/commodities**
   - food cost inflation of c.8%
   - increased costs of production
   - potential increases up to £5m p.a.
4. **Pricing**
   - flexibility limited by future duty increases
   - price increases will reflect consumer outlook

challenging cost outlook

Split of assets*

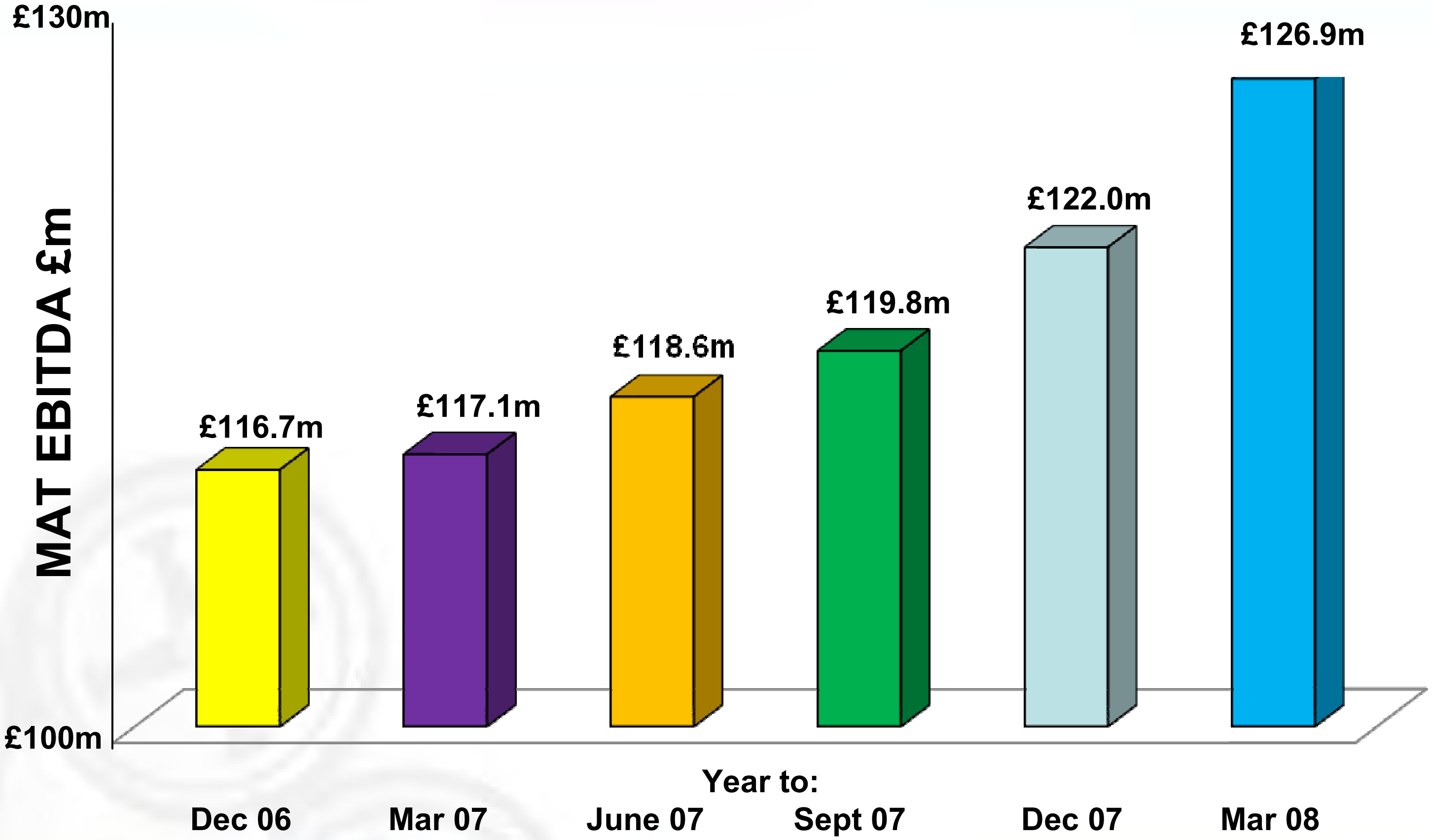
2,274 pubs
+
BEER COMPANY

Securitisation	Bank facilities
Marston's Pubs Limited	**Other Group companies**
285 Managed pubs	268 Managed pubs
1,622 Tenanted pubs	99 Tenanted pubs
1,907	367
	+ BEER COMPANY

