PREMIUM BOTTLED ALE REPORT 2014

MARSTON'S
Est 1834

NO.1
Premium Bottled Ale
BREWER

Contents

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Welcome to the **2014 Premium Bottled Ale** (PBA) market report from Marston's Beer Company.

As category leaders we produce this report annually with the purpose of driving sustainable and long term category growth, and since publishing the report last year many of our recommendations have been embraced to deliver record growth in sales value and increased shopper recruitment to the category.

We take a very simple approach; there is an almost endless amount of information available about the market and about shoppers and consumers – we share only what we see as the key trends and insights, and use these to recommend deliverable actions for positive change.

PBA continues to be the healthiest category across total beer and with continued innovation in brands, packs and ideas we will show in this report that there is a scalable and long term value creation opportunity.

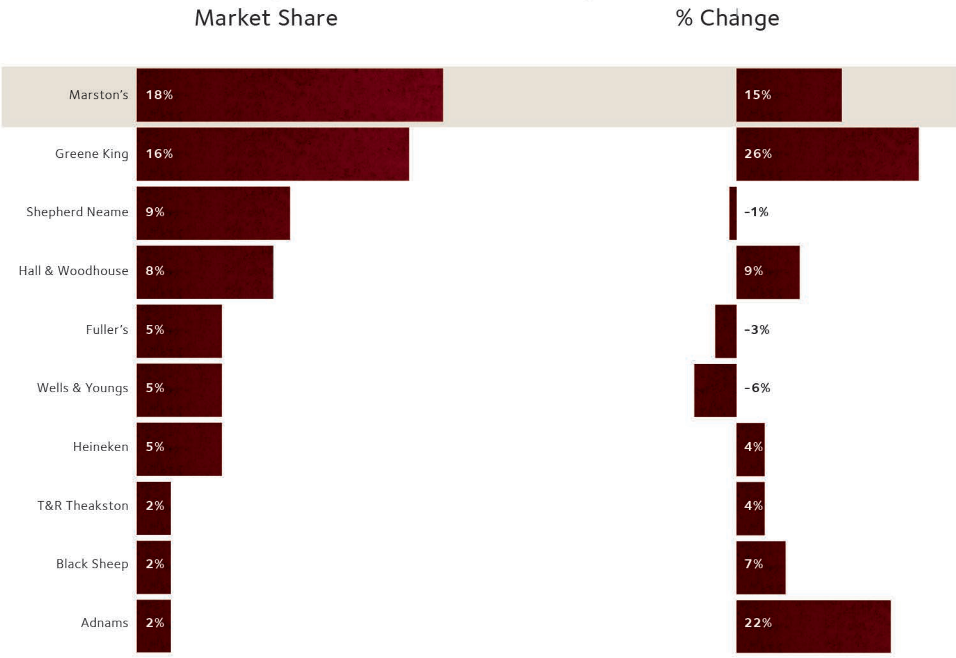
Our agenda this year is set by our shoppers and consumers; the ongoing trend away from high volume and generic beer brands towards those with quality, taste and provenance is evidenced in the market numbers.

Added to the fact that even more new shoppers and consumers entered the category for the first time last year, and even more intend to do so in the coming year, the opportunity becomes clear and our task as brewers and retailers is to make our category ever more interesting, innovative and accessible to facilitate this ongoing consumer shift.

We hope that you enjoy reading this report and find our insights interesting and valuable, and most importantly that we continue to collaborate to sustain the record growth in value and new shopper numbers for this unique and high value category.

P. Warren
Paul Warren
Senior Category Manager

Top Ten PBA Brewers By Volume

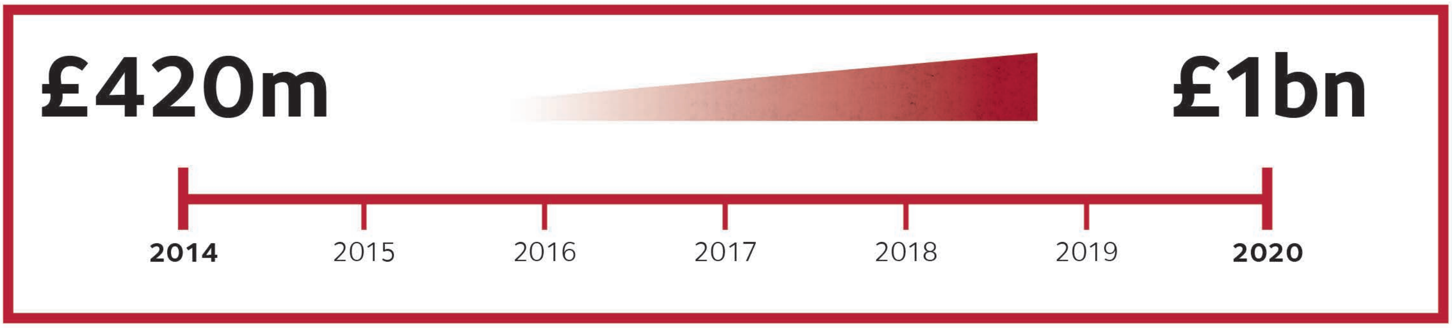


source: Symphony IRI Feb 14

PBA category has potential to be worth £1bn by 2020

Category Mission Update

In last year's report we set out a five year mission to double the size of the PBA category to £660m by 2018. We are pleased to report that over the last year the value of the category has increased by £90m to £420m and is tracking ahead of our original projection. If this performance is maintained, the category has the potential to be worth £1bn by 2020.



