

## CEO'S STATEMENT

# A defining year and foundations for future growth



**“FY2024 has been a defining year for Marston's, laying strong foundations for growth.”**

### JUSTIN PLATT CHIEF EXECUTIVE OFFICER

Reflecting on my first 11 months as Chief Executive Officer, I am proud of the significant transformation Marston's has been able to achieve in that time. With a simplified and focused pub operating model, revitalised management team, establishment of a clear set of value drivers, a stable balance sheet with reducing leverage and new financial targets, 2024 has been a defining year for Marston's as we enter a new chapter as a pure-play hospitality business. These changes are sharpening our focus on delivering exceptional guest experiences and setting the foundations for a reliable growth

company. I am excited about what lies ahead as we embed our refreshed strategy across the business, delivering great shared experiences for our guests and sustainable growth for our shareholders.

### Market dynamics

At the heart of Marston's is a business focused on the market for socialising. Pubs, particularly local pubs, continue to play a pivotal role in fulfilling the human desire to connect in person. In the UK, pubs hold a unique position as central hubs for social interaction – 88% of adults have visited a pub in the past year, with a third visiting at least once a month. The market also continues to grow; the UK pub market is currently worth over £28 billion and is projected to grow to approximately £33 billion by 2028. This highlights the enduring importance of pubs in British society and their integral role in our social fabric.

However, the way people use the pub continues to evolve. Pubs are no longer just places for a weekend night out and the market is no longer just about drinking; it is about socialising. Increasingly, consumers are interested in more relaxed, low tempo visits and as such, pubs now need to cater to a wider range of occasions, from quick midweek meals and family celebrations to casual gatherings and community meet-ups. In line with this shift, the competitive landscape has also changed. Pubs no longer compete with just each other, but with various other formats for socialising – such as casual dining, restaurants, bars, fast food, coffee shops, and more. This shift in consumer behaviour presents an exciting opportunity for Marston's to tap into a

broad range of usage occasions. By their very nature, and given our size, pubs have scope to deliver on these multiple usage occasions, particularly the increasing demand for low-tempo events during the week. In addition, the accelerated shift of spending to suburban areas brought on by the pandemic means that the local pub continues to thrive, with community-based pubs like ours an essential part of British life. The power of the local has only got stronger in recent years and, as experts in running local pubs, with 90% of our estate located in suburban areas, we are well-placed to capitalise on this opportunity.

The pub market is evolving, but Marston's is a business that excels at managing local pubs which lie at the heart of the communities they serve. The key to our success is in ensuring consistency across our operations and scaling this across our estate, ensuring every guest has a great and sociable time, whatever the occasion

### CMBC sale

Marston's is now a pure-play hospitality business. Our job is not just to own and run pubs but to run them really well. The sale of our 40% stake in CMBC, which completed in July, was a defining moment for the Group. We now benefit from a predominantly freehold estate, with an asset value of approximately £2.1 billion, and a simplified and focused pub operating model that provides the foundation for growth. The sale resulted in net proceeds of approximately £202.6 million which supported a reduction in net debt of over £300 million in FY2024, bringing us well below our net debt target ahead of schedule, while significantly

enhancing our financial and operational flexibility. The proceeds not only support our ongoing deleveraging efforts but also put us in a stronger position to reinvest in the areas that will drive our growth going forward. CMBC remains a valued strategic partner to the business, and we continue to benefit from our ongoing long-term brand distribution agreement with them.

### Shared Good Times

Changing pub market dynamics and the CMBC sale have been instrumental in laying the foundations for our new strategy which we announced to the market at our CMD in October. This strategy is focused on building a high-margin, highly cash-generative business, based on differentiated formats, and a brand portfolio that is naturally balanced to appeal across a range of consumer segments. It is a strategy that supports our company purpose of Shared Good Times and will see us deliver on our long-term target of becoming the UK's leading local pub company. The delivery of this strategy will centre around five key value drivers;

- Executing a market-leading operating model
- Capex to create five differentiated pub formats
- Digital transformation
- Expansion of Managed and Partnership models
- Leveraging Marston's synergies in targeted M&A

## CEO'S STATEMENT continued

Fundamental to the implementation of our strategy is the business executing its market-leading pub operating model. This means a relentless focus on revenue growth, cost efficiency and guest satisfaction – ensuring we strike the right balance between the three. From a revenue perspective, we need to give our guests a compelling reason to visit as well as an environment that encourages them to stay longer. On costs, we are committed to maintaining a lean cost structure, prioritising labour productivity and disciplined overhead management. Finally, guest satisfaction is perhaps most crucial. Providing guests with a great experience ensures they return, and, we know those pubs with the highest guest satisfaction scores deliver higher year-on-year revenue growth.