** as at 29 March 2008*

84% of pubs are securitised

Performance of Marston's securitised estate



performance in line with "run-rate" expectations

Securitisation highlights: year to March 2008

1. **<u>Securitisation results</u>** **<u>Actual</u>**

	Actual
gross debt* outstanding as at 29 March 08	£1,106.3m
EBITDA	£126.9m
free cash flow (FCF)	£100.1m
debt service (DSCR)	£59.5m

2. **<u>Financial covenants</u>** **<u>Covenant</u>**

(i) FCF : DSCR 1.7x
>1.1x

(ii) Net worth £535.8m
>£90m

** before debt issue costs*

significant headroom in covenants

Financing structure

	£m	
securitisation	1,106	• amortises to 2035
bank facility*	221	• £400m available facility • expires August 2010
bank overdraft	10	
gross debt	1,337	• 93% at fixed rates
cash/debt issue costs	(67)	
Net debt	**1,270**	• **average cost of debt c.6.1%**

1. **Flexibility to switch assets between financing structures**

2. **No refinancing requirement until August 2010**

** including loan notes*

low, long term, fixed cost of debt

Key financing ratios*

Group financing ratios	
EBIT interest cover	2.3x
EBITDA interest cover	2.9x
Net debt: EBITDA	6.1x

£400m bank facility	Actual	Covenant
Net debt: EBITDA	2.7x	<5.5x

** 12 months to March 2008*

significant financial headroom available

REITs

1. **Issues to consider**
   - retained ownership of freehold assets
   - business structure
   - financing and transaction costs
   - existing low tax charge
   - potential investment constraints
   - relative valuations

2. **Continue to keep under review**

continue to monitor market developments

Financial summary

1. **Robust underlying performance of business**
   - 10.1% increase in dividend

2. **Balance sheet**
   - asset values supported by 98% freehold estate by value
   - £150m share buy-back completed in 2007

3. **Financing structure**
   - efficient financing structure
   - 93% of debt fixed at average rate of c.6.1%
   - c.£180m of available bank facilities
   - no refinancing requirement until August 2010

4. **REITs**
   - continue to keep under review

strong balance sheet and efficient financing structure

Questions?

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Ralph Findlay
Chief Executive

Marston's strategy

1. **Develop national, high quality pub estate**
   - mainly community pubs, substantially freehold estate
   - refurbishment, single-site or package acquisitions
   - managed and tenanted pubs

2. **Develop greater food skills, broaden consumer appeal**
   - '**F**' Plan – **F**ood, **F**amilies, **F**emales, **F**orty/**F**ifty 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, heritage

key strategic objective – to create shareholder value

Market drivers of strategy

Demographics	Market trends	Competitors
• ageing population	• choice, vfm, service	• the home
• rising female employment	• eating out	• supermarkets
• flexible working	• provenance, authenticity	• other ‘pubcos’
• increasing diversity	• on-trade vs. off-trade	• restaurants

Economic	Political	Social responsibility
• rising inflation	• increasing employment costs	• health
• rising costs	• increasing business taxes	• under-age drinking
• low unemployment	• health & safety legislation	• behaviour
• credit markets	• EU legislation	• advertising

