



**Preliminary  
Results 2008**



**David Thompson  
Chairman**

## 1. Progress in each trading division

- investment in pub standards and brand marketing

## 2. Robust underlying performance

- value for money appeal
- sustainable and fair basis of dealing with tenants and lessees
- strong underlying cash flow

## 3. Final dividend maintained at 8.47 pence per share

- total dividend +3.4% this year, +24.1% over last 2 years

## 4. Clear focus in challenging environment

- cash generation, prudent management of debt
- tight control of costs
- value for money
- return on capital from existing assets

**appropriate response to current market conditions**



**Paul Inglett**  
**Finance Director**



## Financial highlights

Financial year 2008		% change
Revenue	£666.1m	+2.0 %
EBITDA*	£204.6m	(0.6)%
Operating profit*	£161.6m	(1.0)%
Operating margin*	24.3%	(0.7)%
Profit before tax*	£85.1m	(13.2)%
EPS*	25.6p	(2.3)%
Dividend	13.27p	+3.4 %

\*before exceptional items





## Exceptional items

	<b>Gross</b>	<b>Net</b>
	<b><u>£m</u></b>	<b><u>£m</u></b>
Interest rate swaps mark to market*	4.2	3.0
Reorganisation costs	3.9	2.7
Phasing out of industrial buildings allowance*	-	1.4
REITs project costs	<u>0.8</u>	<u>0.6</u>
<b>Total exceptional items</b>	<b><u>8.9</u></b>	<b><u>7.7</u></b>

- REITs now considered extremely unlikely in the foreseeable future

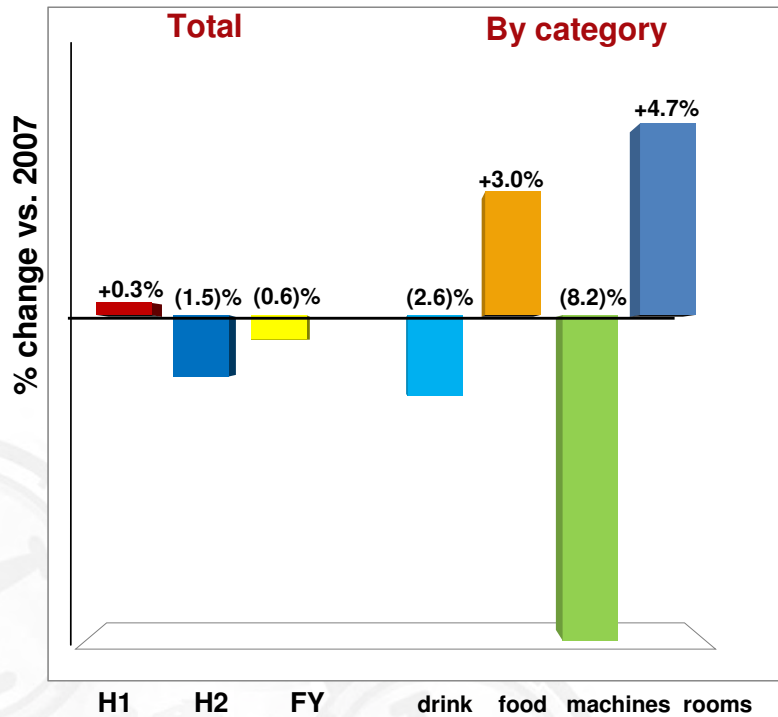
\* non-cash items

**net cash exceptional cost of £3.3m**

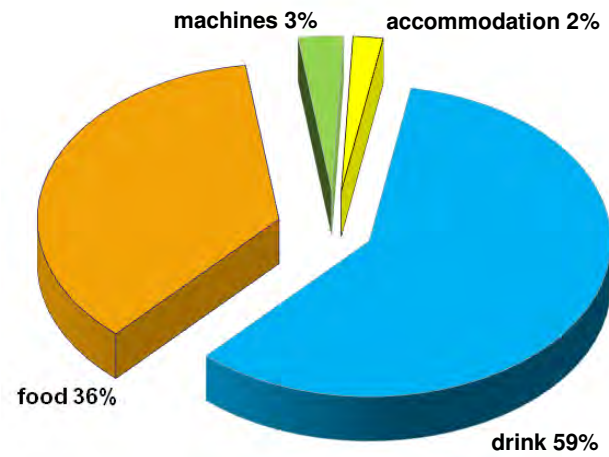




# Like-for-like sales\*



## Turnover analysis



\*excludes any pubs acquired in last 2 years

**food continues to be key driver of growth**





## Cost outlook

### 1. £12m of additional costs in 2009

- employment, food, energy, brewing raw materials

### 2. 17% increase in alcohol duty since Mar 2008

- duty escalator remains in place for 2009

### 3. Fixed contracts

- **electricity:** pubs and breweries fixed to Sept 2011
- **gas:** breweries fixed to Sept 2009, pubs to Sept 2010
- **food distribution:** fixed to Sept 2012
- **drinks:** spirits to Sept 2009; lager to Sept 2010; minerals to Sept 2012

### 4. Cost outlook from H2 looks more positive

- less inflationary pressure

**inflationary cost pressures, but should ease from 2<sup>nd</sup> half**





## Actions to reduce costs

### Expected cost increases in 2009

<u>£m</u>	Managed Pubs			Other	Total
	Utilities	Employment	Food	Overheads	
Original view	4	3	3	2	12
Mitigating actions	(2)	(1)	(2)	(5)	(10)
<b>Current view</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>(3)</b>	<b>2</b>