Our actionable recommendations in three key areas have driven this performance and should remain the focus to deliver continued category growth...

The Big Three

SHOPPER ENGAGEMENT - Engage & Recruit Shoppers

- Merchandise category by style
- Utilise drive brands to fuel recruitment
- Engage interest with added value communication
- Clear role for own label

RETAILER ENVIRONMENT – Providing the environment for growth

- Continue to increase macro space
- More space for drive brands
- Category participation in retail events
- Develop online & convenience offer

INNOVATION - Fresh thinking that adds value

- Occasion based format development
- Beer style & flavour innovation
- Fresh beer differentiation
- Cross category food engagement

Beer Market Changes

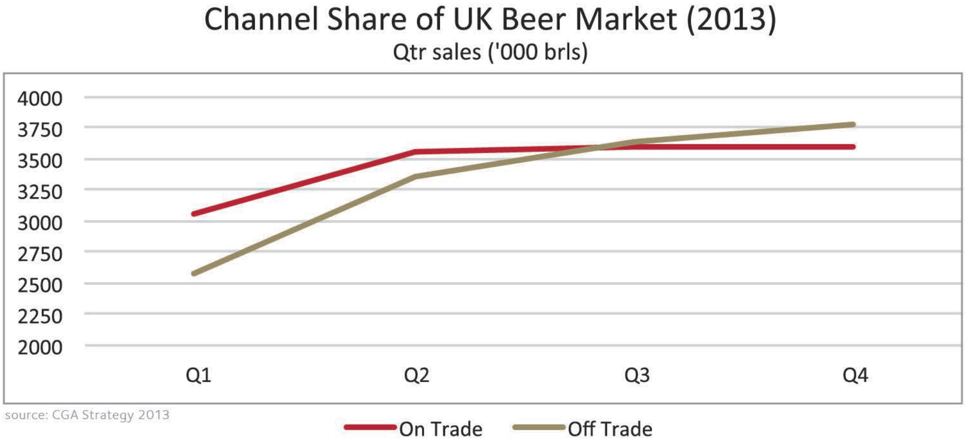
The total beer market in the UK, which has been consistently declining in total volume since 2006, returned to growth in February 2014 driven by a year of strong sales in the Off-Trade.

Although it would be premature to suggest that this modest 0.2% growth represents a change to the trend of consistent volume decline, sales of beer are increasing in certain categories; specifically premium lager which is growing at +1.8% and premium ale at +4.4%.

The long term volume trend in the On-Trade coupled with a return to growth in the Off-Trade means that in the next year, the majority of beer in the UK will be bought from shops. This trend has largely been driven by consumer lifestyles and behaviour; entertaining and socialising more at home, coupled with a switch from drink-led to food-led occasions in the on trade.

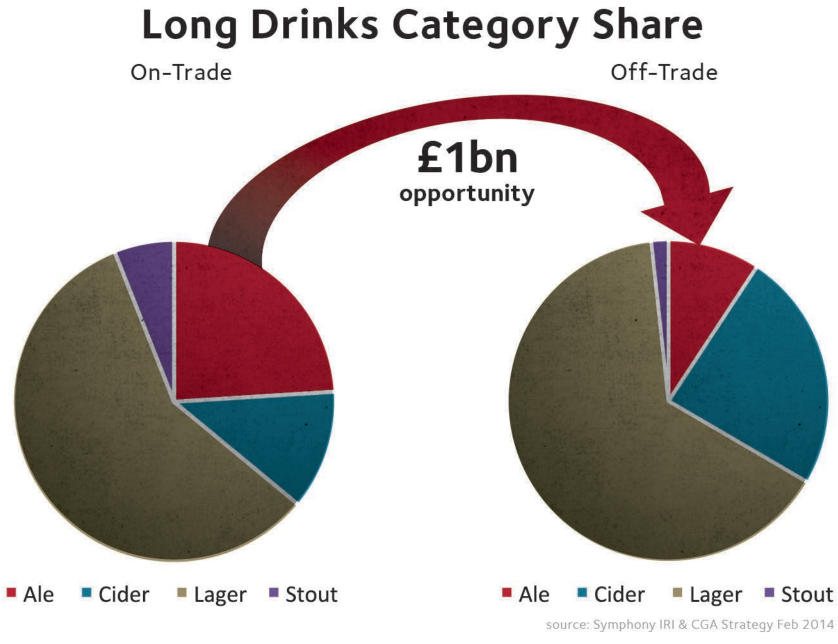
Shrinking disposable incomes are another factor driving this trend, and not only is beer much cheaper in shops, but choice and quality have also improved significantly to allow consumers to better recreate the On-Trade drinking experience at home.