CSF’s: estate quality, market position, strong balance sheet

Estate development: average EBITDA returns 15%+

1. 20+ sites per year: new-build programme

food-led pubs

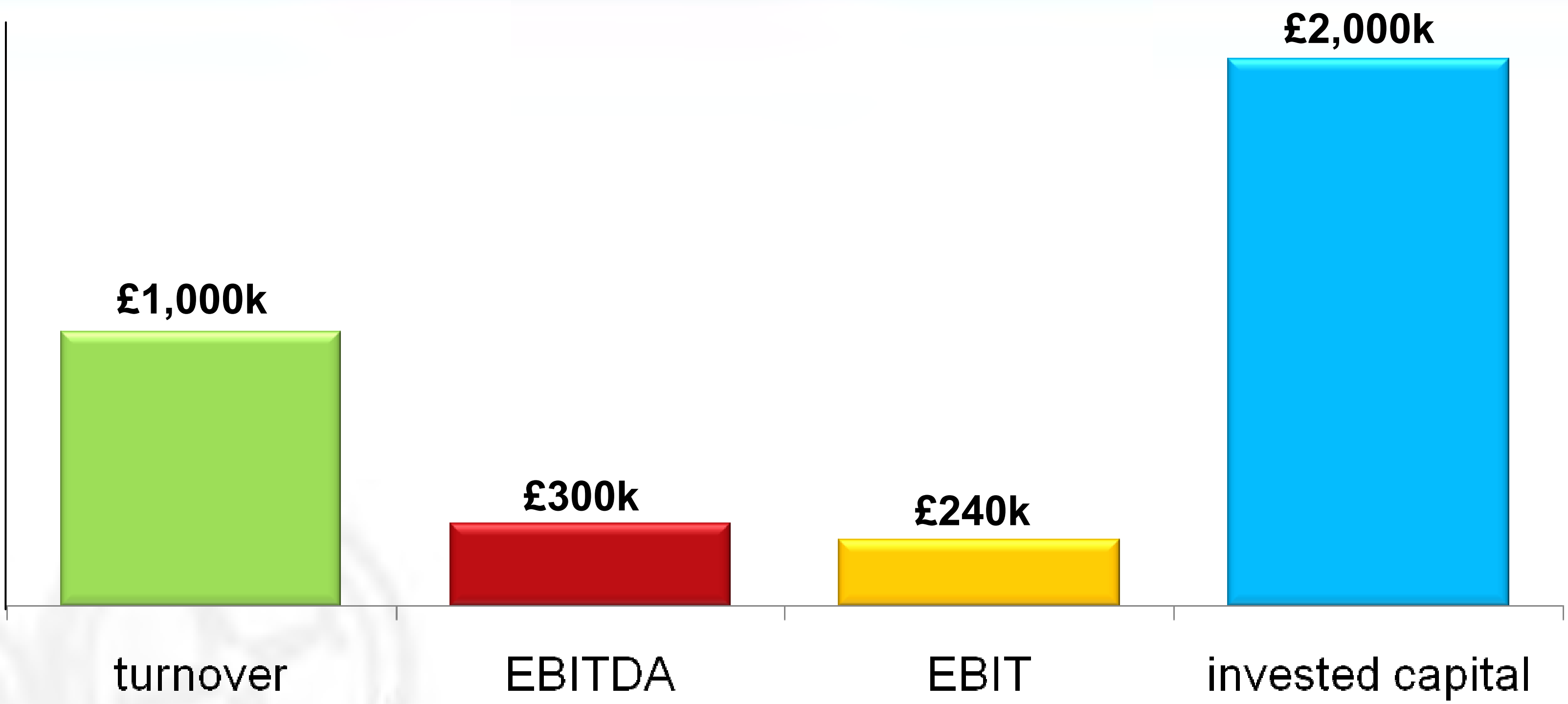
Pitcher & Piano

2. Site pipeline

	food-led	**Pitcher & Piano**
• 11 units on site/land banked	8	3
• 11 contracts exchanged	9	2
• 25 sites under negotiation	22	3

estate development creates value

New build – typical targeted performance



- c.£20k per week
- 50–60% food sales

- low maintenance
  - energy efficient
- EBITDA multiple 6.7x

- EBIT return 12%

- site + build cost

high turnover, high food sales, high return on capital

Substantially freehold estate (98%)

1. **Freehold offers potential for capital appreciation**
   - significant revaluation gains: c.£400m between 2004 and 2007

