



THE  
LAZY PIG  
IN THE PANTRY

NO Smoking

**MARSTON'S**

**Preliminary Results 2019**

# INTRODUCTION

## 1. 2019 performance

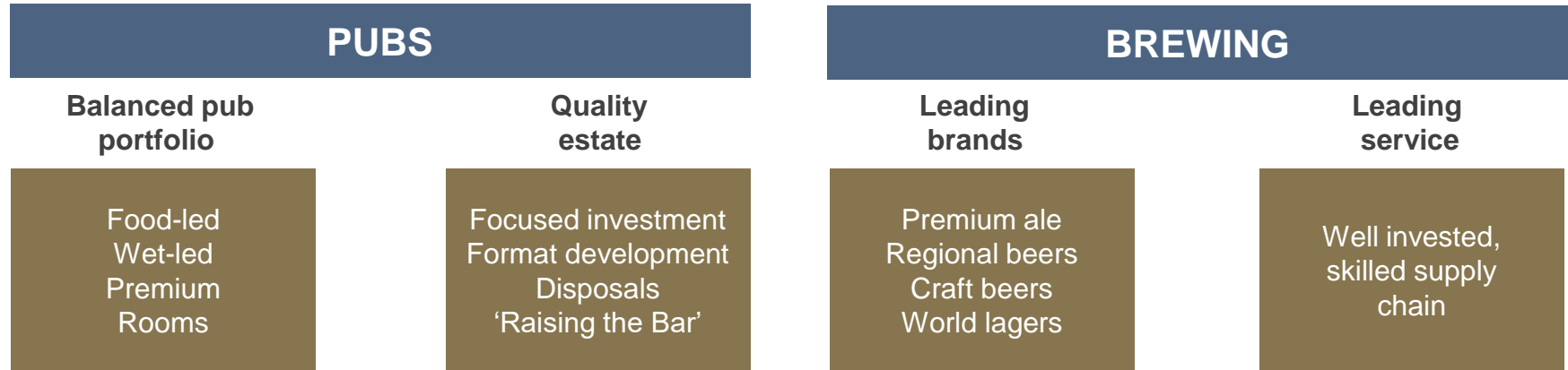
- Revenue growth in all trading segments
- 6<sup>th</sup> consecutive year of LFL sales growth in pubs
- Earnings growth in drinks-led businesses offset by weaker food sales
- Brewing continued to build on record 2018
- Cash flow improvement, good progress on debt reduction
- Final dividend maintained at 4.8 pence per share

## 2. Evolution of strategy

- Balance sheet focus
- Driving growth from existing assets
- Focus on continuous commercial and operational improvement



# FOCUSED STRATEGY, CLEAR TARGETS



## 1. Increased focus on debt reduction and cash flow

- £200m debt reduction target by 2023
- Net cash generation after dividends £50m pa in the medium term
- Dividend maintained over debt reduction period

## 2. Driving excellent performance from existing assets

- Focused capital investment delivering strong returns
- 'Raising the Bar': operational and commercial improvement
- Steady premiumisation of offer