However, it is important that drinking at home remains a value equation for consumers based on quality as well as purely a price comparison. The removal of the duty escalator in 2013 was a signal of support from the government for the beer category but the Corporate Social Responsibility agenda remains a live debate.



Premiumisation of beer continues

The recent upturn in the UK's economic outlook has not yet translated to consumer spending in Grocery shopping as people have come to expect great value and high quality as the new normal.



This behaviour from shoppers is playing well for premium categories within beer and for PBA in particular which has attracted ½ million new shoppers in the past 12 months; a +7% increase year on year.

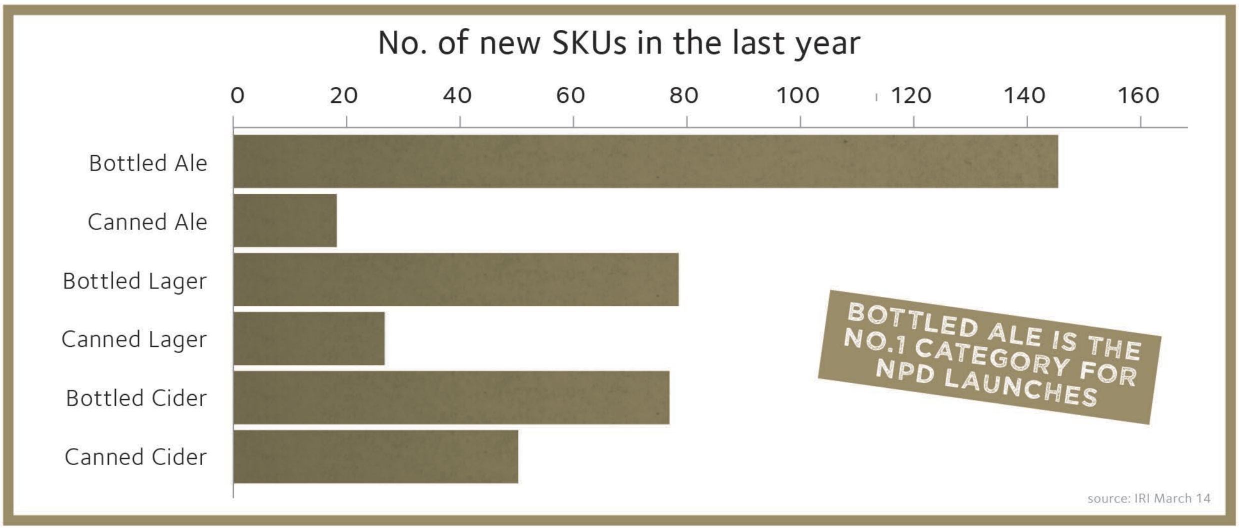
Even having grown by +12.1% the PBA category still offers the biggest growth opportunity across total beer in the Off-Trade as ale under-trades its share of the On-Trade by more than 50%.

All of the recommendations that we make in this report have the purpose of delivering this growth through recruitment, availability and frequency of shop.

This continuing trend of premiumisation shows that people are happy to pay a fair price for the quality, variety and taste that the PBA category offers them.

Brand and Category Innovation is driving consumer behaviour

It's not by chance that the PBA category is attracting +7% more shoppers year on year; consumer trends and behaviours are being satisfied by innovation in beer styles, packs, NPD and communication that make the category more accessible to more people.