2. **Value of leases declines over time**
   - nil value at the end of the lease (typically 25 years)
   - increased amortisation throughout life of lease

3. **Lease costs increase over time**
   - more onerous than debt, where costs are fixed

4. **Leases offer less operational flexibility**
   - landlord's consent to changes often required
   - not suitable for conversion to tenancy (sub-let clauses)

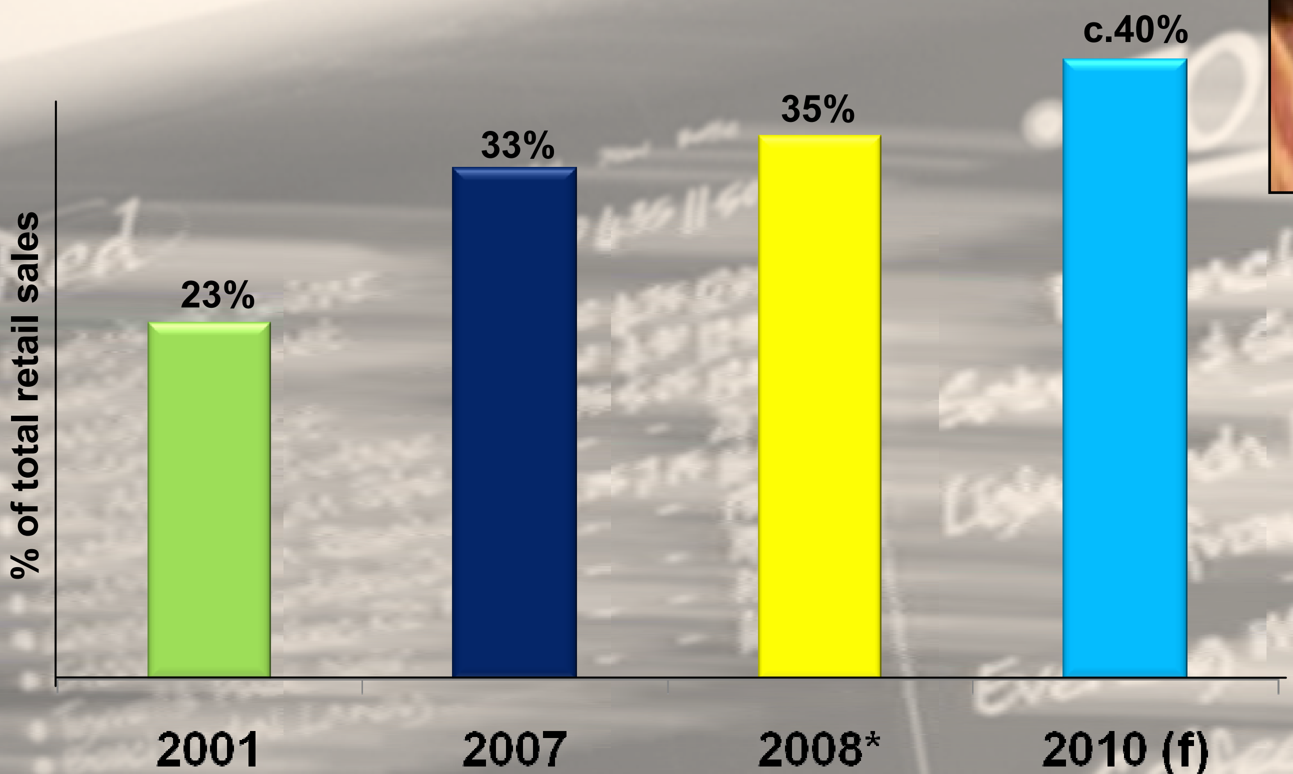
5. **There are residual risks on disposal of leases**
   - freehold disposals 'clean'
   - 'good covenant' not always reflected in lease terms

freehold ownership confers clear benefits

Consistent food skills development and growth

LFL growth 2007 +13.3%
LFL growth 2008* + 7.8%

Food mix



**24 weeks to 15 March 2008*

total food related sales estimated to be c.65% of retail sales

Value for money offers in great pubs

	Food sales mix	Spend per head
1. Community • Marston's Tavern Table • Marston's Two for One • Marston's Taverner's Carvery	50 – 60%	£4.50 – £7.00
2. High Street • Pitcher & Piano • Que Pasa • Bluu	15 – 30%	£6.00 – £10.00

