

Jim Fallon

7 November 2007

McQueen

Setting the scene

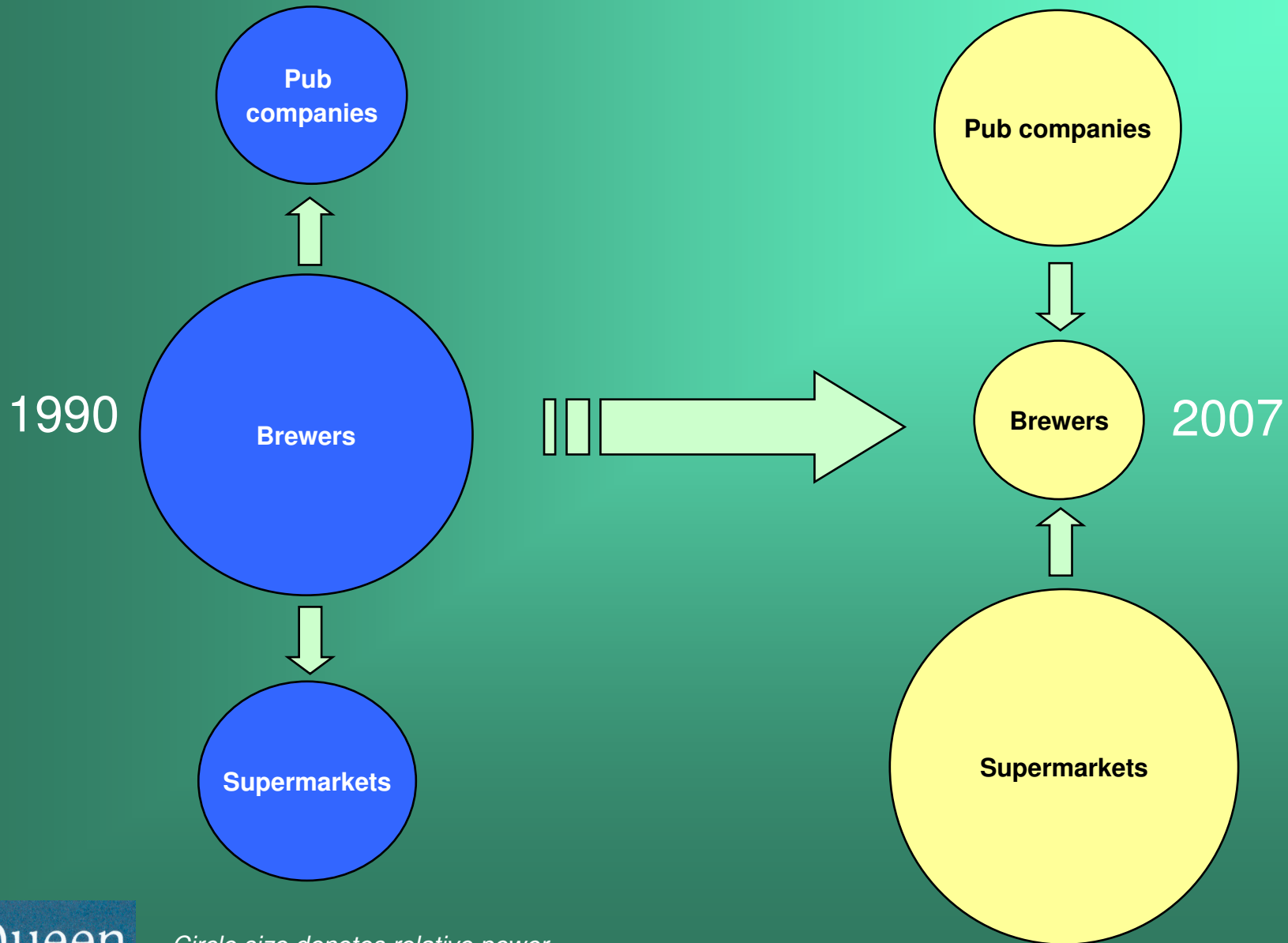
Capitalism

- Key driver of consolidation
- Major players strengthened; weaker players removed
- Creates an orderly and efficient market
- In the interests of companies, customers and shareholders

Interventionism

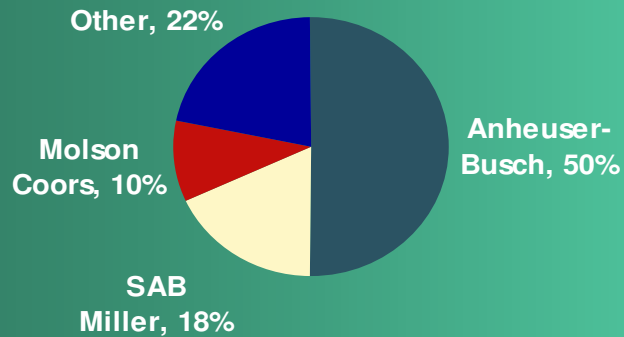
- Dictates that not all consolidation should occur
- Has played its part in consolidation in the past (e.g Beer Orders) and will continue to do so in the future
- Claims to protect consumers, but is not always in their best interests