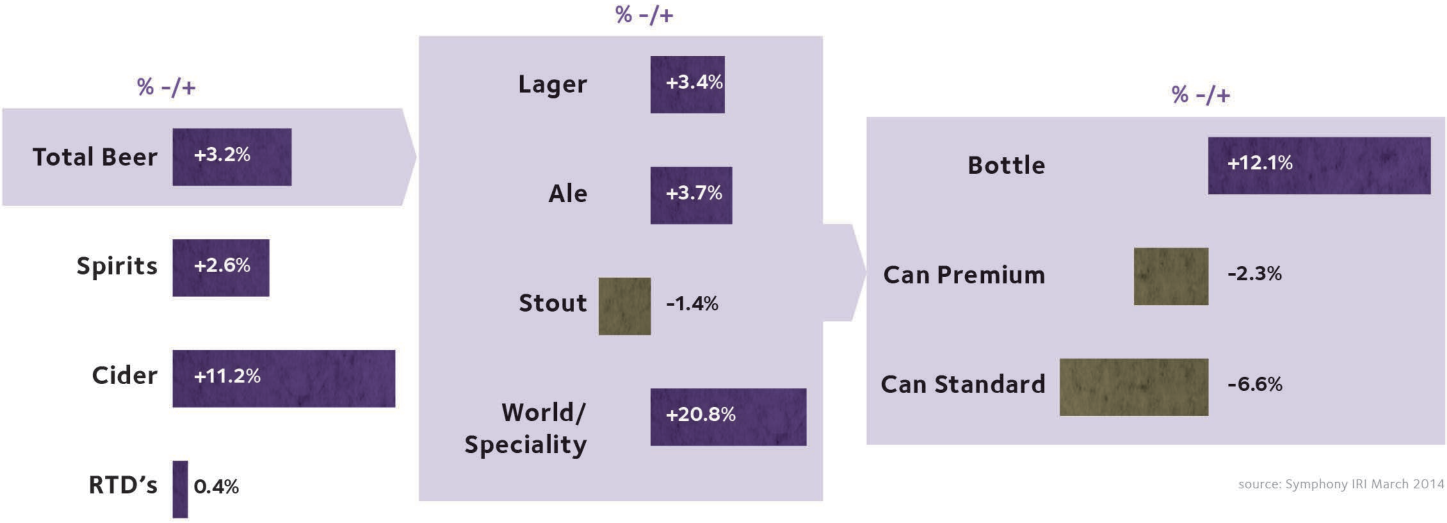


The biggest current growth trend is 'craft beer' and consumers directly associate PBA as 'craft' citing the authentic British provenance and heritage of PBAs; we need to continue to work together to reinforce this message as a meaningful category differentiator which creates value.

The two other significant category trends are a continuing growth in golden beer styles, and the very significant role of mixed packs in recruiting new and younger consumers to the PBA category.

Shoppers have identified PBA as THE most innovative category within beer and we'll show some of the big things that have made this the case in the last year as well as what still needs to happen.

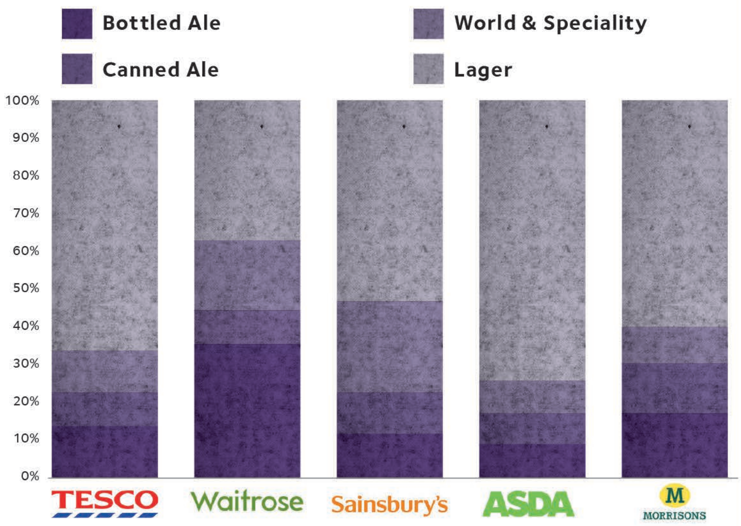
Drinks Category Performance (YOY MAT value change)



source: Symphony IRI March 2014

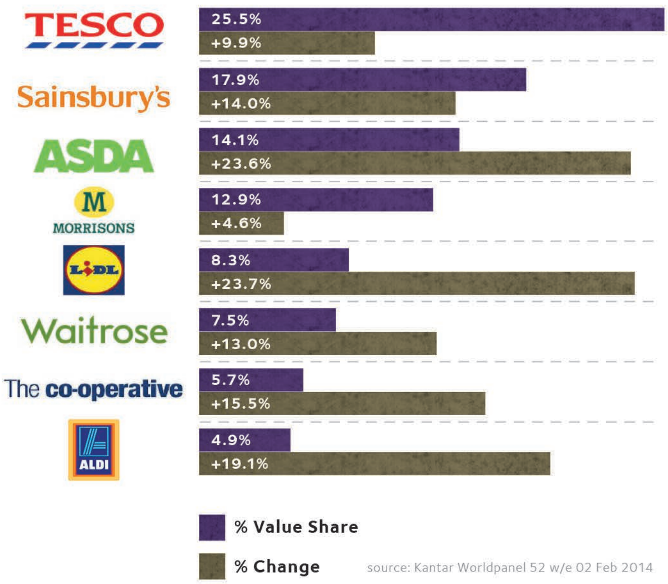
Beer Category Share of Space

Retailer Share of Category Space (Beer)



source: RBD Shoppertrack 2014

Retailer Share of Bottled Ale



source: Kantar Worldpanel 52 w/e 02 Feb 2014

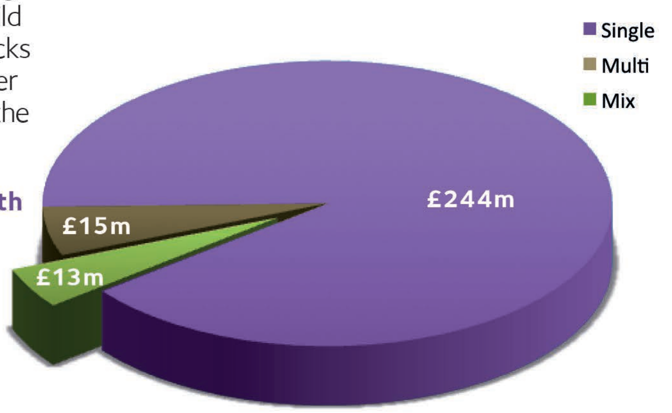
Larger Packs are a growing opportunity

Whilst sales in the category continue to be dominated by single bottle format (90%), bigger pack formats are starting to build momentum and deliver substantial growth. Bottle mixed packs & multi packs of key brands are gaining inclusion in more Beer & Cider category multi-buy promotions and are a sign that the category is maturing led by key brands.