'F' Plan: Food, Families, Females, Forty/Fifty somethings

Food sales* facts and figures

1. **Average spend per head on food £6.01**
   - slight increase on 2007
   - volume growth of +6%

2. **Over 20m main meals sold each year**
   - 290 different main meals vs 2007: +30
   - volume of main meals sold vs 2007: +4%

3. **Other 'dishes' also in growth**
   - starters + 8%
   - side orders + 6%
   - desserts +15%
   - coffee + 9%

** on a like-for-like basis*

strongest growth is in mid-range price point £6-£7 main meal

‘Sustainable Growth, Uncompromising Standards’

1. **Exploiting changing consumer trends**
   - more flexible agreements – including ‘turnover rent’ model
2. **Demanding excellence from ourselves and our retailers**
   - My Marston’s Online; web based payroll
3. **Helping our retailers to maximise their turnover**
   - c.1,400 retailers from c.1,100 pubs attended training courses
4. **Considering long-term options ahead of the short-term**
   - taking time to place tenants appropriately
   - developing relationships with multiple tenants
5. **Operating with Fairness, Integrity, Transparency**
   - ‘FIT’ is adopted throughout Marston’s PLC
   - ‘FIT’ sets a high standard of responsible behaviour

more support, more training, better systems

Tenant and lessee recruitment

1. **Over 80% of pubs serve food**
   - c.30% of pubs ‘food-led’

2. **12% of pubs have letting rooms**
   - c.1,300 rooms across the estate – 56% categorised as ‘premium’

3. **Outperforming market in non-beer categories**

% change	MPC*	Market**
wines	+ 6.9	(3.0)
spirits	+ 0.5	(4.0)
packaged cider	+13.9	+2.0

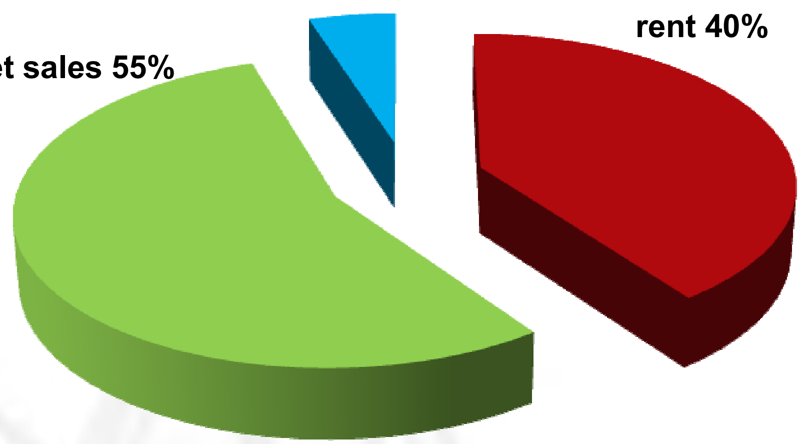
4. **1,669 enquiries converted to 528 formal applications**

**MAT to end March 2008*
***AC Nielsen to March 2008*

more skilled retailers, growth in non-tied income

Sustainable rents, fair pricing to tenants

Gross margin mix



total gross margin 62.7%

- **wet margin 48.1%**
  - pricing control over ‘own brewed’ ales
- **average rent per pub c.£26k**
  - increases at rent review c.4%
  - >50% of estate ‘long lease’
- **‘other’ is mainly machine income**
- **net profit margin 46.7%**
  - +2.5% vs H1 2007
  - average EBITDA per pub +10.1% vs H1 2007

like-for-like profit per pub down 0.6% vs 2007

Tenants health check issues

1. Few closed pubs

- 26 pubs currently closed
- over half of market pub closures are free trade pubs*