**Clear strategic targets: reduce debt, improve returns, strong cash generation**



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

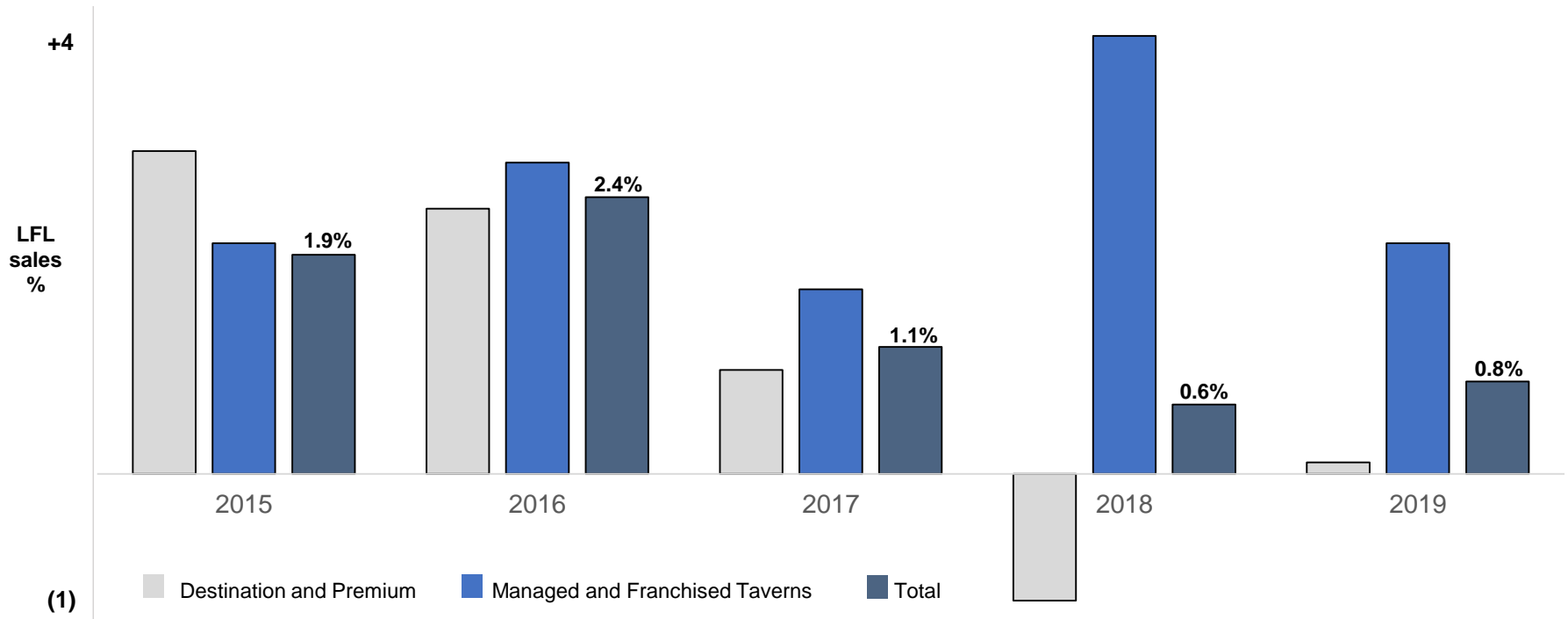
## FINANCIAL SUMMARY

	2019	YOY	
Revenue*	£1,174m	+3%	Growth in all trading divisions
EBITDA*	£222m	-	Growth in Taverns and Beer Company
Operating profit*	£179m	(2)%	Growth in Taverns and Beer Company
PBT*	£101m	(3)%	
EPS*	13.5 pence	(3)%	
Final dividend	4.8 pence	-	Dividend cover 1.8x

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

**Growth in drinks-led businesses offset by food performance**

# MANAGED AND FRANCHISED LIKE-FOR-LIKE PERFORMANCE

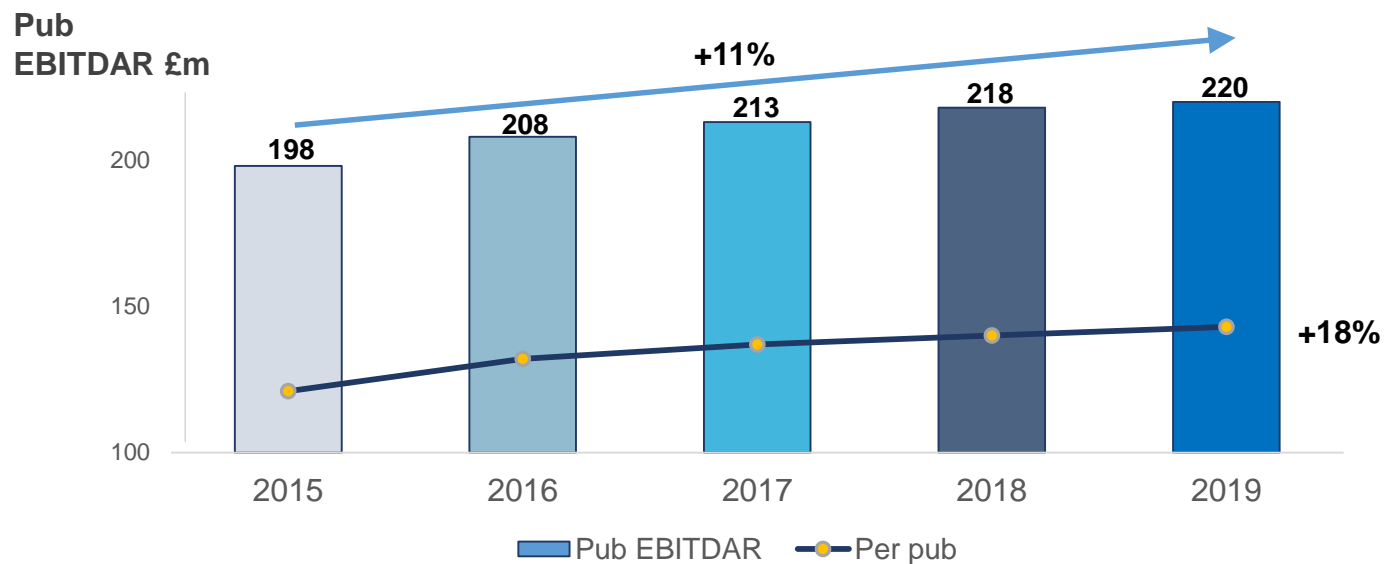


**Solid start to 2019/20 – LFL sales in growth and Christmas bookings up**

Balanced pub portfolio underpins long-term LFL growth

# PUB SEGMENTATION

2019	Operating profit £m	No. of pubs	Average no. of pubs	Average profit per pub vs LY%*
Destination and Premium	87.1	412	409	(4)
Taverns	86.3	1,125	1,132	+2
<b>Total</b>	<b>173.4</b>	<b>1,537</b>	<b>1,541</b>	<b>-</b>