Mixed packs growth +73% YOY

Multi-packs growth + 22% YOY

Format Share of Bottled Ale



source: Symphony IRI March 2014

Top 20 Bottled Ales

	Market Share	MAT Value	MAT Value % Change
Bottled Ale		**271,614**	**12.1%**
Old Speckled Hen	6.5%	17,699	0%
Hobgoblin	**5.1%**	**13,905**	**20%**
Newcastle Brown Ale	4.6%	12,459	6%
Spitfire	4.3%	11,593	-6%
Fullers London Pride	3.7%	10,090	12%
Badger Fursty Ferret	2.8%	7,477	21%
Classic Ales Of England	**2.2%**	**5,887**	**93%**
Theakston Old Peculier	2.2%	5,870	-3%
Bishops Finger	1.9%	5,076	22%
Sharps Doom Bar	1.8%	4,801	106%
Old Golden Hen	1.7%	4,643	105%
Black Sheep Ale	1.7%	4,637	5%
Mcewans No 1 Champion Ale	1.7%	4,555	13%
Old Crafty Hen	1.6%	4,346	66%
Marstons Pedigree	**1.5%**	**4,055**	**-17%**
Abbot Ale	1.4%	3,844	11%
Tribute	1.4%	3,788	43%
Badger Golden Champion	1.3%	3,400	31%
Bombardier	1.2%	3,308	-19%
Marstons Old Empire	**1.2%**	**3,207**	**8%**

source: Symphony IRI March 2014

Top 10 Premium Canned Ales

	Market Share	MAT Value	MAT Value % Change
Premium Can		**80,726**	**-2.3%**
Old Speckled Hen	26.8%	21,664	13%
Mcewans Export	15.6%	12,553	-4%
Abbot Ale	7.3%	5,885	9%
Hobgoblin	**5.1%**	**4,107**	**-16%**
Bombardier	4.9%	3,920	-1%
Tanglefoot	4.6%	3,718	0%
Bass Draught	4.3%	3,490	-1%
Newcastle Brown Ale	4.0%	3,255	0%
Caffreys Irish Ale	3.3%	2,656	-18%
Ruddles County	3.3%	2,674	-7%

source: Symphony IRI March 2014

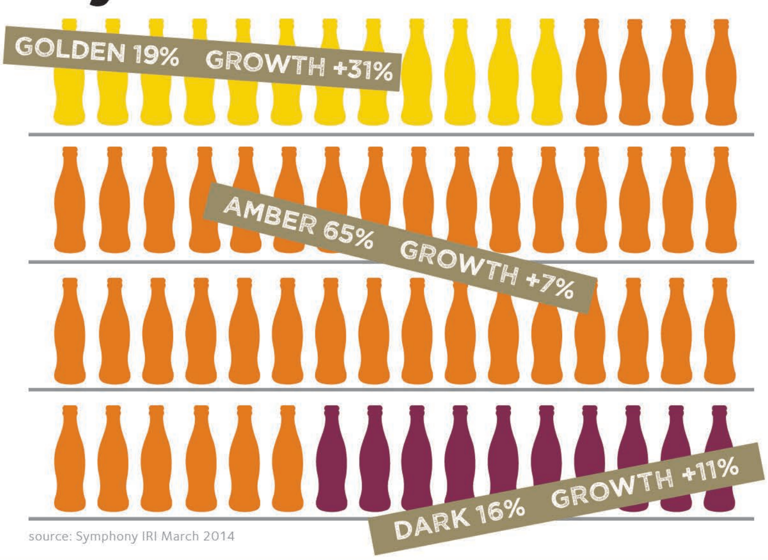
- **Bottled Ale growth of +12.1% in the past year has delivered total Ale growth of +3.7% in the off trade and created +£90M of incremental category value.**
- **Recruiting 500K new shoppers has been a crucial part of how this has been achieved and creates a highly sustainable growth platform for the category.**

Category & Brand Shopper Numbers (2013-14)

	2014	+/-
Total	7,149,850	7%
Classic Ales of England	1,932,005	82%
Retailer Brands	1,795,077	24%
Hobgoblin	1,713,819	6%
Spitfire Kentish Ale	1,426,625	3%
Old Speckled Hen	1,266,271	20%
Badger Fursty Ferret	860,215	3%
Bishops Finger	726,426	9%
Theakstons Old Peculiar	686,136	-1%
Newcastle Brown Ale	615,633	-3%
Marstons Pedigree	**607,728**	**-12%**

source: Kantar Worldpanel March 2014

Style Share of Bottled Ale



source: Symphony IRI March 2014

GOLDEN: Lighter, refreshing and hoppy including blonde beers and IPA's

AMBER: Fuller flavoured, more malty beers such as pale ales and traditional bitters