Impact on UK brewers

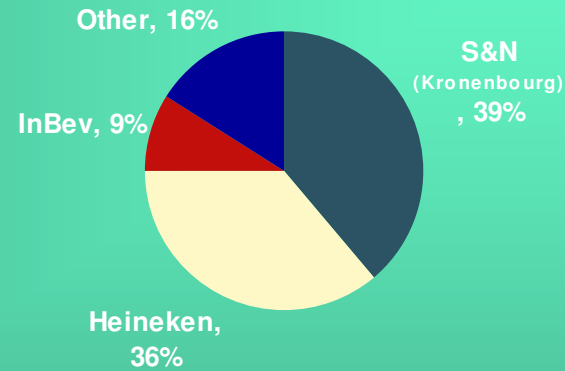


Brewing consolidation

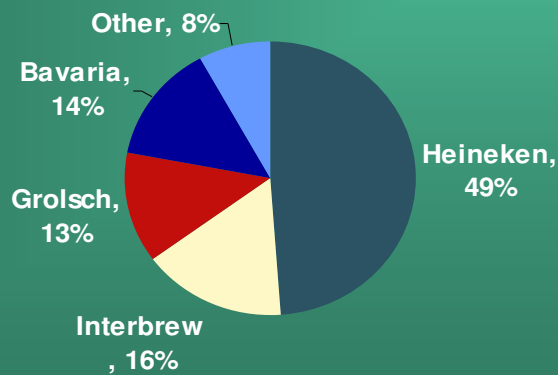
US brewers by market share



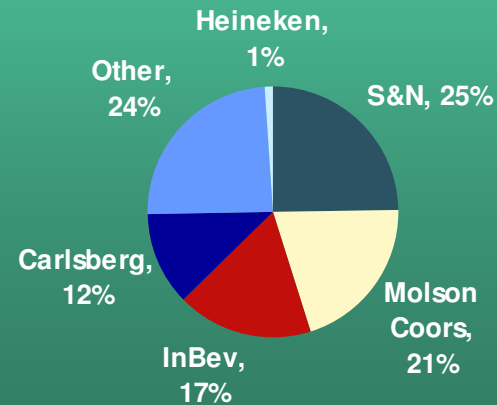