\* Operating profit post rent and depreciation

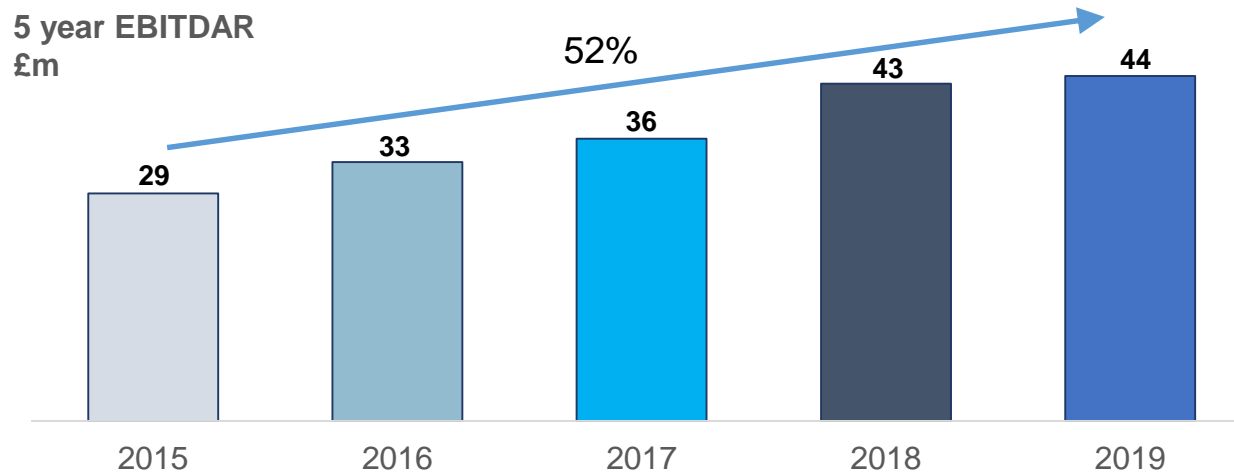
High quality and balanced portfolio delivering long-term profit growth

# BEER COMPANY

**Turnover:** £389m ↑ 3%

**Operating profit:** £33m ↑ 2%

- Profit growth despite tough PY comparative
- Strong performances in independent free trade, off trade ale and contract distribution (new 2019 contracts)
- Weaker off-trade lager sales vs Summer 2018
- Margins in line YOY



**Strong long-term profit growth, margins stabilised**



## COST GUIDANCE

	2020	
Drink	c.2%	• c.90% contracted for 2020
Food	c.2%	• c.90% contracted for 2020
Brewing raw materials	c.2%	
Energy inflation	c.3%	• c.95% commodity contracted to Spring 2021
Labour cost inflation		
- National Minimum Wage	3-4%	
- National Living Wage		
Apprenticeship levy, NEST	+£1.0m	
Rent and Rates	2-3%	

Additional discretionary pub investment	
People	£2m
Digital marketing	£1m


**No material change to cost profile, c.1.5% LFL required to mitigate inflation**

## CASH FLOW SUMMARY

	2019 £m	2018 £m
<b>Operating cash flow</b>	<b>196</b>	<b>183</b>
Net interest	(75)	(80)
<b>Pre-investment FCF</b>	<b>121</b>	<b>103</b>
Organic capex	(85)	(100)
Disposals	50	47
Dividend	(48)	(48)
<b>FCF pre new-build and acquisitions</b>	<b>38</b>	<b>2</b>
New-build and acquisitions	(49)	(63)
<b>Net underlying cash flow</b>	<b>(11)</b>	<b>(61)</b>

Stronger operating cash flow and capex reduction

## EVOLUTION OF DEBT STRUCTURE

	2019 £m		Target £m
Securitised (amortisation profile to 2035)	745		c.600
Medium Term Facility (£400m facilities to 2023/4)	296		c.240
Property leasing (35-40 year financing)	358		c.360
<b>Net Debt (pre IFRS16)*</b>	<b>1,399</b>		<b>c.1,200</b>
Leverage	6.3x		<5.0x
Fixed charge cover	2.5x		↑
EBITDA outside securitisation	49%		↑
Freehold mix	91%		

\* Based on existing finance structure

**Long-dated asset backed finance with clear targets to increase financing flexibility**

## CAPEX

£m	2019	2020 (forecast)	YOY change	2021 (forecast)
Maintenance capex	50	50	-	40-45
Growth capex: Target 20% ROI	35	35	-	35
<b>Organic Capex</b>	<b>85</b>	<b>85</b>	<b>-</b>	<b>75-80</b>
New-site	49	10	(39)	-
<b>Total Capex</b>	<b>134</b>	<b>95</b>	<b>(39)</b>	<b>75-80</b>
Disposals	(50)	(70)	(20)	(40)
<b>Net Capex</b>	<b>84</b>	<b>25</b>	<b>(59)</b>	<b>35-40</b>