DARK: Characterful, fuller bodied beers with roasted malts such as dark milds and porters

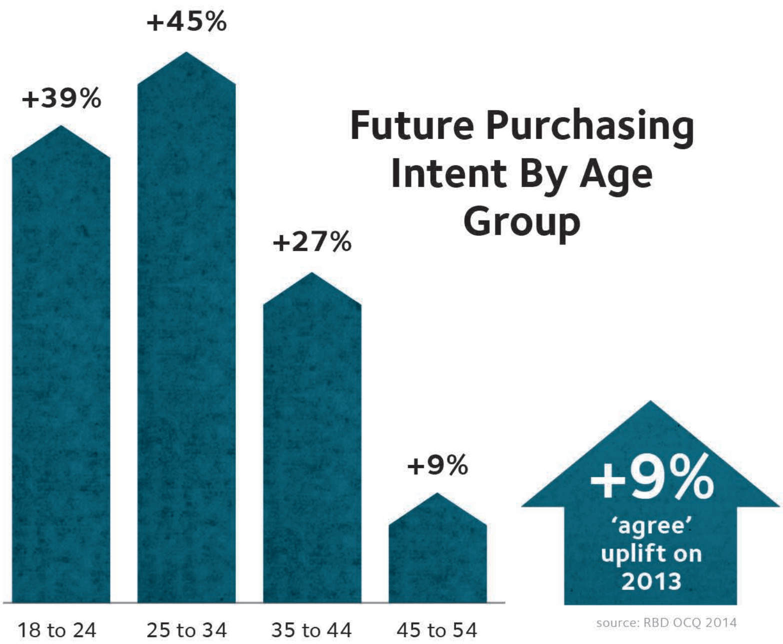
In the last year the PBA category has recruited over 500,000 new shoppers adding an incremental £22m RSV. This recruitment is being driven by a younger generation of drinkers being drawn to the category looking for beers that deliver more flavour, craft and provenance than other forms of beer. Maintaining these levels of recruitment and nurturing these new consumers is crucial to category development.

PBA drinkers are more emotionally engaged in the category

The words used by drinkers to describe the bottled ale category displays a warm, emotional response. The category is acknowledged to have a strong British identity and is seen to be growing, innovative, special and fun amongst new consumers.

This level of engagement provides an opportunity for retailers to make the category a destination feature within BWS.

source: RBD OCQ 2014



source: RBD OCQ 2014

PBA drinkers are getting younger & expect to increase their consumption

There is a +9% uplift with all bottled ale drinkers intending to increase their consumption in the next twelve months. The 18-34 age group show the greatest intent to drink more bottled ale and this growing appeal has helped to reduce the average age of PBA drinkers into the 40's for the first time.

Increased sharing occasions will drive more demand for bigger pack formats

Mixed and multi packs of key drive brands have seen a big increase in sales in the last year delivering against the consumer need for a more convenient, value proposition and for sharing occasions. Greater distribution and visibility in event aisles is a growing opportunity to boost recruitment and weight of purchase.

HOBGOBLIN IS THE NO.1 RECRUITER BRAND FOR FEMALES AND THE UNDER 35'S

PBA recruiter brands

Of consumers who have come to the category in the last five years, Hobgoblin, London Pride & Black Sheep have been the key recruiter brands. Ensuring greater visibility and availability of these brands is essential to continued recruitment.

6% 14% 21% 9%

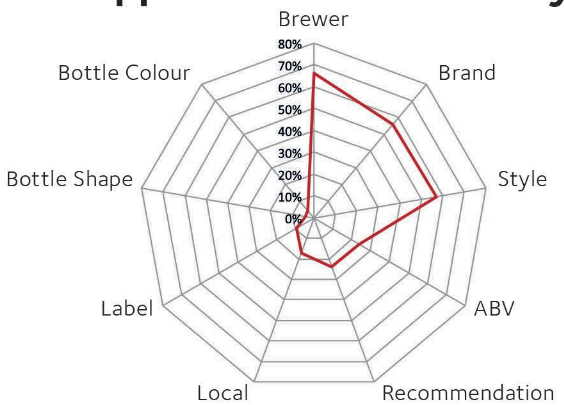
Contribution to category recruitment

source: RBD OCQ 2014

Merchandising by style will make the PBA fixture easier to shop

As golden and darker beer styles continue to claim more consumer appeal and space on PBA fixtures, there is a growing opportunity for retailers to make their fixtures easier to shop through merchandising by style.

Shopper Decision Hierarchy



source: RBD OCQ 2014

Beer style is a key purchase influencer for all shoppers and provides an easy way for less experienced, new to category shoppers to gain confidence. This is essential to engage and retain the influx of new shoppers to the category.

We estimate that retailers who have recently adopted merchandising by style have seen an increase of £9m in sales.