**focused on tight cost management in 2009**



## Balance sheet

	<b>2008</b>	<b>2007</b>	
	<b><u>£m</u></b>	<b><u>£m</u></b>	
Fixed assets*	<b>1,992</b>	1,942	• 98% of value freehold or long leasehold
Intangibles & investments	<b>272</b>	252	
Net debt	<b>(1,268)</b>	(1,189)	
Deferred tax	<b>(142)</b>	(155)	
Net other liabilities	<b>(147)</b>	(101)	• pension scheme deficit unchanged
<b>Net assets</b>	<b><u>707</u></b>	<b><u>749</u></b>	• share buy-backs of £29m in 2008
Net assets per share	£2.62	£2.69	

\* includes assets held for sale

**strong balance sheet supported by largely freehold estate**



## 1. Year end property valuation of c.£2.0bn

- impairment charge of £4.9m
- reflects permanent impairments on closed pubs and potential disposals

## 2. Support for property values

- valuations reflect cash generated by individual pubs
  - like-for-like tenanted profits down 1.7% in 2008
- disposals in 2008 at book value
- prudent pre-overhead valuations
  - EBITDA multiples: managed c.8x; tenanted c.9x
- accounts reflect recent valuation for securitisation tap in Nov 2007

## 3. Rolling revaluation over 5 year period

**overall valuations realistic despite current market conditions**



## Cash flow

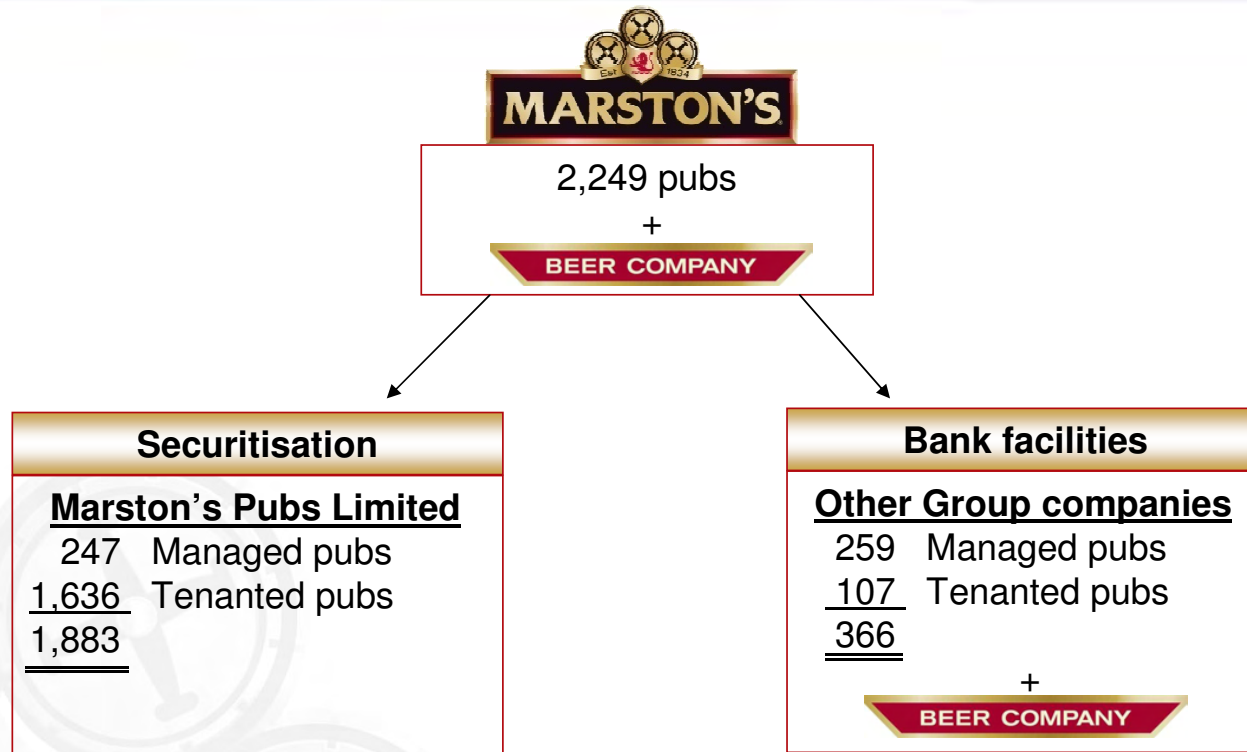
	2008 £m	2007 £m
Cash inflow from operating activities	172.4	156.0
Net interest/debt issues costs/other	(79.0)	(58.8)
<b>Free cash flow pre investment</b>	<b>93.4</b>	<b>97.2</b>
Capital expenditure	(117.2)	(146.3)
Disposals	21.5	102.0
Net capital expenditure	(95.7)	(44.3)
Acquisitions	(12.1)	(193.9)
	<b>(14.4)</b>	<b>(141.0)</b>
Dividends	(35.8)	(34.1)
Net share buy-backs	(28.8)	(120.3)
<b>Movement in net debt</b>	<b>(79.0)</b>	<b>(295.4)</b>