Clear capex reduction and disposal plans to support debt reduction strategy



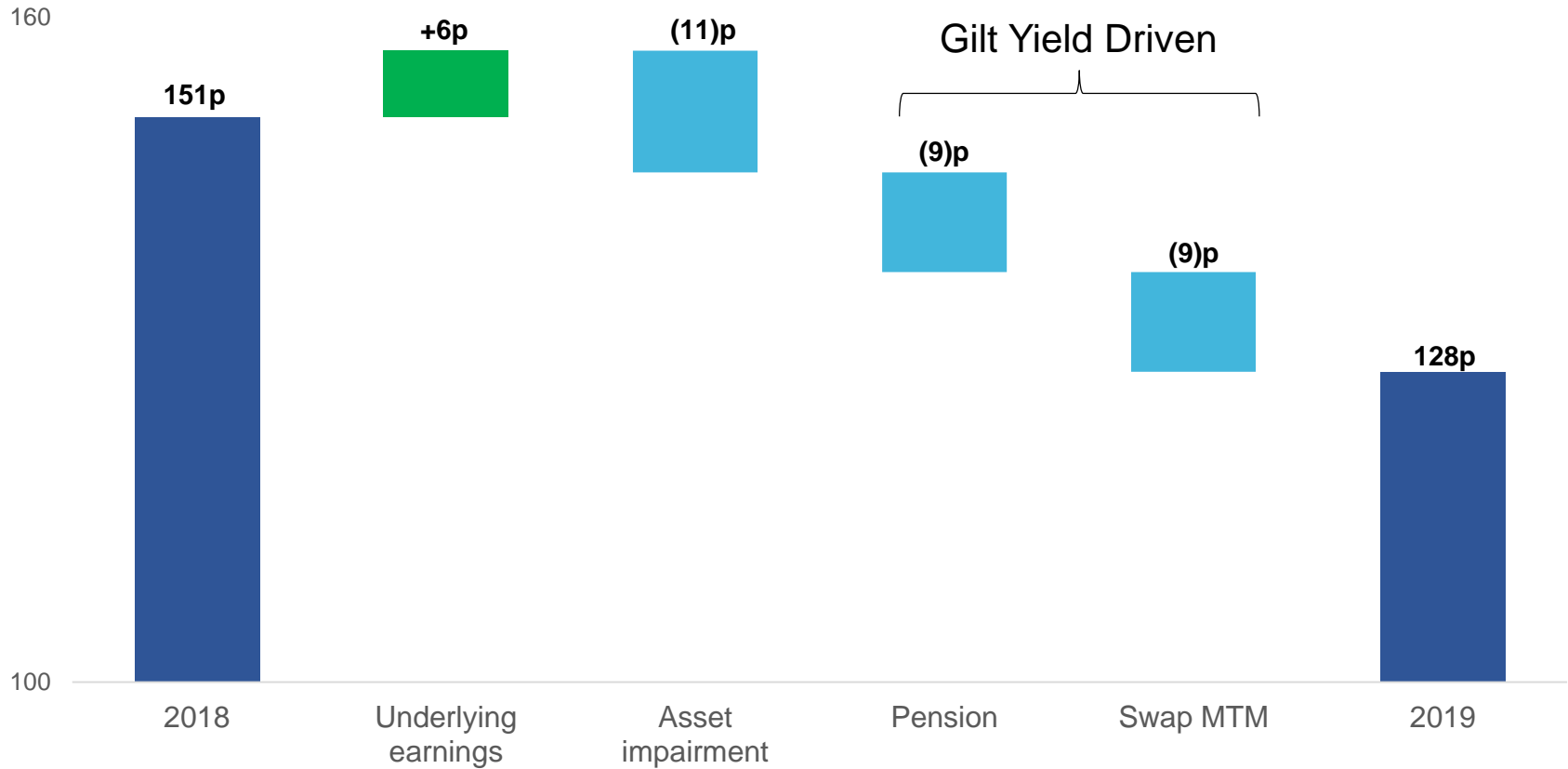
# PROPERTY AND DISPOSALS

2020 DISPOSALS		
Project Harvest	£45m	<ul style="list-style-type: none"> <li>137 non-core leased, tenanted and franchise pubs</li> <li>Profit per pub and ROC accretive</li> </ul>
Target disposals	£25m	<ul style="list-style-type: none"> <li>Strong visibility</li> <li>Expected to achieve book value</li> </ul>
<b>£70m</b>		
<hr/>		
Retained estate*		<ul style="list-style-type: none"> <li>Impairment of lowest performing quintile</li> <li>Overall valuation 10xEBITDA</li> <li>Tenanted and leased and Franchise 9xEBITDA</li> </ul>

\* Value on FMT basis

**Clear disposals target, retained pub estate held at appropriate value**

# NET ASSET VALUE



Gilt yields impacting reported NAV

# IFRS 16 – LEASE ACCOUNTING

## 1. Accounting change

- No impact on cash flows or business decision making
- H1 2020 will be the first reporting period to be reported under IFRS 16
- Modified approach adopted

## 2. Financial Impact

- Income Statement
  - C.8% reduction in PBT
- Balance Sheet
  - Reported net debt impact c.£0.3bn
  - Leverage impact 0.7x



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



# MARKET DYNAMICS

## Consumer

- Spend is up
  - drinks-led vs food-led
- Experience
- Health awareness
- Technology



## Sector

- M&A – pubs and brewing
- Structural change
  - Supply reducing
- Cost pressures



## Economic, Political

- High employment, wage growth
- Low gilt yields
- Living wage embraced
- Environment
- MUP – Wales 2020



Dynamics remain unchanged – challenging but opportunities for growth

# PUBS – A BALANCED HIGH QUALITY PORTFOLIO

## Community 1,209 pubs



- Reduced market supply
- Experience led:
  - entertainment, sport, music
- Outperforming market\*

## Family/food 284 pubs



- Competitive market
- Strong locations
  - 67% new-build
- Mainstream offer
  - average sph £7.50
- Like for like sales < market\*