French brewers by market share



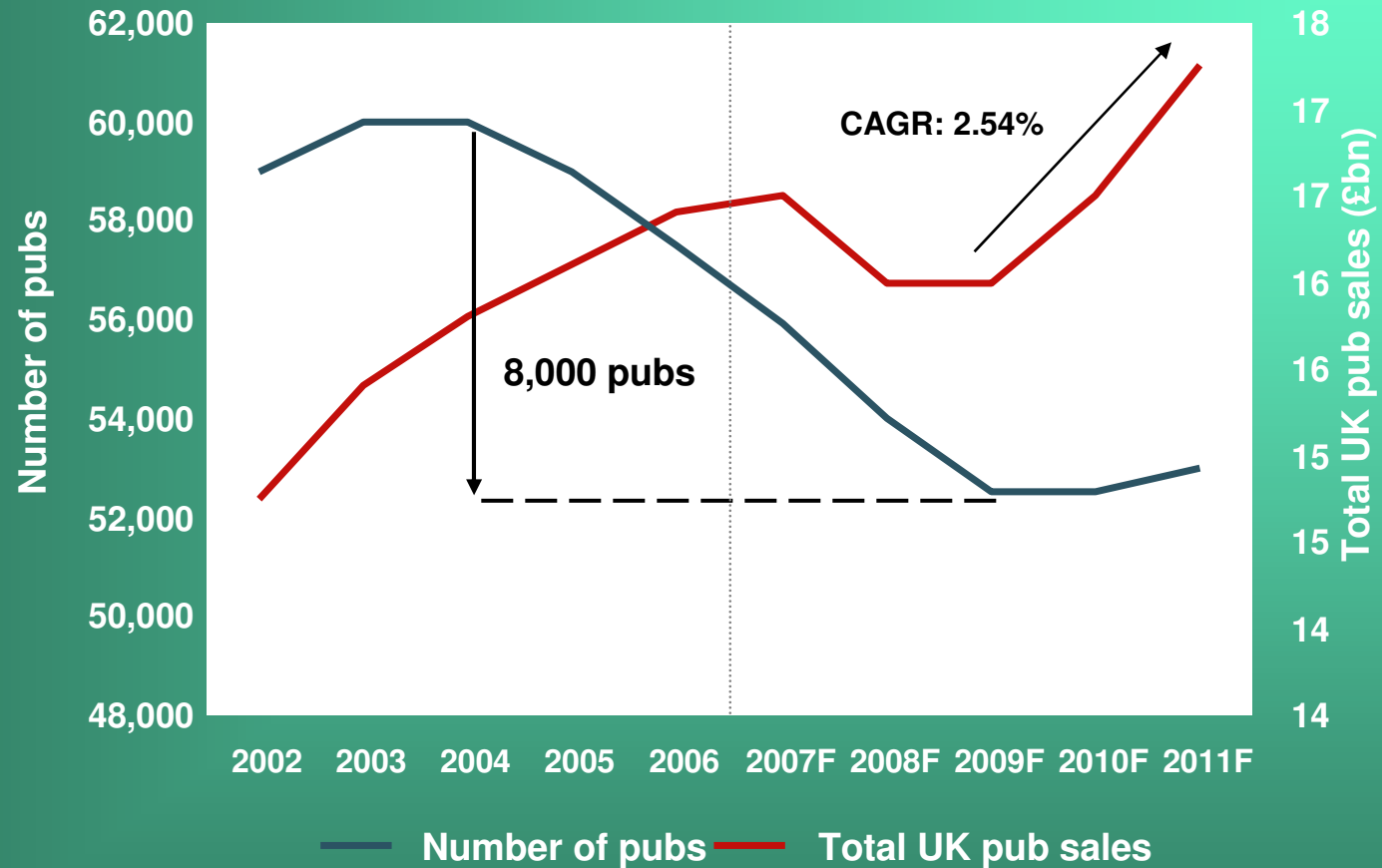
Dutch brewers by market share



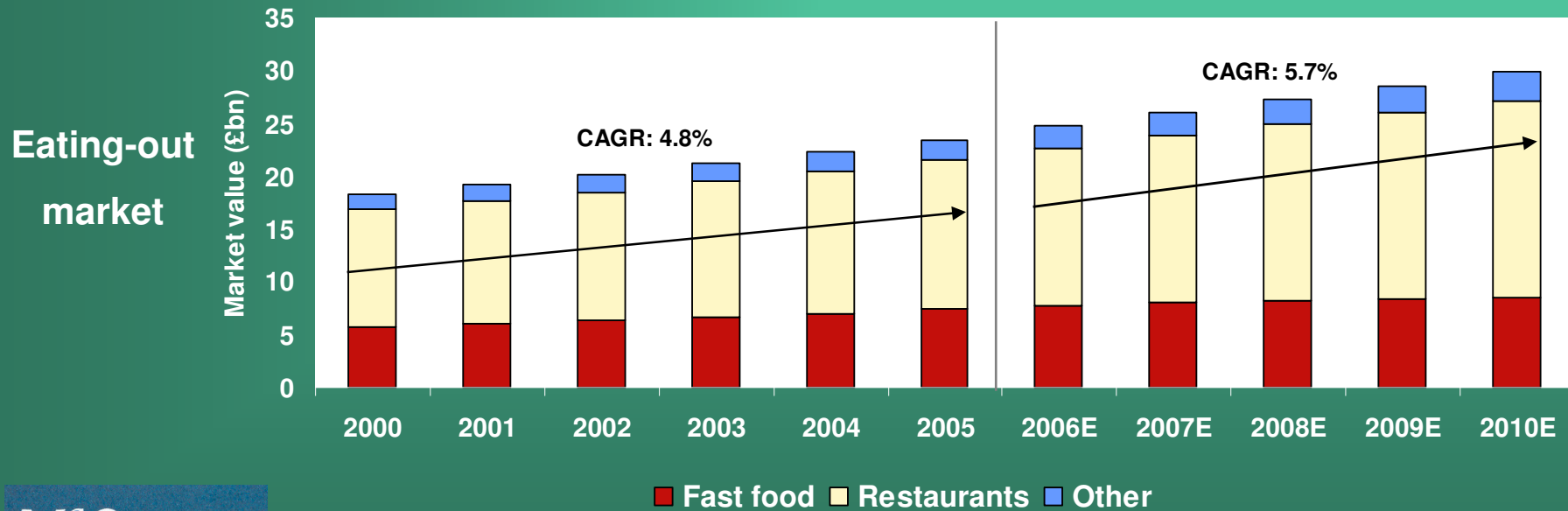
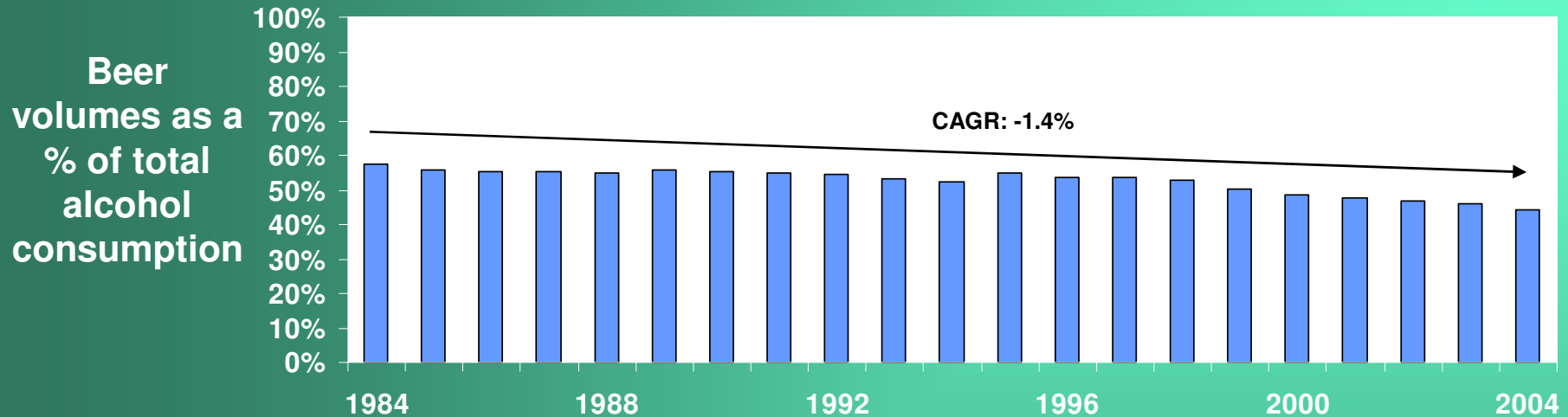
UK brewers by market share