**strong underlying cash generation**





## Split of assets\*



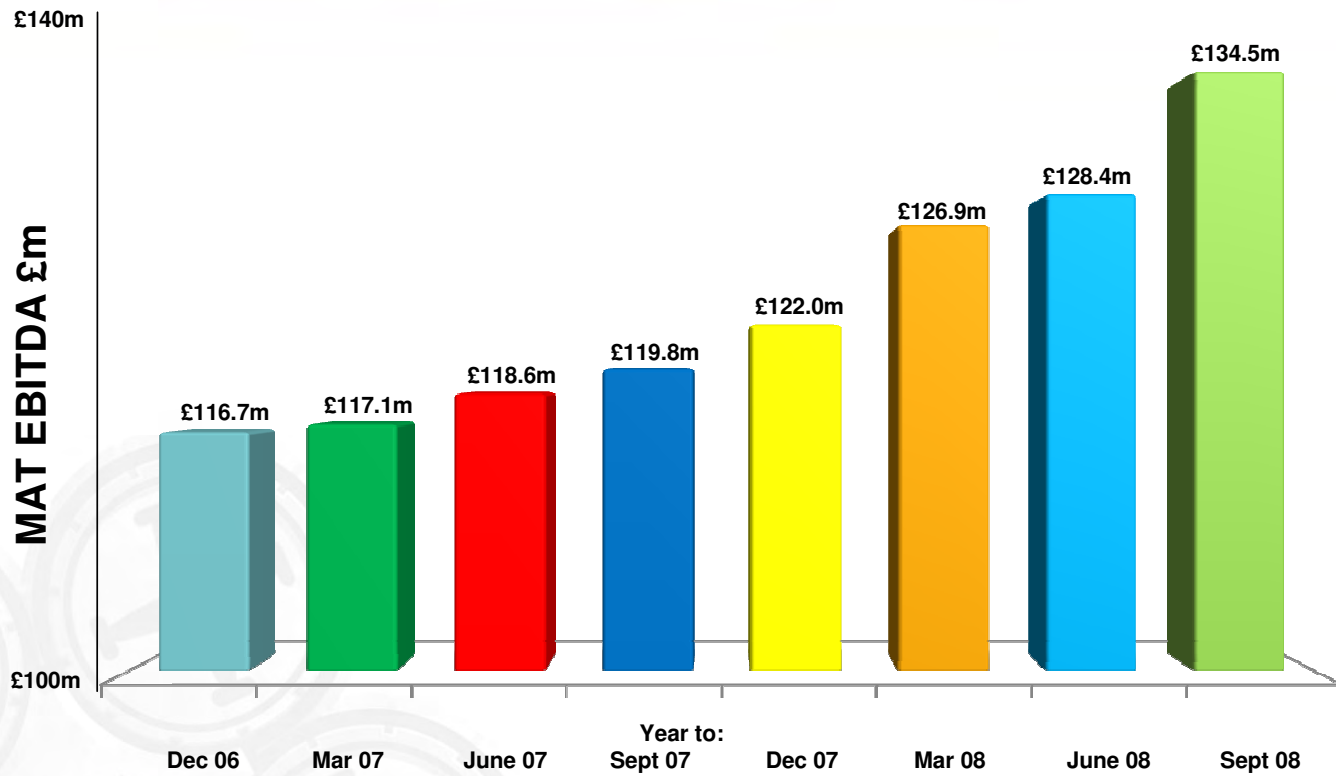
\* as at 4 October 2008

**84% of pubs are securitised**





## Performance of Marston's securitised estate



**consistent performance**



## 1. Securitisation results

**FY2008  
Actual**

- gross debt<sup>(1)</sup> outstanding as at 4 October 08      £1,097.5m
- EBITDA      £134.5m
- free cash flow (FCF)      £112.7m
- debt service (DSCR)      £72.7m

## 2. Financial covenants

**Covenant**

- |       |              |         |                      |
|-------|--------------|---------|----------------------|
| (i)   | FCF: DSCR    | 1.6x    | >1.1x                |
| (ii)  | EBITDA: DSCR | 1.9x    | >1.5x <sup>(2)</sup> |
| (iii) | net worth    | £530.9m | >£90m                |

*(1) before debt issue costs*

*(2) restricted payment covenant only*

**significant headroom in covenants**



## Financing structure

	£m	
Securitised debt	1,098	<ul style="list-style-type: none"><li>• amortises to 2035</li><li>• capital repayments: 2009 £18m; 2010 £19m; 2011 £20m</li></ul>
Bank facility*	242	<ul style="list-style-type: none"><li>• £400m available facility</li><li>• expires August 2010</li><li>• supported by c.£480m of pub assets + c.£140m brewing net assets</li></ul>
Bank overdraft	6	
Gross debt	1,346	<ul style="list-style-type: none"><li>• 92% at fixed rates</li></ul>
Cash/debt issue costs	(78)	
Net debt	1,268	<ul style="list-style-type: none"><li>• average cost of debt c.6.1%</li></ul>

\* including loan notes of £8m







## Key financing ratios<sup>(1)</sup>

### Group financing ratios

EBITDA interest cover 2.7x

EBIT interest cover 2.1x

Net debt: EBITDA 6.2x

### £400m bank facility Actual Covenant

Net debt: EBITDA 3.4x <5.5x<sup>(2)</sup>

(1) financial year to 4 October 2008 before exceptional items

(2) 5.5x for 2 periods following acquisition of Refresh, reverts to 5.0x in September 2009