2. Rent concessions increasing – but <2%

- 1.6% of rent roll (2007: 1.2%)
- 79 rent reviews, none went to arbitration

3. Lease assignments, applications remain strong

- 37 pubs assigned with average premium of £72k

*source: CGA

supportive and flexible, recognising tough market conditions

Marston's is gaining market share

1. **2007/2008 beer market performance weak**
   - exacerbated by smoking bans
   - pub investment has been food-led

2. **Marston's brands 2.5%* down (MAT +0.5%)***
   - premium ale brands +0.1% (MAT +7.2%)
     - Marston's Pedigree, Old Empire
     - Jennings Cumberland Ale, Sneckflifter
     - Ringwood Fortyniner, Old Thumper
   - standard ale (4.1)% (MAT down 3.8%)

3. **Good free trade performance**
   - distribution growth in southern England
   - reduced distribution to wholesalers; higher margins

*excluding the acquisition of Refresh in April 2008

range, provenance and service contributing to outperformance

Marston's is leading the market in premium ale

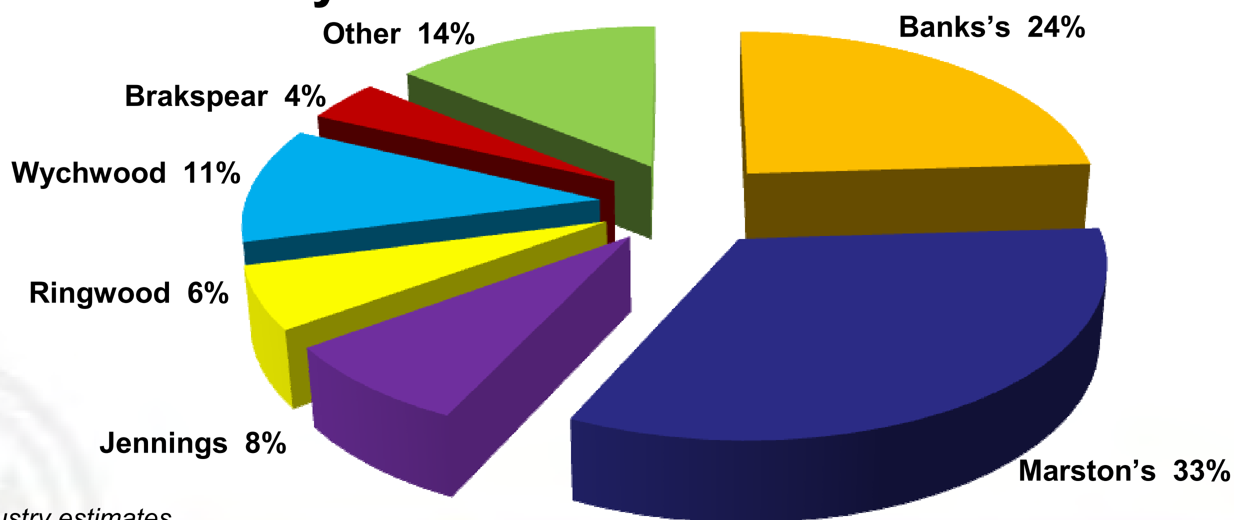
1. c.20% share* of the UK premium cask ale market

- Marston's Pedigree is Britain's no.1 premium strength cask ale

2. c.18% share* of the UK bottled ale market

- largest brewer of premium bottled ale in the UK
- 3 brands in 'Top 20': Hobgoblin, Marston's Pedigree, Old Empire

3. Marston's portfolio of brands by volume*



** including the acquisition of Refresh in April 2008; industry estimates*

a leading premium ale position in On and Off Trade

Differentiated through well known brands

1. Marston's has an unrivalled portfolio of ale brands

2. Acquisition of Wychwood brewery strengthens take home position

- take home ale market share 4.0% → 7.6%*
- bottled ale market share 7.2% → 18.4%*