Growth within the UK pub sector



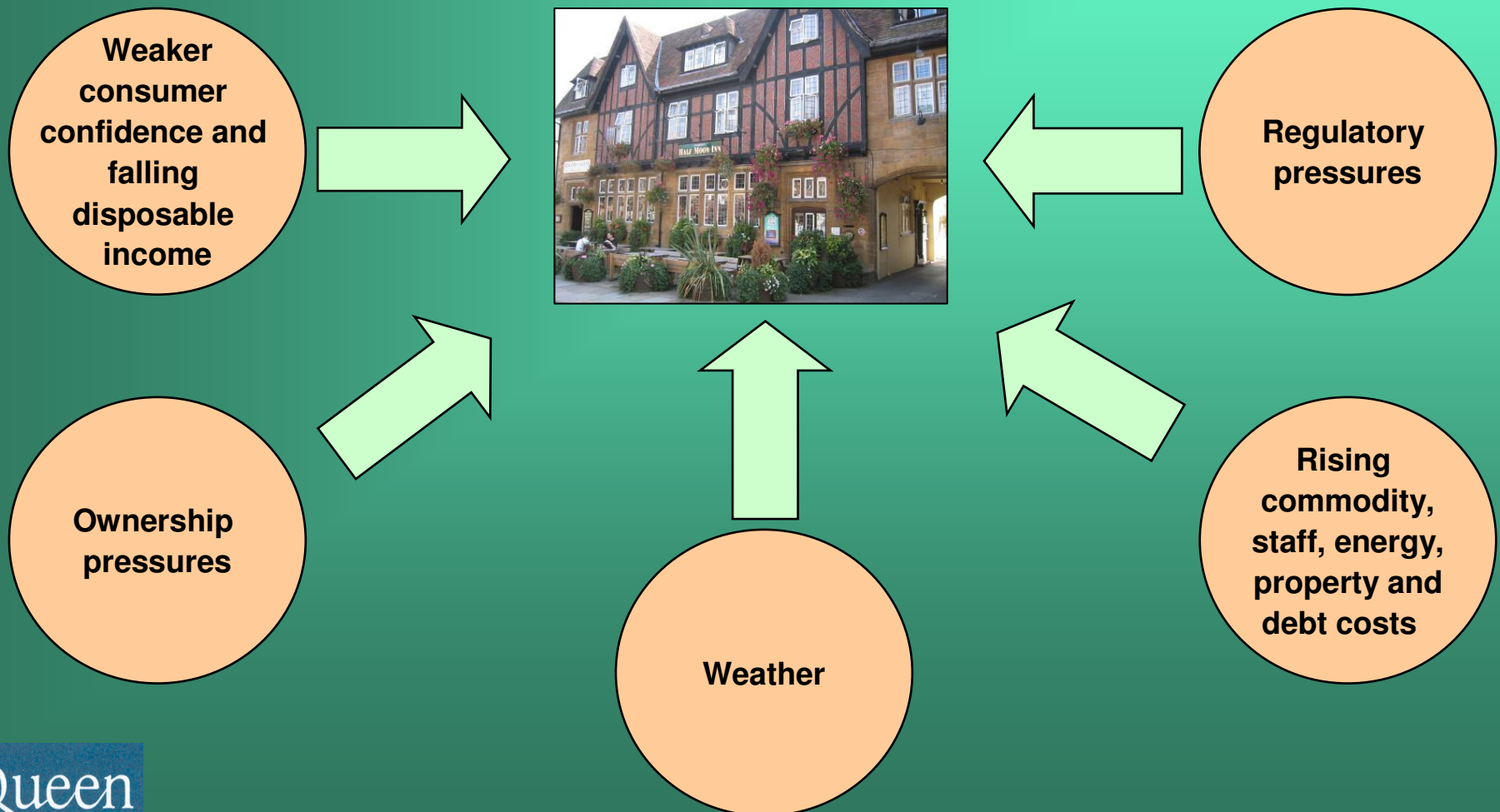
Beer vs food



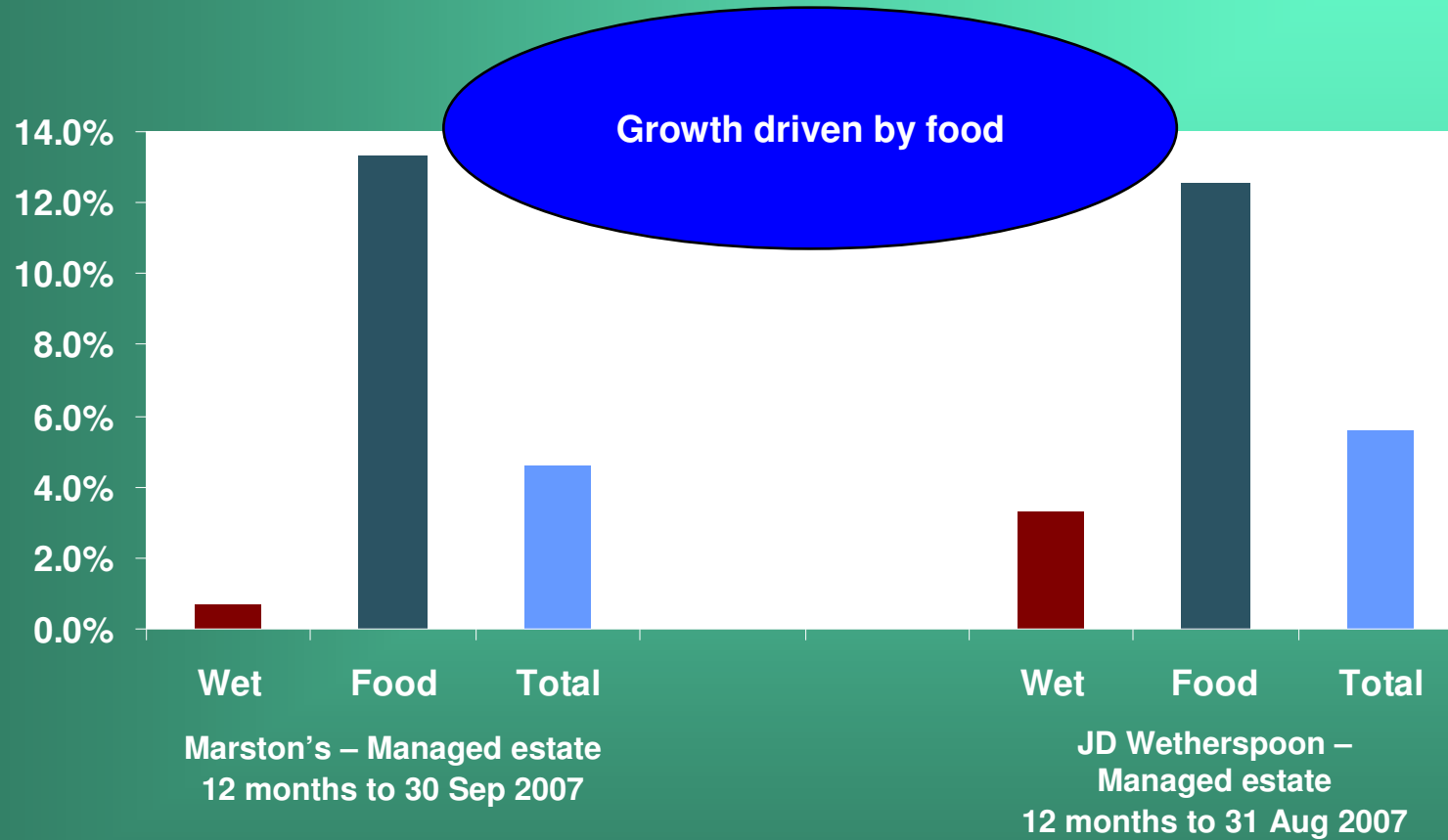
■ Fast food ■ Restaurants ■ Other