**significant financial headroom available**



## 1. Resilient performance in extremely challenging trading conditions

- EPS down 2.3%
- 3.4% increase in dividend

## 2. Balance sheet

- asset values supported by 98% freehold estate\* by value
- property value over £700m > net debt
- capital investment reduced by c.£60m in 2009

## 3. Financing structure

- efficient financing structure
- 92% of debt fixed at average rate of c.6.1%
- c. £166m of available bank facilities
- no refinancing requirement until August 2010
- comfortable headroom in financing covenants



\* including long leaseholds

**strong balance sheet and efficient financing structure**



**Ralph Findlay  
Chief Executive**



## Operational and financial elements of strategy

1. **Develop a national, high quality pub estate**
2. **Develop greater food skills, broaden consumer appeal**
3. **Recruit skilled tenants and lessees**
4. **Increase distribution of our ale brands**
5. **Create greater value through vertical integration**
6. **Match freehold assets with long term fixed rate debt**

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





# Acquisitions have extended our trading geography





## Market drivers of strategy

### 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

- unemployment
- credit markets
- housing market
- inflation

### Political

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

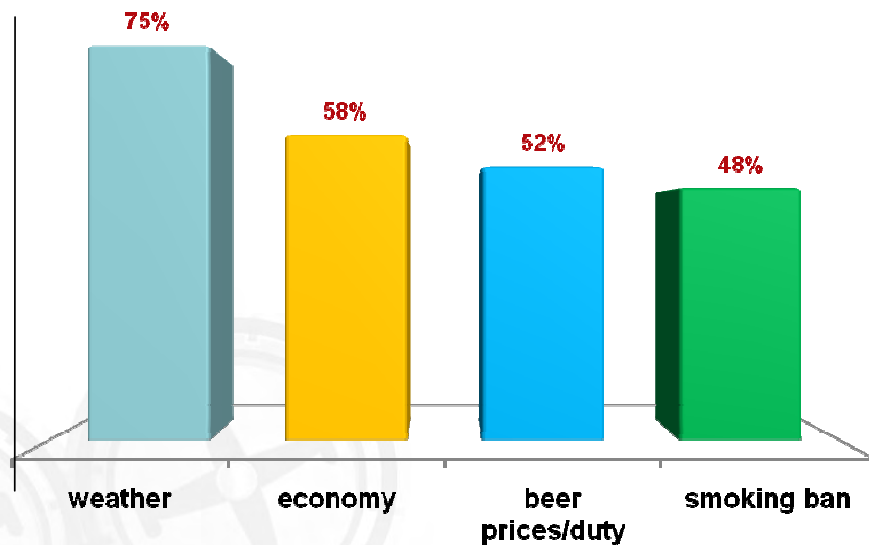
### Social responsibility

- health
- under-age drinking
- behaviour
- advertising





### Which factors have affected pub sales over the past year?<sup>(1)</sup>



- food important to 75% of pubs
- 47% reported sales up
- 22% reported sales decrease
- since 'the ban'
  - 45% 'neutral'
  - 17% 'beneficial'
- on-trade beer volumes down 8-10%<sup>(2)</sup>

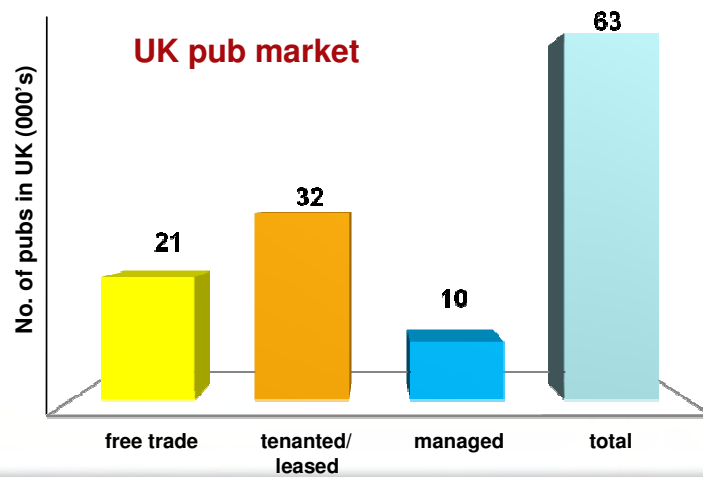
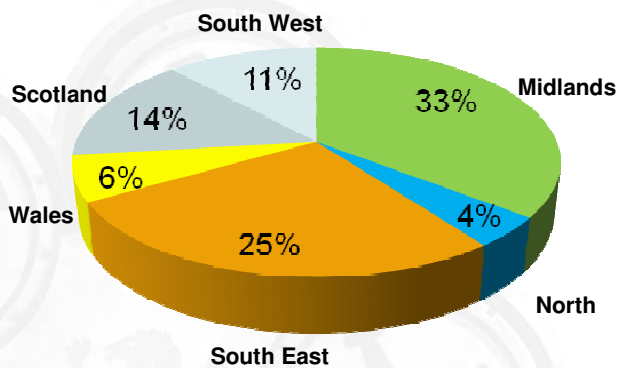
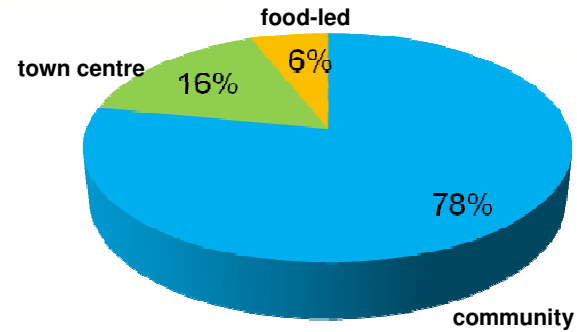
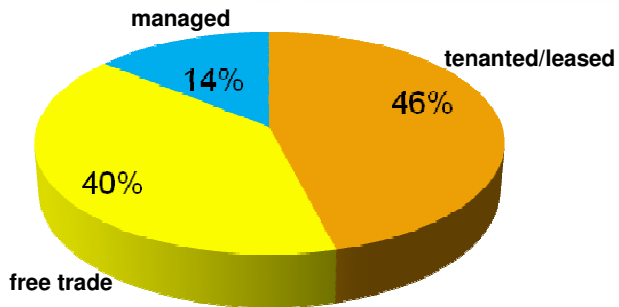
<sup>(1)</sup>source: The Publican Food Report 2008 (Sept 2007 – Sept 2008)