** industry sources*

unique combination of brands and service

Free trade performance

1. **Increased distribution, gross margin**
   - turnover and volume well ahead of market
   - higher throughputs
2. **Business 'solution' approach**
   - helping to improve customers' profitability
   - focus on brands and service

3. **Building on 'Official Beer of England' cricket deal**
4. **Building on acquisitions**
   - Eldridge Pope
   - Ringwood
   - Refresh

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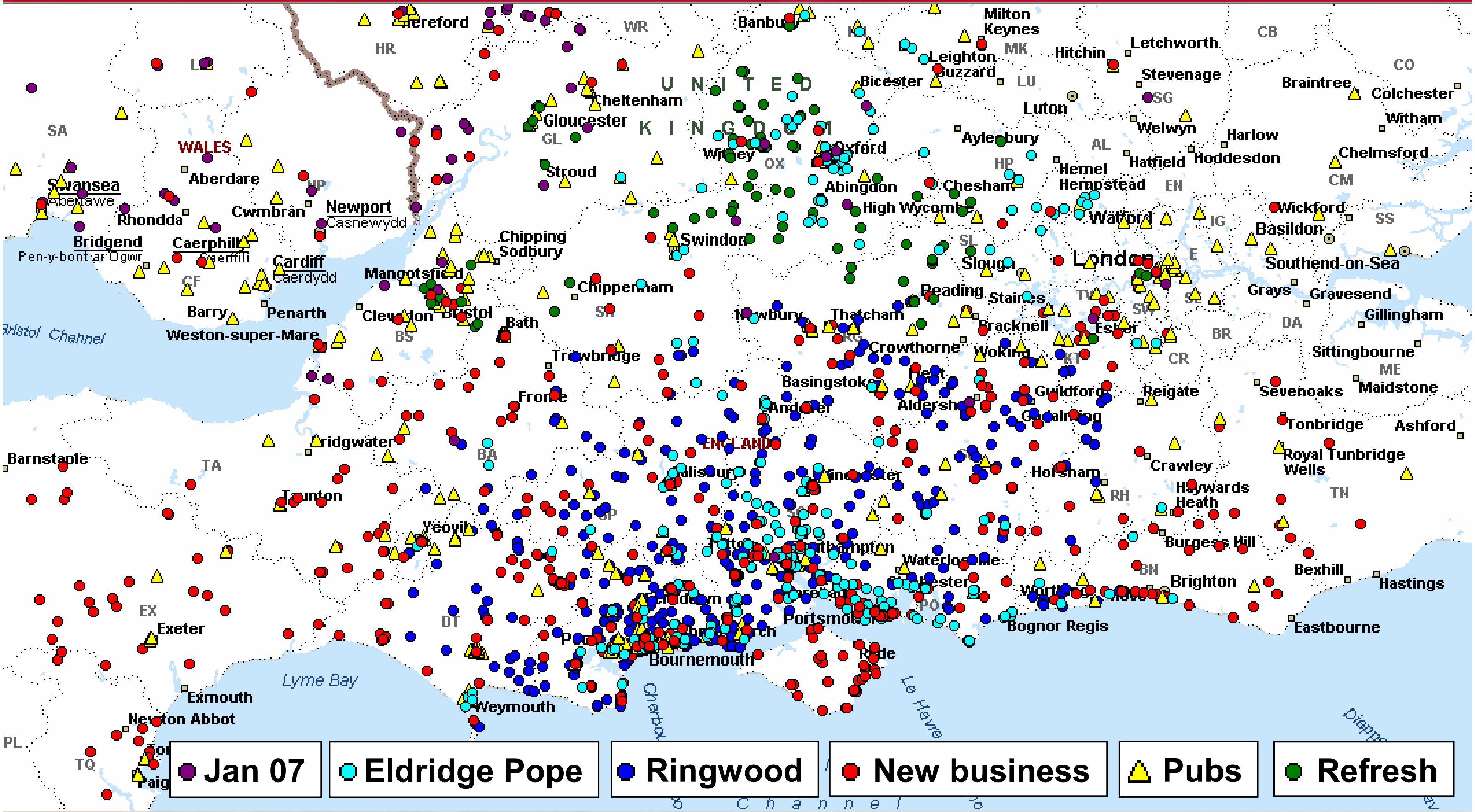
MARSTON'S OFFICIAL BEER OF ENGLAND ECB

performance well ahead of the market

Free trade development



wide brand range, broader trading geography

Summary

CARBON TRUST
Making business sense of climate change

1. Challenging first six months, cautious outlook

- rising energy, food costs in 2008 and 2009
- weak consumer confidence

2. Business development on-track

- new build programme
- managed to tenanted transfers
- Marston's Beer Company development