## Premium 44 pubs and bars



- High Street and Country
- Strong locations
- Brands
  - Pitcher & Piano
  - Lost & Found
  - Foundry
- Outperforming market\*

Accommodation: c.1,700 rooms across the business  
30 new-build lodges (27-104 beds)

\* 2019 CGA Peach

# 'RAISING THE BAR' IN COMMERCIAL EXCELLENCE

## 1. Reduced complexity

- Creation of Marston's Pubs & Bars
- Clear customer segmentation
  - community, family, signature, premium
- Format and menu rationalisation – underway
- Single commercial team – in place
  - Ways of working synergies

## 2. Focused capital investment

- Strong capital programme – premiumisation, maintenance

## 3. Culture

- Delighting our guests – digital investment, guest satisfaction
- Team 'happiness' – motivate teams

**Objective: guest focused, dynamic business generating stronger financial performance**

# FOCUSED INVESTMENT IN EXPERIENCE AND PREMIUMISATION

## Family pubs Signature



### The Folly, Bristol

- £0.2m spend in Dec 2018
- Sales +20%, EBITDA +60%
- AWT c£20k, c55% food
- 30% ROI

## Premium Revere Country



### Huntsman, Brockenhurst

- £0.8m spend in 2016
- Sales +100%, EBITDA +50%
- Premiumised offer, 12 rooms
- AWT c£40k, 60% food
- >30% ROI

## Premium Bars



### Lost & Found, Sheffield

- £0.3m conversion in Jan 2018
- Sales +100%, EBITDA +40%
- AWT c.£30k, 80% wet
- 30% ROI

Strong returns available from investment in existing assets





*Lost & Found, Sheffield*



*Pitcher & Piano, Cornhill*



*Lazy Pig in the Pantry, Chesham*



*White Hart, Godstone*



# FOCUSED INVESTMENT IN PUB STANDARDS

## 1. Project Showman – 43 pubs, £2.1m : pub standards, inside and out

- Dog & Duck, Shardlow
 

Spend:	£46k
MAT sales:	+18%
Return:	139% ROC



## 2. Project Hatton – 25 pubs, £1m : gardens

- Red Hawk, Brough
 

Spend:	£40k per pub
MAT sales:	+60%
Return:	30% ROC



## 3. Maintenance cycle

- All pubs maintained on a 5 year cycle

Modest investment delivering high impact

## FOCUSED INVESTMENT – COMMUNITY PUB ACQUISITION

- 15 pubs acquired from Aprirose in October 2018
- £4m investment in repositioning
- Average turnover £13k per week vs. £7k at acquisition
- Trading ahead of 25% ROC target at time of acquisition



Proven track record in community pubs offers growth opportunity



# GUEST FOCUS - DIGITAL TECHNOLOGY INNOVATION

## PUB DATA



- PUB NAME
- LOCATION
- REAL TIME OFFERS
- LIVE SPORT
- BEER GARDEN
- BOOK A TABLE
- ...



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- LOCATION
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- PUB NAME
- LOCATION
- REAL TIME OFFERS
- LIVE SPORT
- BEER GARDEN
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- ...

- Local pub information and offer data held centrally for over 900 pubs.

## DYNAMIC CONTENT



- 1000's of pieces of localised communications created using templated designs, individual pub data & served via multiple channels.

## RELEVANT CUSTOMER COMMUNICATIONS



- New and existing customers receive more relevant communications directly from their local pubs.

# GUEST FOCUS – GUEST INSIGHT

## 1. Marston's Pubs & Bars – new experience management provider

- SMG
- Real time guest feedback through dashboard and mobile app

## 2. Premium Pubs & Bars

- Feed it Back
  - Mobile and kitchen connectivity in real time
  - New standard in restaurant intelligence
  - Table based, short response times

## 3. Regular monitoring – TripAdvisor/Google/Facebook

- Comparison with peers/competitors in the sector





# TEAM FOCUS – MOTIVATED TEAMS

## 1. Recruitment

- Launch of new recruitment and partner websites
- Caterer.com Hospitality Apprenticeship Employer of the Year

## 2. Retention

- KPI targets – reduced turnover in key roles
- Redesigned on-boarding platform for new joiners
- Increased investment in training
- Regular engagement surveys; pulse surveys to be introduced

## 3. Motivation and reward

- New AOM/GM bonus schemes – guest measures introduced
- New team member incentive programmes being trialled
- Removal of zero hours contracts
- New leadership development programme introduced



Increased investment in recruitment, training and remuneration to improve guest experience

# BEER COMPANY – IN GROWTH, INDUSTRY LEADING

## 1. Strong brands in growth segments of the market

- 14% of UK ale market, 25% of premium ale market
- 81% of portfolio rated as 'premium'
- 7% of UK 'World Beer' market: World Lager, US Craft

## 2. Wide distribution across all routes to market

- Distribute to 1 in 4 UK pubs
- >50% of volume sold in Off-Trade
- 10% of volume exported
- 90% of volume sold to 3<sup>rd</sup> parties