<sup>(2)</sup>source: company/industry estimates

**several factors leading to increased polarisation of pubs**



# Pub closures are estimated to be 36 per week\*



\*source: CGA 2008







## Priorities in 2009

1. **Optimising price and promotions**
2. **Continued focus on innovation, current trends**
3. **A rigorous approach to pub standards**
4. **Capitalise on beer brand portfolio**
5. **Tightly controlled costs, excellent customer service**
6. **Ensure customer/consumer knowledge is relevant, meaningful**
7. **Reduce debt**
8. **Maintain high ethical, environmental standards**

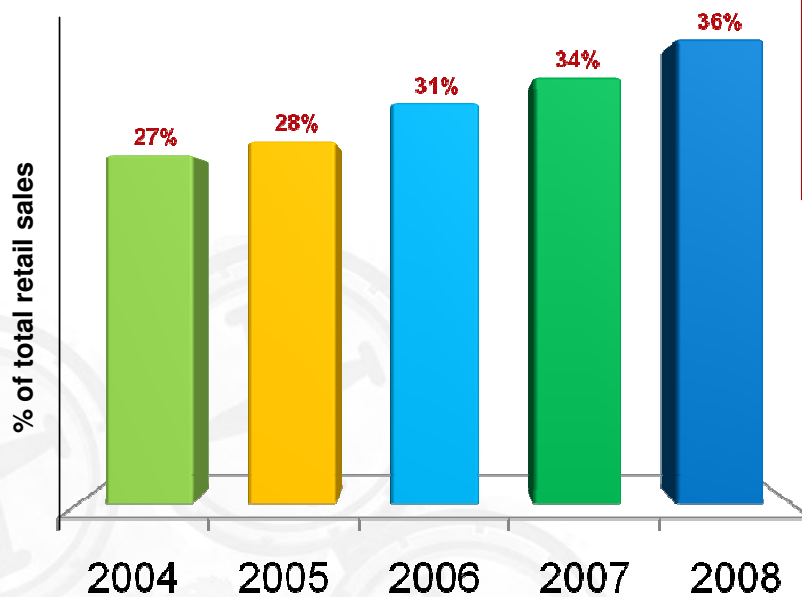
**clear focus on the customer, costs and debt management**