The pub market

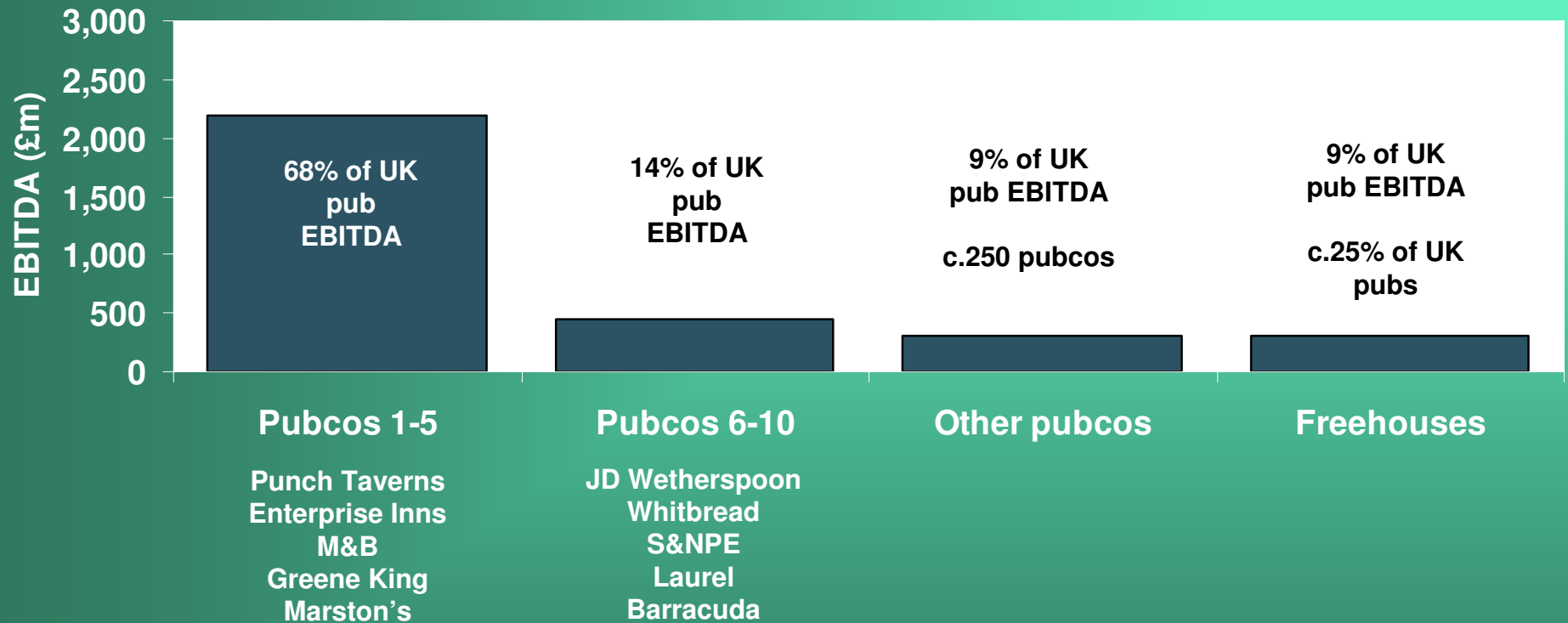
- Trading conditions are difficult within the current market; a trend expected to continue into 2008



