Langton Capital Limited

24 July 2014

MARSTONS (MARS): 142p
Q3 & Y-t-D Trading Update: 41w to 19 July 2014

Group says results are in line with expectations, year to date managed LfL sales up by 4.1%

Year to end-Sep	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2013 (A)	88.4	12.3	11.5	6.4	4.5
2014 (E)	86.2	11.9	11.9	6.7	4.7
2015 (E)	96.0	13.3	10.7	7.0	4.9

Source: Company & Broker Estimates

Q3 Trading Update: 41w 19 July 2014:

Marston's has this morning reported updated on trading for its Q3 and its year to date, being the period for the 41w to 19 July and our comments are set out below:

Destination & Premium:

- Marston's has reported that its Destination and Premium units have increased LfL sales by 4.1% in the year to date, being the 40 weeks to 19 July
- This is against the World Cup and the first two weeks of hot weather comps and is 'in line with expectations'
- The 40 week performance suggests that LfL sales are up by 1% in the last 10 weeks
- The World Cup had a 'broadly neutral' impact 'with higher drinks sales offset by weaker food performance in our pubs, and strong sales growth in the off-trade.'
- The group says 'operating margin is slightly above last year and we remain on track to complete 27 new-build pub restaurants in the current financial year.'

Taverns:

- Within Taverns, Managed & Franchised, LfL sales are up by 3% in the year to date and are up by 1% over the last 10 weeks
- Some 550 pubs are now covered by the group's franchise agreement

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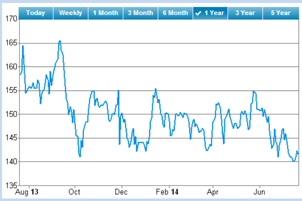

Market Cap: £818m
12m range 140p 166p

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Leased:

- The group's leased units are up by 3%, in line with the H1 performance and implying +3% in the last 10 weeks

Brewing:

- Own brand beer volumes are up 1% in the year to date (they were 'slightly down' at H1) and the group reports that off-trade sales were up by 10% over the World Cup. Recent sales trends 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 & 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 m/f +3.0 lease	Slightly lower
To w40 2013/14	+4.1	+3.0	+1.0

Source: Company Reports, *food up 2%, drink down 2%, m/f = managed & franchised

Debt, Cash Flow & Other:

- The group says 'net debt and cash flow are in line with expectations.'

Summary & Conclusion:

- The group reiterates that trading is in line with expectations and there are unlikely to be any changes to forecasts as a result of today's update

- Overall, group CEO Ralph Findlay comments 'we have continued to make good progress in implementing our strategic priorities with our focus on investment in new pub-restaurants, the expansion of franchise and the continued development of our premium beer portfolio all contributing to our growth targets.'

- He concludes 'we remain confident of achieving our expectations for the full year.'

Langton Comment: Marston's has reported that trading is in line and, with two of the three hot-weather-week comps now in the numbers, LfL trading is up by 4.1% on a LfL basis across the group's larger managed units.

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Furthermore, with most school-children now breaking up for the summer and with the sun shining, there are grounds to hope that summer 2014 can compete, almost, with last year and that the comparative sales are not going to be a sea of red – other than on a very selective basis.

Additionally, the group's geographic footprint means that it has had little help from a buoyant London market and that the bulk of its performance is home grown.

We accept that the disposal of bottom-end units has been dilutive but growth is set to come through strongly in FY15 and beyond. The deal with New River should help to generate earnings growth of around 10% or so by FY16.

Marston's shares trade on around 11.9x this year earnings (falling to 10.7x) and shareholders are to be paid (a rising) 4.7% yield whilst the quality of earnings is improved.

Confidence is returning and the outlook is bright. Tough summer comps are unlikely to derail the story and the group's shares, which are asset backed and which offer a substantial yield, are extremely good value.

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