## Food sales continue to increase

### Food as % of retail sales

- LFL +3.0% in 2008; +13.3% in 2007

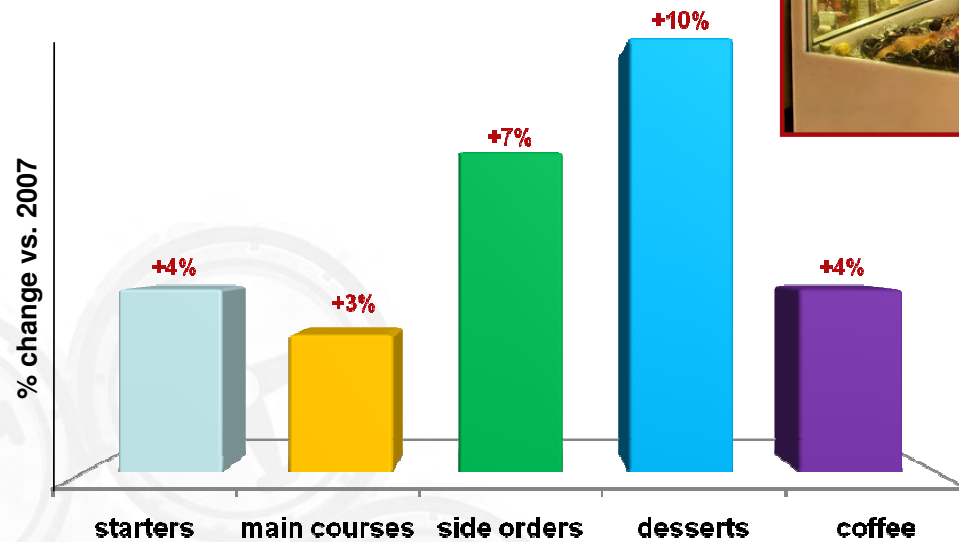


dining occasion drives 65% of customer visits

## 1. Food sales growth is volume led

- volume +4.3%, price/range (1.3)%

## 2. Growth in food covers +4%



- main courses are c.80% of total food sales



spend per head slightly up on 2007 at c. £6

## Evidence of weaker consumer confidence

- 1. Lunchtime sales remain strong (food and drink)**
  - later evening drink sales weaker
- 2. Average spend per head increased**
  - slightly weaker in H2
  - average spend per head on food c.£6
- 3. Number of covers in 2008 +4%**
  - increase in main courses retailing at below £5
    - 55% of all main meals sold
- 4. Strongest sales performances in value offers**
  - Two-for-One
  - increased value in all menus
- 5. Higher priced brands under pressure**
  - stronger performance in standard lager and ales



**competitor environment reflects move to value**



# Value – 90% of managed pubs offer promotions



35% of sales 'on promotion'

## 1. Pub quality

- Marston's Two-for-One concept in large, high quality pubs



## 2. Extensive ale offer

- not available at home
  - differentiates pub vs restaurant;
  - sign of quality

## 3. Food quality/service

- fresh vegetables; more local produce

## 4. Extensive 'specials' boards

- creates interest/informality



value delivered in a high quality environment



## Identifying growth areas, consumer trends

### Pub design – contemporary, modern



*Stags Leap, Rugeley*



*Bluu, Birmingham*



*Pitcher & Piano, Chester*

**improved quality of offer, more diverse revenues**



## Maximising opportunity – Marston's Inns

### Substantially completed refurbishment of rooms

- c.800 rooms across the estate in over 50 pubs
- occupancy c.65% and rising; achieved room rate c.£45



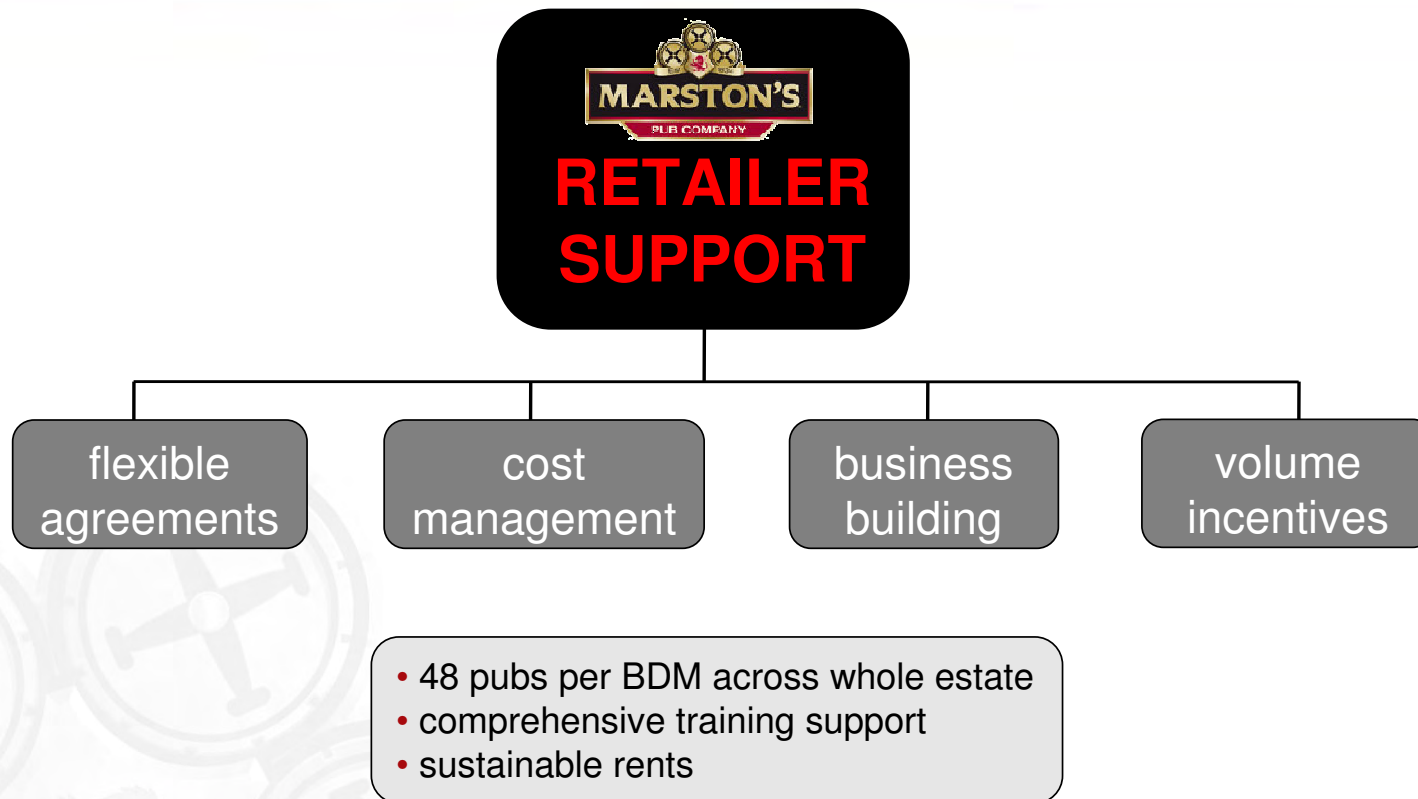
- why different?
  - very high specification
  - standardised contemporary design
  - Wi-Fi availability
  - free breakfast
  - digital TV's + freeview in all rooms
  - in a pub environment
- 20 units for future development
  - continue to review potential of existing sites
- new in 2008
  - online reservations; website