The most visible change to come from our new strategy will be the creation of five distinct, customer-focused pub formats: Locals, Local Sports, Adult Dining, Family, and Two-Room. These formats are designed to meet specific customer preferences and cater to changing usage occasions, from family meals and casual midweek catchups to watching the big game with friends and celebratory gatherings. By clearly defining these formats, we aim to create five unique propositions that will provide us with a balanced pub portfolio and drive increased customer penetration and footfall, thereby maximising the revenue opportunity.

To support our strategy, we will invest between 7% and 8% of annual revenue in the near-to-medium term to enhance our estate. Approximately one-third will focus on higher-return investment projects, such

as the transformation of venues to fit our five formats. Complementing this investment, we will also leverage technology to strengthen the guest journey by streamlining order and pay and utilising data-driven insights for personalised marketing to drive an increase in revenue per guest. Technology will also help optimise costs through improved labour scheduling analytics and AI-driven stock management, enabling more predictive and efficient operations. Marston's is a people-led business, but there is undoubtedly a significant opportunity to complement our person-to-person offering with technology.

One of the great strengths of Marston's is the balance between management models. Our managed and partner pubs are flexible and well-suited to our new formats. The partnership model, which Marston's pioneered in 2008, is popular among licensees for fostering entrepreneurship with manageable risk, and the managed estate will be critical in our format rollout, whilst also supporting talent development for our Partner pipeline. This balanced approach is a key strength of the business and something that will be supplemented further by targeted acquisitions, which will be pursued over time to enhance our portfolio with venues that align with our differentiated formats.

Further information on each of the value drivers can be found on page 8, as well as materials from our Capital Markets Day (CMD), which are available on our website: [www.marstonspubs.co.uk/investors](http://www.marstonspubs.co.uk/investors). We are looking forward to sharing updates on our progress as we begin to embed this strategy across the business.

### Financial performance and capital allocation

Our strong 2024 financial performance already demonstrates that this new chapter for Marston's as a focused pub business is well underway. While we expect further momentum as we continue to embed our strategy across the business, this year's results showcase some of the early successes of our approach. Like-for-like sales growth of 4.8% was driven by higher guest satisfaction and improved consistency across our pubs, as reflected in our guest Reputation score, which increased to 800, from 766 at the end of FY2023. Underlying EBITDA grew by 13.0% to £192.5 million, while underlying operating pub profit rose by 17.9% to £147.2 million, reflecting positive revenue growth and continued efforts to optimise costs and enhance operational efficiency. From continuing operations, our underlying profit before tax was £42.1 million (2023: £25.6 million) and our statutory profit before tax was £14.4 million (2023: loss of £(30.6) million).

The sale of our stake in CMBC significantly bolstered our balance sheet, reducing net debt well below our £1bn target, ahead of schedule, to £883.7 million excluding IFRS 16 lease liabilities, a decrease of over £300 million from FY2023. This deleveraging has also provided greater financial flexibility and supports our capital allocation priorities. As outlined at our CMD, our revised capital allocation framework focuses on long-term organic growth, further debt reduction, shareholder dividends, and targeted M&A. While no dividend will be paid for FY2024, we recognise its importance to our shareholders and intend to keep potential future dividend payments under review.

### Current trading and outlook

Current trading has been encouraging, with continued positive momentum carried over from the summer. We have seen like-for-like sales growth of 3.9% in the first six weeks of the financial year, with growth of 2.1% recorded in the first eight weeks of FY2025. While recent weeks have been affected by snow and storms, Christmas bookings are showing strong demand, with many venues already experiencing high reservation levels. This positions us well for a successful trading period during December as we look to capitalise on the busy festive season.

Over the near-to-medium term, we expect to deliver on the targets set out at our CMD:

- Revenue growth ahead of the market<sup>1</sup>
- EBITDA margin expansion of 200-300 basis points beyond FY2024
- Over £50 million recurring free cash flow
- >30% incremental returns on investment capex

The government's Autumn Budget, announced on 30 October, introduced significant changes above expectations to the National Living Wage, (NLW), National Minimum Wage (NMW) and National Insurance contributions. Although this puts some additional pressure on costs, the overall package of measures is considered manageable in the context of the Group's CMD targets. We are well positioned to adapt and continue delivering great experiences for our guests and remain very confident in our outlook and our ability to drive efficiencies in our Operating Model.

FY2024 has been a defining year for Marston's, laying strong foundations for growth, and we will continue to build on this momentum as we go through FY2025 embedding our strategy across the business and wider estate.

<sup>1</sup> Market is forecast to grow at 3% CAGR, according to Mintel.