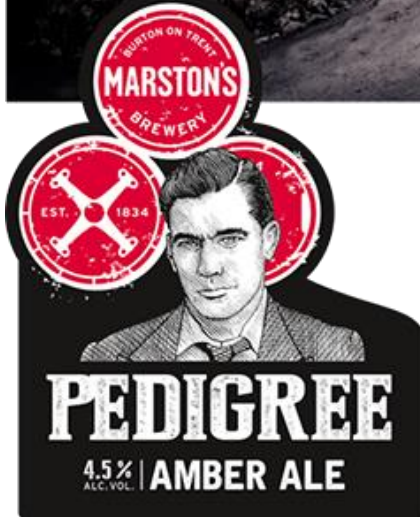
## 3. Supply chain excellence

- 10 brewing awards in 2019
- Distribution in-house and to 3<sup>rd</sup> parties
- 'State of the art' packaging operations in Burton-on-Trent



Leading brands, extensive distribution, supply chain excellence

# BEER COMPANY – Premium Ale



Why premium? – premiumisation trend, margin, quality

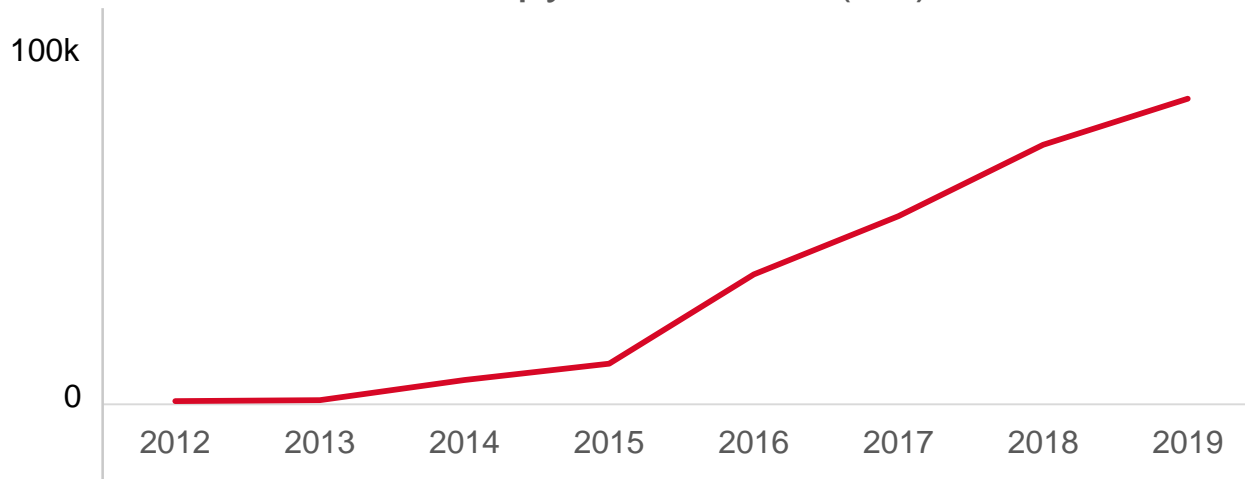


# BEER COMPANY – World Beers - our licensed brands portfolio



# LICENSED BRAND DEVELOPMENT - SHIPYARD

Shipyards Volume (HL)



- Currently #4 Craft beer brand - aspiration to be #1 in the UK
- Launch of the premium low alcohol Shipyards Low Tide in 2019
- Pipeline of new product development planned for 2020, including Shipyards Lager
- **New brand and 15 year distribution agreement until 2034**

Leveraging sales and marketing expertise to develop licensed brands



# BRAND AND DISTRIBUTION PARTNERSHIP - YOUNG'S

- A portfolio fit for purpose – satisfying the traditional Young's drinker whilst creating appeal for the younger consumer
- The “Take London Head On” ATL campaign celebrates Young's London roots. Double-digit growth in Free Trade since re-launch.
- Serviced by a state of the art distribution fleet and a new 55,000sq ft warehousing generating 99.7% service level



Improving brand performance, market leading service

# ENVIRONMENTAL STRATEGY

## Externally recognised environmental programme

- Improved ESG score
- EMA – Energy Management Team of the Year
- National recycling awards – Partnership Excellence
- Footprint Drinks Sustainability Awards
  - Sustainable Use of Water
  - Waste Prevention and Management



## Pubs

- Removal of plastic straws and stirrers
- Electric Vehicle charging network
- Zero waste to landfill
- LED lighting
- Removal of plastic bottles from hotel rooms
- Marston's Water – Self-Supply Licence

## Beer

- Banks's Brewery - 9% reduction in gas consumption, 21% over 5 years
- Staff culture campaign
- Fuel efficient vehicle fleet
- Capital expenditure plans



Class leading environmental strategy

# SUMMARY

## 1. 2019

- Strong performance from wet-led pubs and brewing
- Cash flow improvement
- Maintained sustainable dividend

## 2. Focused strategy

- Clear target on debt reduction – good progress
- Pubs: “Raising the Bar” through organic self-help and focused investment
- Continue to strengthen market leading beer business

## 3. Solid start to 2019/20



# Appendices



## IFRS16

- Also impacts other leased assets eg. company cars, coffee machines
- Average unexpired lease term c.25 years reflecting long-dated nature of leases.
- Estimated impact of 2020 results