improved quality of offer, more diverse revenues





## Clear, focused support strategy for retailers



**objective: sustainable business, shared risks and rewards**

## 1. Flexible agreements

- ‘Tracker’ agreement launched
  - rent linked to volume, greater tenant flexibility
- further options being developed
- straightforward discounts, rent concessions: c.£2m pa
  - where appropriate

## 2. Cost management

- online payroll
- leveraging Marston’s economies of scale
  - food, services
- access to energy consultants
- launch of ‘Trade Card’



where we can offer better terms on non-tied goods and services – retailers benefit in full



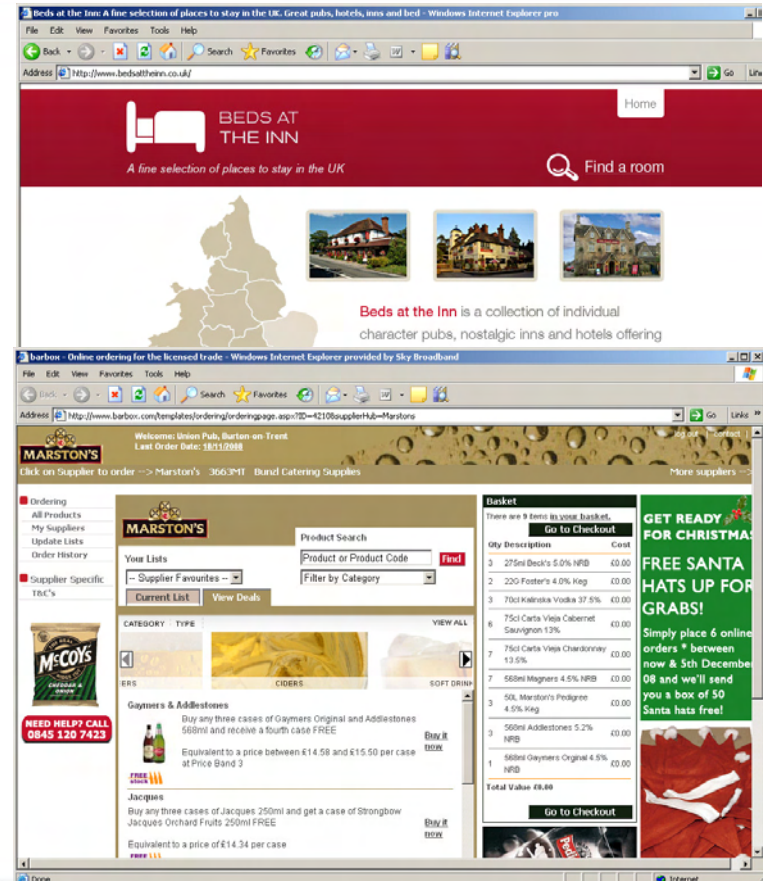
# Retailer support is focused on business building

## 1. Business building

- menu development tool
- national catering support
- 'Beds at the Inn' website
- free pub website building
- investment in BDM training, stability
  - 'Pedigree People Programme'
- 'Full House' marketing manual
- line cleaning incentive

## 2. Volume incentives

- reduced prices for packaged drinks
  - competing with wholesaler prices
- retail price support

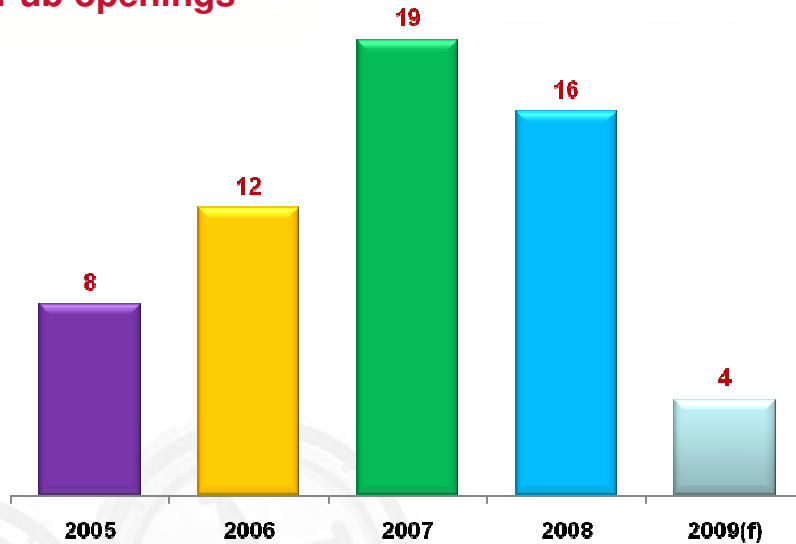


success of increased support and improved retail standards



## Reduced investment in new-build pubs in 2009

### Pub openings



*Woodman, Rotherham*

- **2008 openings:** London, Birmingham, Ludlow, Ipswich, Norwich, Brynmawr, Mansfield, Chester, Rugeley, Hull, Kidderminster, Manchester, Warwick, Chorley, Blackwood, Rotherham