LFL sales performance of UK pub co's



Where we are now

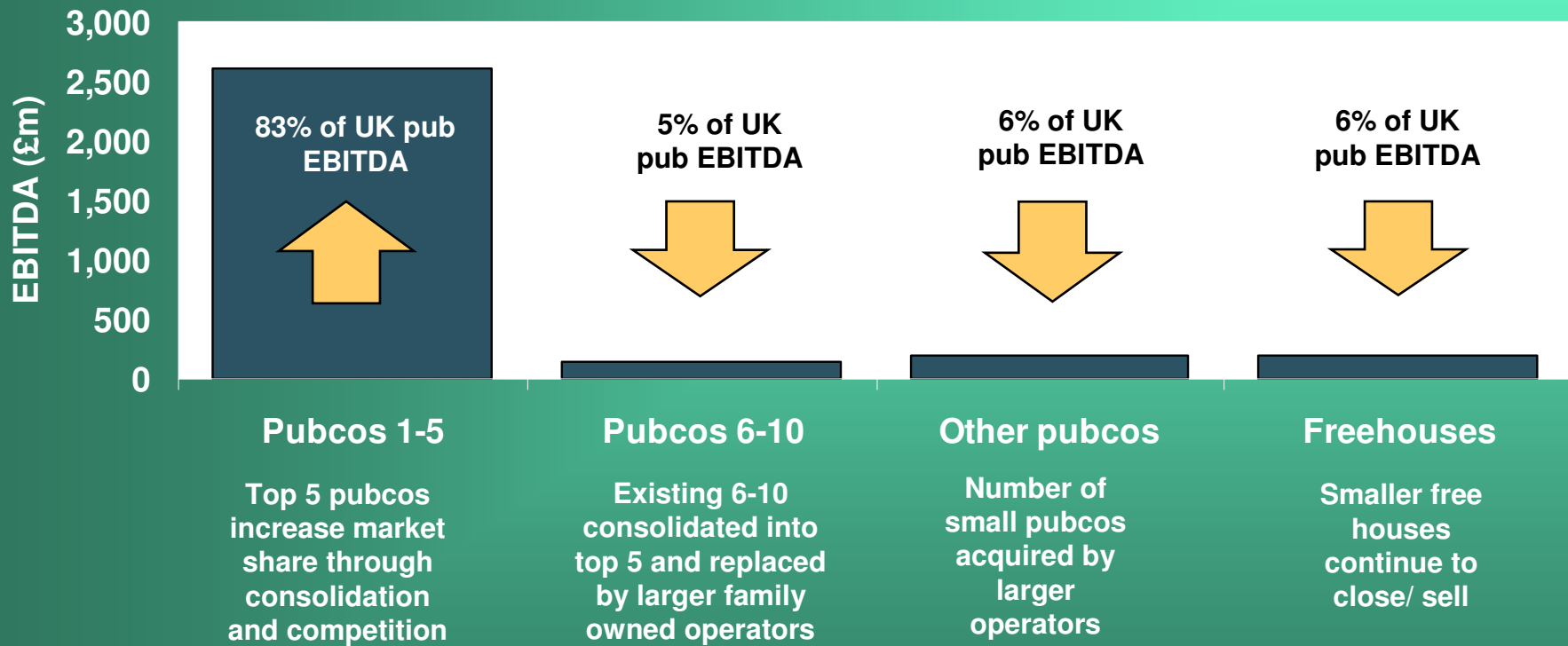


The benefits of scale

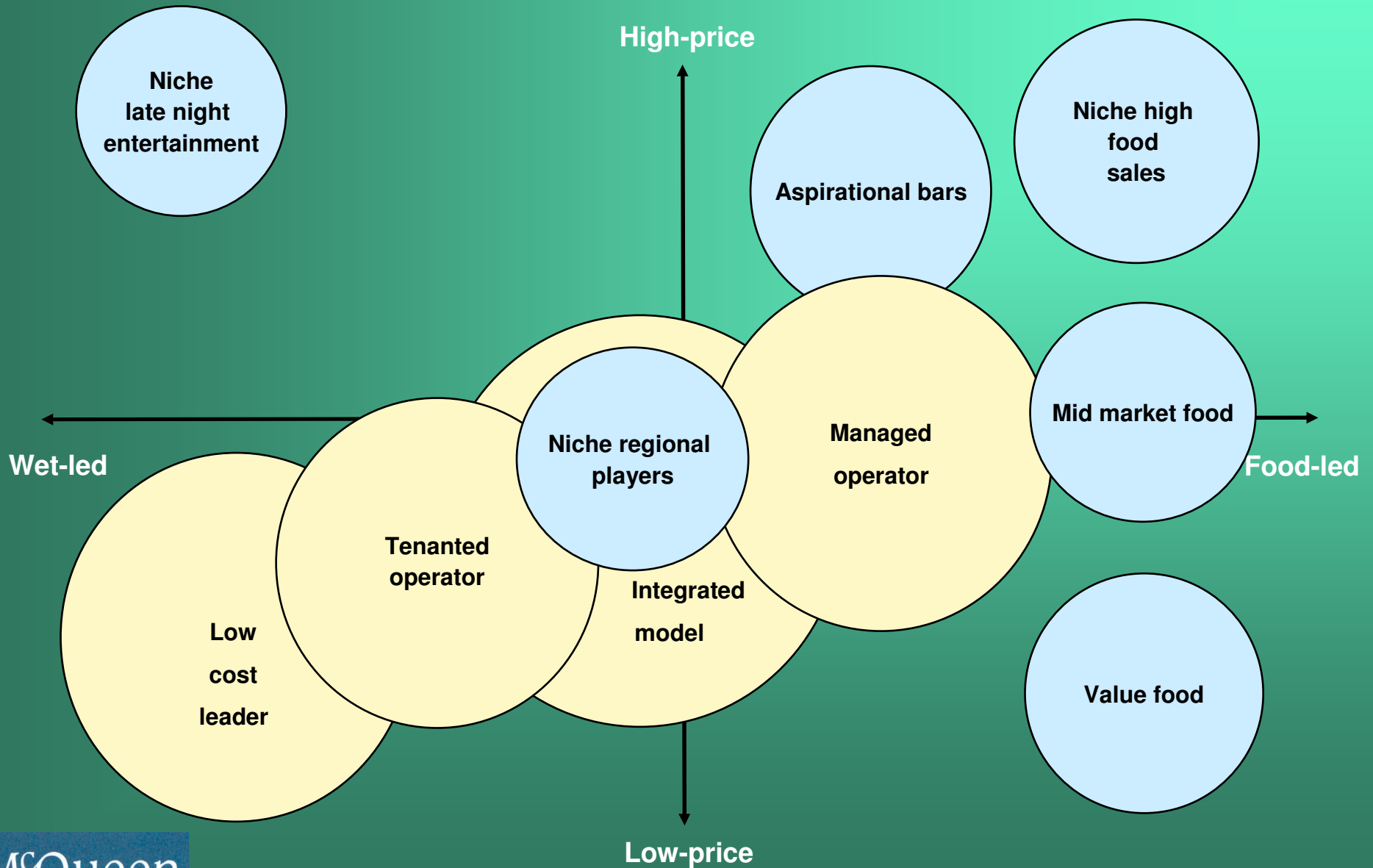
	Acquisition value	Operating profit	Interest cost	Profit before tax
SmallCo	£100m	£15m	£7.5m	£7.5m
LargeCo	£100m	£15m	£6.25m	£8.75m
LargeCo	£120m	£15m	£7.5m	£7.5m