£		
<b>Income statement</b>	• Lease related payments	(16-17)m
	• Depreciation	c.10-11m
	• Interest	c.12-13m
	• PBT	<u>c. (4-8)m</u>
<b>Balance sheet</b>	• Right of use assets	c.£255m
	• Lease liabilities	c.(310)m
		<u>(55)m</u>



## FINANCIAL SUMMARY – STATUTORY BASIS

	2019	2018
Revenue	£1,174m	£1,141m
Operating profit	£106.5m	£133.4m
PBT	£(20.0)m	£54.3m
EPS	(2.8) pence	7.1 pence

# SEGMENTAL PROFIT

	2019 £m	2018 £m	YOY %
<b>Turnover</b>			
Destination & Premium	460.1	450.7	2.1%
Taverns	324.1	312.0	3.9%
Beer Division	389.3	377.7	3.1%
<b>Total</b>	<b>1,173.5</b>	<b>1,140.4</b>	<b>2.9%</b>
<b>EBITDA</b>			
Destination & Premium	104.4	105.8	(1.3)%
Taverns	96.3	95.3	1.0%
Beer Division	44.1	42.7	3.3%
Group Services	(22.9)	(21.2)	(8.0)%
<b>Total</b>	<b>221.9</b>	<b>222.6</b>	<b>(0.3)%</b>
<b>EBIT</b>			
Destination & Premium	87.1	89.4	(2.6)%
Taverns	86.3	86.1	0.2%
Beer Division	32.6	32.0	1.9%
Group Services	(27.3)	(25.0)	(9.2)%
<b>Total</b>	<b>178.7</b>	<b>182.5</b>	<b>(2.1)%</b>
<b>Margin %</b>			
Destination & Premium	18.9%	19.8%	(0.9)%
Taverns	26.6%	27.6%	(1.0)%
Beer Division	8.4%	8.5%	(0.1)%
<b>Total</b>	<b>15.2%</b>	<b>16.0%</b>	<b>(0.8)%</b>
<b>Finance Costs</b>	<b>(77.7)</b>	<b>(78.5)</b>	<b>1.0%</b>
<b>Profit Before Tax</b>	<b>101.0</b>	<b>104.0</b>	<b>(2.9)%</b>

## PUB NUMBERS

	Destination and Premium	Taverns	Total
2018 Closing	406	1,139	1,545
New-build additions/Acquisitions	8	16	24
Transfers	-	-	-
Disposals	(2)	(30)	(32)
2019 Closing	412	1,125	1,537
2018 average numbers	402	1,155	1,557
2019 average numbers	409	1,132	1,541

## 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%
26 wks to 01/04/17	1.1%	1.1%	1.1%
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%
16 wks to 19/01/19	0.5%	3.2%	1.5%
10 wks to 30/03/19	2.1%	5.2%	3.2%
26 wks to 30/03/19	1.2%	3.9%	2.2%
16 wks to 20/07/19	(1.6%)	(3.0%)	(2.1%)
42 wks to 20/07/19	0.1%	1.1%	0.5%
10 wks to 28/09/19	0.1%	5.4%	1.9%
52 wks to 28/09/19	0.1%	1.9%	0.8%

## CAPEX, DEPRECIATION, TAX AND SHARE CAPITAL

	Actual 2019	Forecast 2020
New-build capex	£49m	c.£10m
Organic capex	£85m	c.£85m
Total	£134m	c.£95m
Disposals	£50m	c£70m
Net capex	£84m	c£25m
Tax rate	15.2%	c16%
Average number of shares in 2019	632.6m	
Shares in issue at 28 September 2019	632.7m	
Additional dilutive number of shares	7.6m	