3. Current trading

- April - weak as expected
  - timing of Easter, hot weather 2007
- May - significant improvement

4. Well positioned to exploit longer term trends

Marston's - Champion of Carbon Saving Champions Carbon Trust 2008

strong balance sheet, good cash generation

Questions?

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Appendices

Financial highlights[1]

INNS AND TAVERNS

		2008	2007[2]	% change
Revenue	£m	**183.8**	165.3	+ 11.2%
EBITDA	£m	**39.9**	37.0	+ 7.8%
Operating profit	£m	**28.3**	26.5	+ 6.8%
Operating margin	%	**15.4**	16.0	(0.6)%
Average no. of pubs		**550**	500	

[1]*before exceptional items*
[2] *restated to include acquisition of Eldridge Pope*

Financial highlights[1]

PUB COMPANY

		2008	2007[2]	% change
Revenue	£m	**92.7**	99.8	(7.1)%
EBITDA	£m	**48.7**	49.1	(0.8)%
Operating profit	£m	**43.3**	44.1	(1.8)%
Operating margin	%	**46.7**	44.2	+ 2.5%
Average no. of pubs		**1,723**	1,913	

[1] *before exceptional items*
[2] *restated to include acquisition of Eldridge Pope and Sovereign Inns*

Financial highlights*

BEER COMPANY

		2008	2007	% change
Revenue	£m	**39.9**	40.2	(0.7)%
EBITDA	£m	**10.9**	11.2	(2.7)%
Operating profit	£m	**7.0**	7.4	(5.4)%
Operating margin	%	**17.5**	18.4	(0.9)%

*before exceptional items

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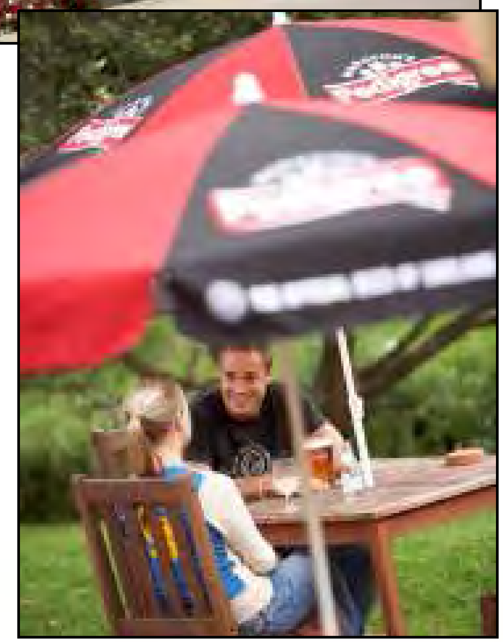
Estate movement

Pub numbers	MARSTON'S INNS AND TAVERNS	MARSTON'S PUB COMPANY	MARSTON'S
September 2007	**550**	**1,722**	**2,272**
New builds/single site acquisitions	8	3	11
Disposals	(5)	(4)	(9)
March 2008	**553**	**1,721**	**2,274**



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Additional information and guidance

•	Average number of shares in H1 2008		273.6m
•	Number of shares in issue as at 22 May 2008		270.0m
•	Additional dilutive number of shares		2.8m
			Forecast **2008**
•	Forecast tax rate		c.22%
•	**Capex forecast***:	existing business	£70m
		new builds/sites	£40m
		pub acquisitions	£10m
			£120m
•	Forecast disposal proceeds		c.£20m

** excludes the acquisition of Refresh*

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