Langton
Capital Limited

22 July 2015

MARSTONS (MARS): 155p
Q3 Trading Update: 41w to 18 Jul 2015

Group reports 'we have continued to make profitable progress in line with our expectations…'

Year to end-Sep	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2014 (A)	83.0	11.70	13.2	6.70	4.3
2015 (E)	91.4	12.65	12.3	7.05	4.5
2016 (E)	100.0	13.85	11.2	7.35	4.7

Source: Company & Broker Estimates

Q3 Trading Update: 41w to 18 July 2015:

Marston's has this morning updating on trading for the first 41to wks of its current financial year being the period 18 July. Our comments are set out below:

Destination & Premium:

- In Destination and Premium, LfL sales were up 1.7% as at week 41
- LfL food sales were up 1.6% and drink sales were also up 1.6% suggesting that other income, accommodation & machines, performed well
- Marston's says 'in the last 10 weeks of the period, like-for-like sales are up 2.0%.'
- The group says 'operating margin is slightly above last year'
- Marston's adds 'we remain on track to complete 25 new-build pub restaurants in the current financial year.'

Taverns:

- In Taverns Marston's reports LfL sales for the 41 week period were +1.7% and says 'in the last 10 weeks of the period, like-for-like sales were up 2.0%.'
- The group says 'our franchise business continues to perform strongly and now operates in around 550 pubs.'

Leased:

- In Leased Marston's reports 'profits for the 41 week period are estimated to be in line with last year.'

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Market Cap: £906m
12m range 137p 174p

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- It says 'average profit per pub was up 4%, reflecting our higher quality leased estate.'

Brewing:

- In Brewing Marston's is able to report 'own-brewed beer volumes, excluding Thwaites, were up around 4% compared to last year.'

- It adds 'including Thwaites, own–brewed beer volumes are up 10%' and recent sales trends across the group's major businesses are shown below:

- **Tab.1. Marston's Sales Trends – Pre Reorganisation:**

Period	Managed Sales LfL (%)	Tenanted & Leased profit per pub LfL %	Own-brand beer volumes %
FY 08/09	-0.6	-7.0	+8.0
FY 09/10	+1.7	-3.7	+4.5
FY 10/11	+2.9	+0.6	+2.0
FY 11/12	+2.2	+3.2	+2.0

Source: Company Reports

- **Tab.2. Marston's Sales Trends Post Reorganisation:**

Period	Premium & Destination LfL sales (%)	Taverns LfL sales %	Leased LfL EBITDA %	Beer Company Volumes %
H1 12/13	n/c	'down'		+12.0
FY 12/13	+2.2			
First 7w FY14	+3.1	+2.1		
First 15w FY14	+4.1	+3.0		Slightly lower
H1 13/14	+5.7	+3.8	+3.0	Slightly lower
To w41 2013/14	+4.1	+3.0	+3.0	+1.0
Last 11w FY13/14	-0.3	-1.0	+3.0	In line
FY13/14	+3.1	+2.1	+3.0	
First 7wks FY14/15	+2.1	+2.0	'ahead'	'ahead'
First 16wks FY14/15	+2.0	+2.0	+1	+4
H1 (26w) FY14/15	+1.5	+1.4	+4	+4
5w to 9 May	+2.0	+2.8	In line	In line
First 41wks	+1.7	+1.7	In line	+4
Most recent 10wks	+2.0	+2.0	Not given	Not given

Source: Company Reports, m/f = managed & franchised

Assets, Debt, Balance Sheet & Other:

- Marston's comments that net debt and cash flow 'are in line with expectations.'

- The group should complete 25 new builds this financial year

- Re the Living Wage, Marston's comments 'the additional cost of meeting the higher target of £9 per hour by 2020 will mean that wage costs will be modestly greater than we had expected'

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- However, it adds 'the impact compared to our plans is mitigated by the fact that we had anticipated increases above the rate of inflation'
- In addition, the lower rate of corporation tax from 2017 will help the group.
- It concludes 'our view remains that Government should prioritise taxation and business rate reductions to reduce the cost of doing business and increase consumer confidence.'

Summary, Conclusion, Beer Tie & Other:

- CEO Ralph Findlay reports 'our investment in new-build pub-restaurants and premium pubs is in line with our plans and we have seen some of our most successful openings to date this year.'
- He adds 'we have also opened three lodges, and expect this rate of development to increase in 2016.'
- Re the future, Mr Findlay says 'we have good visibility over our site pipeline and remain focused on securing further good sites for our future growth.'
- Overall, Findlay concludes 'these investments, together with the disposal of smaller wet-led pubs and the growth of franchises, have successfully transformed our business over the last three years.'

Langton Comment: Marston's has confirmed that trading continues to be in line with expectations.

Indeed the group is performing somewhat more strongly than the industry as a whole (per the Peach Tracker) and it is able to add that 1) its margins are rising and 2) it does not consider the Living Wage to be a major problem.

Big days remain important and the recent better weather has helped the group's sales in the last 10wks.

The group's balance sheet is secure and, via its new builds, its move to franchised units and via the disposal of its bottom-end units, the group has made its own luck and has secured its future.

With that in mind, we would suggest that a PER of 12.3x falling to 11.2x is not overly demanding. The group's shares yield 4.5% (rising to 4.7%) and we believe that small-ticket spending will pick up as the-year progresses. Marston's is well-positioned to boost sales and we believe that its shares offer good value.

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