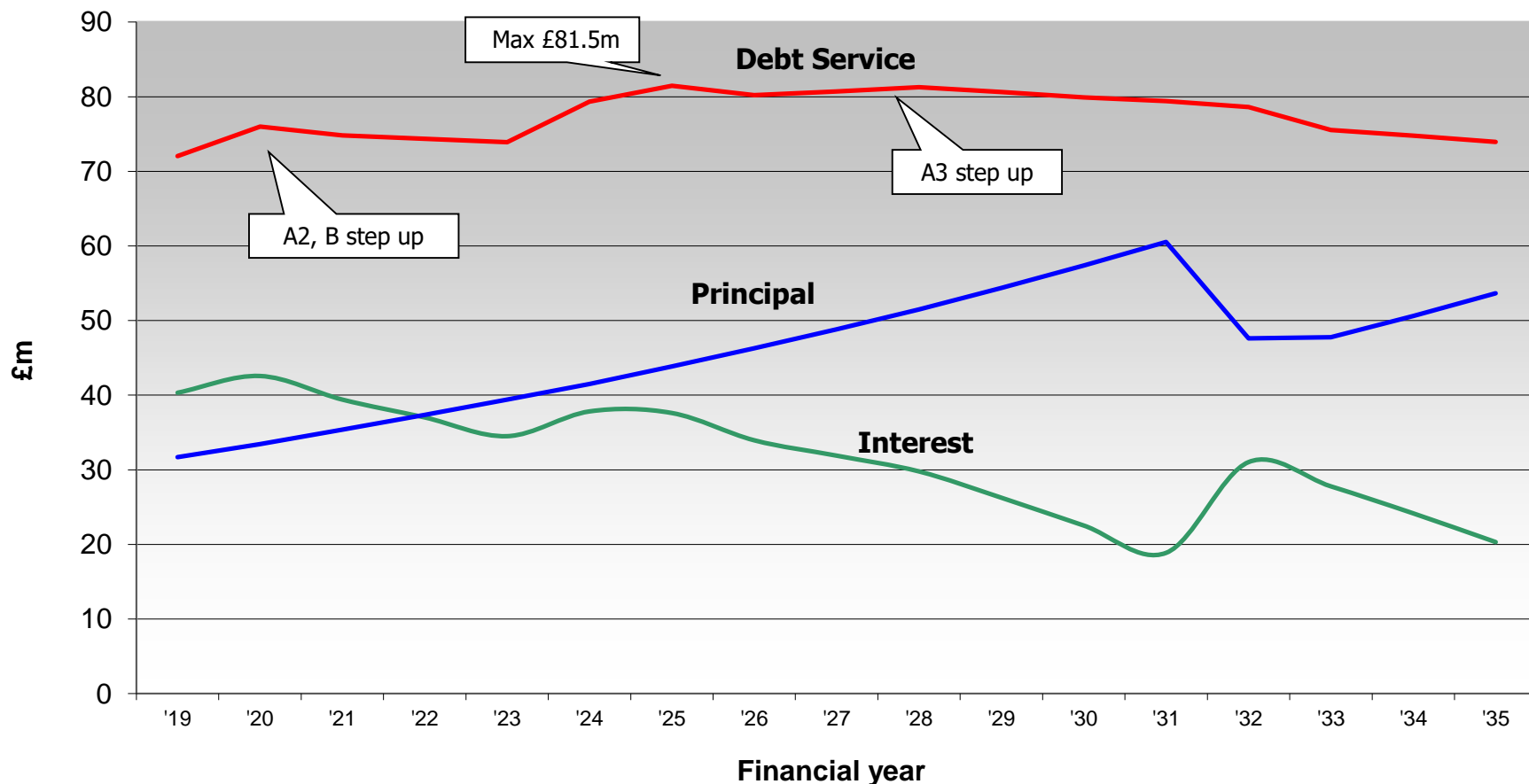


## SECURITISED DEBT PROFILE

Tranche	Type	Principal outstanding at 28 September 2019	Step-up date	Final maturity date
A1	Floating	£18.8m	July 2012	2020
A2	Fixed/Floating	£214.0m	July 2019	2027
A3	Fixed/Floating	£200.0m	April 2027	2032
A4	Floating	£161.6m	October 2012	2031
B	Fixed/Floating	£155.0m	July 2019	2035
Total		£749.4m		

# SECURITISATION PROFILE

## Securitised Debt Service



		FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035
Principal	£m	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
Intrest	£m	42.6	39.4	37.0	34.5	37.8	37.6	33.9	31.9	29.8	26.3	22.5	18.9	31.0	27.8	24.2	20.3
Debt Service	£m	76.0	74.8	74.4	73.9	79.3	81.5	80.2	80.7	81.3	80.6	79.9	79.4	78.6	75.5	74.8	74.0

# CROCCE

CROCCE	FY2019				FY2018				FY2017**	FY2016	FY2015	FY2014
	Bal	Depn	Reval	Adj	Bal	Depn	Reval	Adj	Adj	Adj	Adj	Adj
<b>NON-CURRENT ASSETS:</b>												
Goodwill	230.3			230.3	230.3			230.3	230.3	227.5	227.5	224.2
Other intangible assets	88.5	6.3		94.8	70.0	6.2		76.2	74.4	44.8	44.2	30.4
Property, plant and equipment	2350.4	184.4	(598.9)	1,935.9	2,408.1	187.5	(627.2)	1,968.4	1,933.1	1,777.9	1,694.5	1,628.0
Other non-current assets	9.3			9.3	9.6			9.6	10.3	10.4	12.1	11.5
<b>CURRENT ASSETS:</b>												
Inventories	43.6			43.6	44.6			44.6	40.2	28.7	28.2	23.0
Assets held for sale	1.7			1.7	2.3			2.3	2.7	6.6	18.0	38.3
Trade and other receivables	90.9			90.9	104.9			104.9	108.4	85.0	84.3	72.9
<b>LIABILITIES:</b>												
Creditors**	(273.2)			(273.2)	(279.0)			(279.0)	(286.9)	(234.3)	(228.5)	(199.0)
<b>CASH CAPITAL EMPLOYED</b>	<b>2,541.5</b>	<b>190.7</b>	<b>(598.9)</b>	<b>2,133.3</b>	<b>2,590.8</b>	<b>193.7</b>	<b>(627.2)</b>	<b>2,157.3</b>	<b>2,112.5</b>	<b>1,946.6</b>	<b>1,880.3</b>	<b>1,829.3</b>
									<b>2,001.9</b>			
<b>EBITDA</b>				<b>221.9</b>				<b>222.6</b>	<b>213.7</b>	<b>212.7</b>	<b>203.3</b>	<b>192.4</b>
<b>CROCCE</b>				<b>10.4%</b>				<b>10.3%</b>	<b>10.7%</b>	<b>10.9%</b>	<b>10.8%</b>	<b>10.5%</b>

\* 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

# HOBGOBLIN

NEW LOOK, STILL UGLY