Own label has recruited the most shoppers to PBA in the last year

With over 350K new shoppers brought to the category, own label offers a low-risk trial into bottled ale which converts into a long-term category shopper. Additionally, own label allows retailers to differentiate their PBA category from their competitors.

OVER 70% NEW BOTTLED ALE SHOPPERS INCLUDED OWN LABEL IN THEIR BASKET OF BRAND

RECOMMENDATIONS FOR OWN LABEL PROPOSITION:

- CLEAR RETAILER BRANDING
- BREWERY PARTNER CREDIBILITY
- BEER STYLE SIGNPOST
- VALUE OFFER

PBA shoppers are more engaged & deliver more value

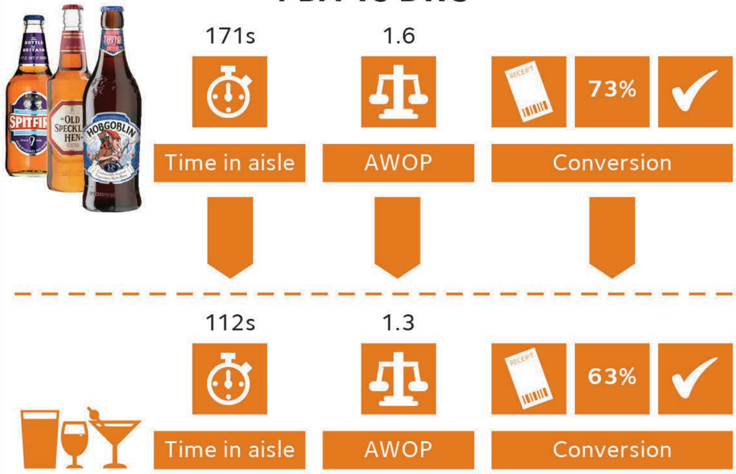
The bottled ale fixture provides a very different environment from that of other categories of beer.

Dominated by single bottle purchase, it has a much higher browse appeal for shoppers who spend much longer at fixture and are more likely to purchase once they are engaged. Bottled ale shoppers also deliver the highest average basket spend in shoppers.

THE BASKET SPEND OF PBA SHOPPERS IS +15% MORE (ON AVERAGE) THAN OTHER BEER CATEGORY SHOPPERS

Shopper Dynamics

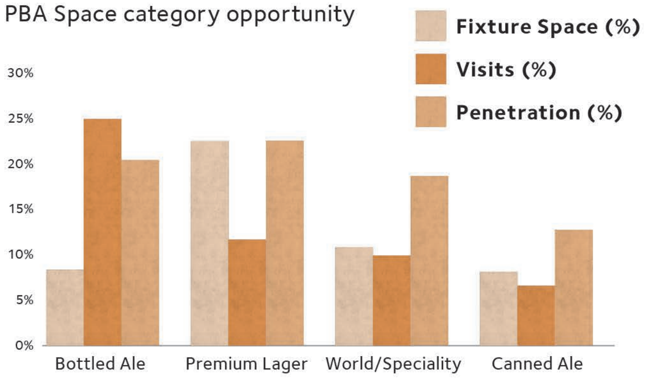
PBA Vs BWS



PBA fixture delivers:

- Higher dwell time
- Higher rate of purchase
- Higher weight of purchase

source: RBD Shoppertrack 2014



source: RBD Shoppertrack 2014

The PBA Category will need more space

The macro shelf space allocated to PBAs by retailers has increased in the last 12 months and has delivered an incremental £29m value.

As the momentum of PBA shopper recruitment continues to increase and there will be a need for retailers to further review their space allocation.

Drive brands need more space

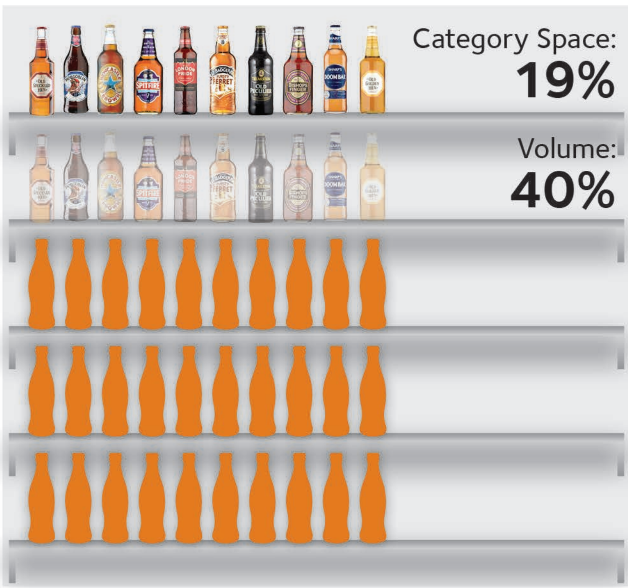
The Top ten PBA brands deliver 40% of category volume from 19% of space. This underspacing of drive brands contributes to over £20m of lost sales every year due to 'Out of Stocks'

It is also many of these brands that are driving new shopper recruitment and a lack of availability jeopardises further shopper recruitment.

