27 Nov 2014

MARSTONS (MARS): 144.2p
FY Numbers: Analysts' Meeting

Group says 'consistent, focused strategy remains on track…'

Year to end-Sep	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2013 (A)	86	12.0	12.0	6.4	4.4
2014 (A)	83	11.7	12.3	6.7	4.6
2015 (E)	93	13.2	10.9	7.0	4.9

Source: Company & Broker Estimates

FY Results: Analysts' Meeting:

Following the release of its full year numbers earlier this morning, Marston's hosted a meeting for analysts and our comments are set out below:

Trading – Overall:

- Marston's core trading profit (adjusted for the 53rd week & tenanted disposal) was +12% in the year under review
- Growth of around 10% is expected this year – this should accelerate into FY16 and beyond
- Marston's estate is essentially provincial – there were no discernible differences in geographic performance

Trading – Destination & Premium:

- New builds have been the length & breadth of the country
- Pipeline is secure for FY15 and some units secured for FY16 & FY17
- Lodges will feature going forward, perhaps 3-5 built per annum; group applies a 15% RoC hurdle rate
- Group has 8 upmarket Revere sites with 3 more to open shortly

Trading - Taverns:

- More units will move to franchise, the model is working well

Trading - Leased:

- Some 388 tenanted & leased pubs were sold last year
- More will follow with virtually all tenancies gone by FY16
- Rents are back in growth, rose by 2% in FY14

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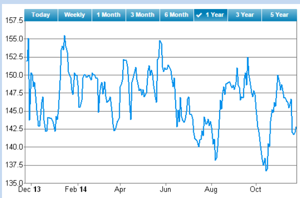

Market Cap: £826m
12m range 137p 156p

Mark.brumby@langtoncapital.co.uk
Suite 415, No1 Alie Street, London, E1 8DE
020 7702 3389

Trading - Brewing:

- Group is a major player in the fastest-growing segment of the market

Debt, Cash Flow:

- Group generated £70m from disposals this year & spent £80m on new-builds
- Financial structure is 'flexible & appropriate'

Summary, Outlook, Beer Tie & Other:

- The 'flight to value' could be permanent – Marston's is well-positioned
- Group will have fewer, better pubs going forward (2,050 units FY13, est. 1,540 FY16) – the group should be out of the tenanted market altogether by FY16
- Current pension review could lead to a reduction in the current £13m p.a. payment
- Property will be revalued in H1 FY15

Langton Comment: Marston reiterated its belief that potential changes to the beer tie will have no impact on its franchised business.

It will be out of tenancies by FY16 and only around 15% of beer profits comes from leased units – 50% of which is beer profit.

The group 'does not perceive any pent up demand to move to Free of Tie' (FoT). It offers this already and has 'about six' FoT units only. Lessees value the flexibility offered via wet rent but, should all of them opt for Market Rent Only (MRO), then rents would rise, Marston's would keep some beer profits (albeit at a lower mark-up) and its sales into the rest of the untied market should increase.

Hence we consider the group to be relatively unaffected by any move to MRO and believe there is a risk that concerns in this area could deflect attention from the good work going on elsewhere in the group.

As mentioned, room, machine and food sales remain robust, with growth in the double digits and cash flow is good. Margins are set to edge up a little and the group is in control of its destiny.

The group continues to sell bottom-end units and, though this has caused some dilution, growth is set to come through strongly this year and beyond. Marston's shares trade on around 11x current year earnings and offer a rising 4.9% yield while the quality of earnings is improved.

Consumers will continue to seek out value but Marston's is well-positioned and we see its shares as attractive at current levels.

Contact – Mark Brumby - +44(0)20 7702 3389

mark.brumby@langtoncapital.co.uk