- In the example shown above:
 - LargeCo has a cost of debt of 6.25% versus 7.5% for SmallCo
 - LargeCo can effectively pay £120m, a 20% higher price than SmallCo, and achieve the same post-interest profit in absolute terms

What the future might look like

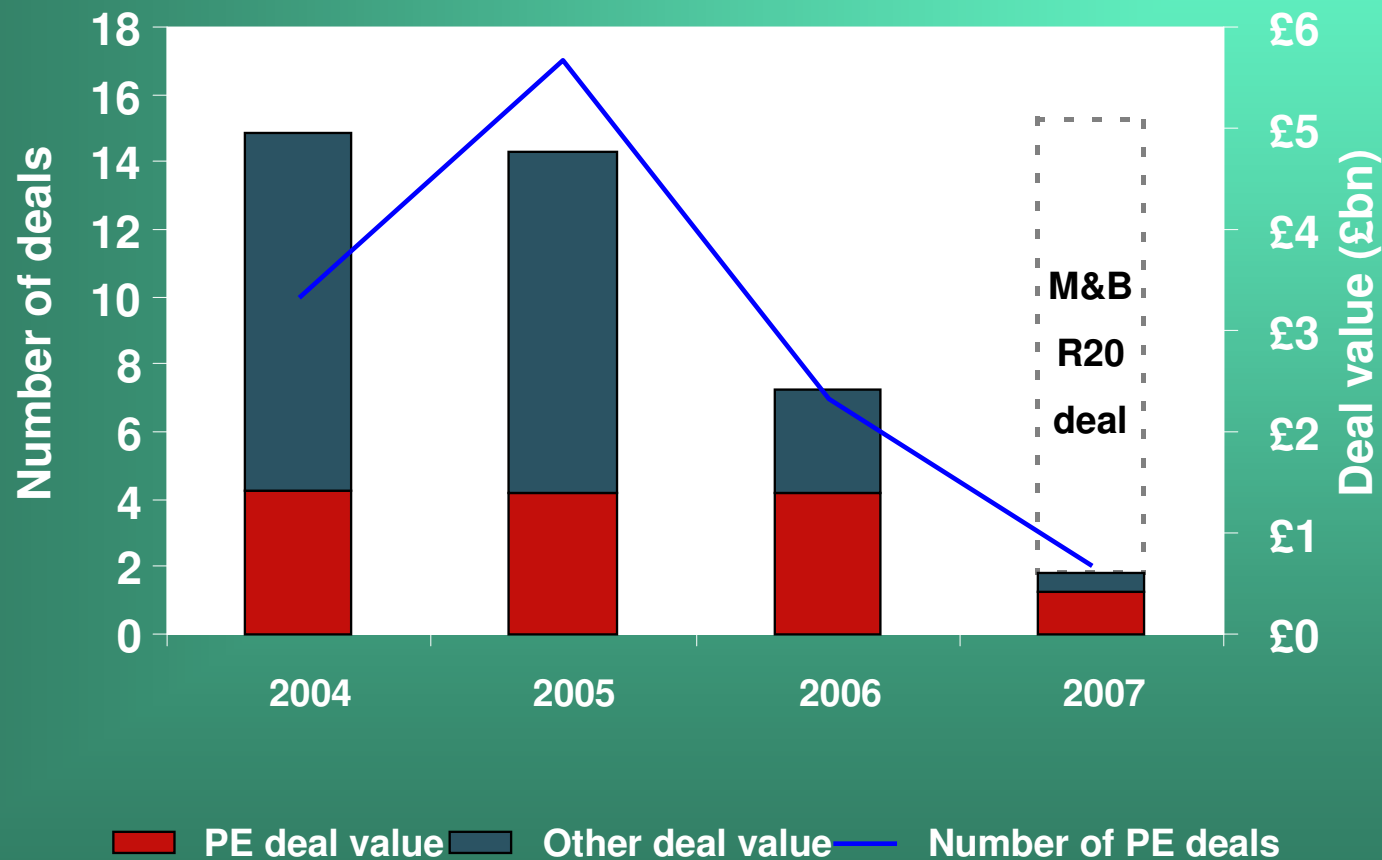


Future vision of the UK pub market



Private capital

- The days of the highly leveraged, high multiple deals appear to be at an end for now
- OpCo/PropCo deals appear difficult within this environment



Is consolidation a good thing?

- There is tangible evidence that consolidation leads to investment behind brands and capital expenditure within the industry
- Orchid investing £30m into its estate following the acquisition from Spirit
- Following the acquisition of Jennings, Marston's has developed the Cumberland Ale brand further as part of a strategy of investing in premium ales
- Following the acquisition of George Gale, Fuller's has invested in the HSB ale brand
- Laurel investing into the Ha!Ha! brand with 14 new units opened since the acquisition from GI Partners

Strategies going forward