**remains important for longer-term development**





# New-build pubs in 2004-2008



**56 pubs and bars built in the last 5 years**



# New-build pubs deliver good returns

## 1. Over 50 pubs developed over last 5 years

- high turnover, good returns



## 2. Site pipeline 2008/9

- 4 units on site/developed
- 6 sites 'landbanked'
- 8 sites to complete 2009
- 8 sites to complete 2010+

### community

### Pitcher & Piano

4

-

6

-

7

1

7

1

freehold pubs, clear 'F' Plan focus





# Strong market position in all segments

- 1. Share of UK ale market c.9% (1)**
  - volume up by 5% in 2008 (2)
- 2. Share of on-trade premium cask ale 21.8% (1)**
  - volume up by 17.5% in 2008 (2)
- 3. Share of premium bottled ale market c. 18% (3)**
  - strong growth in off-trade through Wychwood brands

(1) based on industry data

(2) including the acquisitions of Ringwood Brewery and Wychwood; 52 weeks

(3) Nielsen Nov 2008



**clear opportunities in on and off-trade sectors**





# Best range of cask ale brands in the market

## Signature brands



## Mainstream brands



## Select brands



+4 guest ales per month

wide choice for managed pubs and all of our customers







# Wychwood transformed Marston's off-trade profile

## 1. Clear brand priorities

- Marston's Pedigree, Marston's Old Empire, Hobgoblin, Jennings Cumberland Ale, Brakspear Oxford Gold, Ringwood Old Thumper

## 2. Marston's Pedigree has underperformed in off-trade

- review of packaging, support

## 3. Cricket sponsorship renewed

- 2009 Ashes Series
- Sports Sponsorship of the Year in 2008
  - Hollis Awards





## Summary

### 1. 2008 – resilient performance in challenging conditions

- robust like-for-like performance in pub estate
- operating margin 0.7% lower than in 2007, earnings per share 2.3% lower
- strong growth in cashflow from operating activities

### 2. 2009 – clear priorities

- appropriate actions taken to cut costs and reduce capex
- rapid response to market conditions

### 3. Final dividend maintained

- no immediate refinancing requirement; comfortable headroom
- strong underlying cashflow

### 4. Current trading

- remains very challenging
- the right blend of skills and experience in testing conditions

**CSF's: estate quality, market position, operational flexibility**





## Questions



**MARSTON'S**

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



# Appendices







## Financial highlights <sup>(1)</sup>

<b>INNS AND TAVERNS</b>		<b><u>2008</u></b> <sup>(2)</sup>	<b><u>2007</u></b>	<b><u>% change</u></b>
Revenue	£m	<b>388.3</b>	367.8	+ 5.6%
EBITDA	£m	<b>90.5</b>	88.8	+ 1.9%
Operating profit	£m	<b>67.2</b>	66.7	+ 0.7%
Operating margin	%	<b>17.3</b>	18.1	(0.8)%
Average no. of pubs		<b>550</b>	520	

<sup>(1)</sup> before exceptional items

<sup>(2)</sup> includes the results of 47 pubs transferred to tenancy in H2 2008





## Financial highlights (1)

<b>PUB COMPANY</b>		<b><u>2008</u></b> <sup>(2)</sup>	<b><u>2007</u></b>	<b><u>% change</u></b>
Revenue	£m	<b>186.4</b>	200.9	(7.2)%
EBITDA	£m	<b>99.5</b>	100.6	(1.1)%
Operating profit	£m	<b>90.0</b>	90.8	(0.9)%
Operating margin	%	<b>48.3</b>	45.2	+3.1%
Average no. of pubs		<b>1,713</b>	1,810	

<sup>(1)</sup> before exceptional items

<sup>(2)</sup> excludes the results of 47 pubs transferred to tenancy in H2 2008







## Financial highlights\*

<b>BEER COMPANY</b>		<b><u>2008</u></b>	<b><u>2007</u></b>	<b><u>% change</u></b>
Revenue	£m	<b>91.4</b>	84.1	8.7%
EBITDA	£m	<b>24.3</b>	25.3	(4.0)%
Operating profit	£m	<b>16.1</b>	17.4	(7.5)%
Operating margin	%	<b>17.6</b>	20.7	(3.1)%

\* before exceptional items



## Pub numbers

	 MARSTON'S INNS AND TAVERNS	 MARSTON'S PUB COMPANY	 MARSTON'S
<b>September 2007</b>	<b>550</b>	<b>1,722</b>	<b>2,272</b>
New builds/single site acquisitions	16	4	20
M to T transfers	(47)	47	-
Disposals	(13)	(30)	(43)
<b>September 2008</b>	<b>506</b>	<b>1,743</b>	<b>2,249</b>





## Additional information and guidance

- Average number of shares in 2008 271.9m
- Number of shares in issue as at 4 Oct 2008 270.3m
- Additional dilutive number of shares 2.5m
- **Forecast  
2009**
- Forecast tax rate 24% - 26%
- Capex forecast : maintenance capex £30m  
: investment capex £20m  
: new builds/sites £10m  
**£60m**
- Forecast disposal proceeds £20m+



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