'£20M LOST SALES OPPORTUNITY THROUGH OUT OF STOCKS'

52% OF SHOPPERS BELIEVE RETAILERS SHOULD DO MORE TO IMPROVE AVAILABILITY OF BOTTLED ALES

Double the Space for Top Ten Brands



source: RBD Shoppertrack 2014

Bottled ale is a £55m retail opportunity in convenience

source: IRI March 2014

Convenience stores have the opportunity to add £55M sales value from bottled ales just by delivering their fair share of trade. Bottled Ale currently makes up 2.9% of beer sales in convenience compared to 5.7% across the total off trade market. Our recommendations to bridge that gap are as follows

Range and Merchandising

- Top ten brands
- Cover all the different styles
- Value offering
- Merchandise in chiller

Promo & POS

- Permanent category multibuy appropriate to the basket size
- Clear Communication

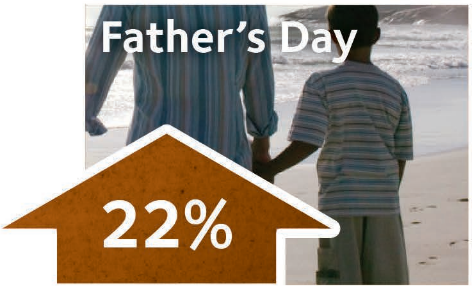
Maximise Events

- Use of mixpacks
- PBA Feature at key events

Increase PBA participation in retail events

The inclusion of drive brands & mixed multi-packs in key seasonal event aisles and off shelf displays has delivered an incremental £19m value in the last year.

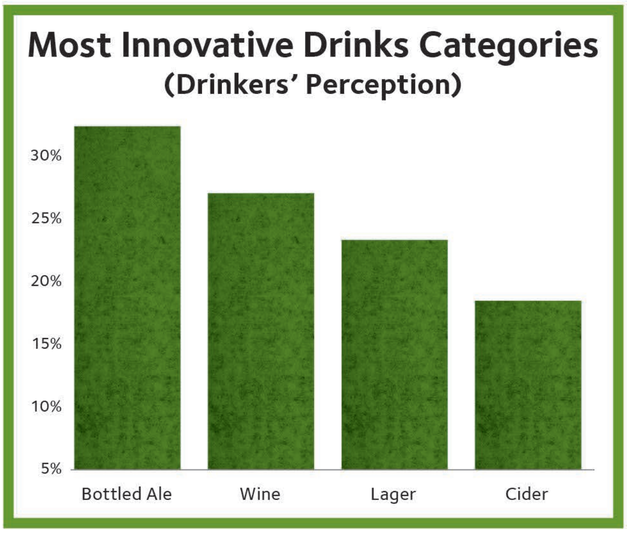
Further participation will increase recruitment and trade up more shoppers into a more premium category for future purchase. Our drinker survey indicates the key events for largest uplifts in future consumption.



source: RBD OCQ 2014

Bottled ale is seen as the most innovative sector of alcoholic drinks

The majority of PBA drinkers are experimental by nature and look to add to their repertoire of 'tried & trusted' brands on a frequent basis. This need for discovery makes innovation and 'new news' in terms of range an essential part of maintaining the appeal of the category.



source: RBD Drinker survey Feb 2014 base:767 drinkers

Number of breweries operating in the UK

1,147

source: CAMRA Good Beer Guide 2014

Shoppers recognise the PBA category as delivering more innovation and new products than any other category. This is fuelled by both existing brewers and the growth in new brewers operating in the UK hitting a 70 year high, supplying retailers with a constant pipeline of new products and brand extensions.

Experience

Providing suggestions for enhanced drinking experiences through food matching & beer cocktails can create sharing content for social media that can support continued recruitment

Enhanced taste & flavour attributes over other forms of beer are the biggest motivators for PBA drinkers. Innovation that enhances flavours and delivers a more diverse range of beer styles and drinking experiences will add value.

Technical Innovation

Technical improvements are increasing the ability to deliver more consistent unpasteurised and bottle conditioned beers that better match the subtle flavour and aroma characteristics of cask ale

Sharing Occasions

Multi-packs are growing at 18%

Sharing Occasions

Mixed packs are growing at 78%

Brand innovation delivers more value

Innovation is important for consumer recruitment and is value enhancing for the category.

Beer Style

Greater diversity of beer styles with new interpretations of continental 'Old world' and American craft influenced 'New world' styles deliver different drinking experiences and broaden repertoires

IN THE LAST TWO YEARS, THE CATEGORY HAS SEEN 365 NPD LAUNCHES DELIVERING £44.5M IN RSV

Flavour

Golden & blonde beer styles using new world hop varieties such as Nelson Sauvin, Galaxy, Citra, Cascade… delivering fruitier aromas and hoppier flavour profiles are delivering the strongest area of growth in the category

'New world' regional hop varieties

Ingredient

New world hop varieties from the South Pacific and USA are delivering beers with more intense exotic fruit aromas and flavour notes

With consumer sharing occasions on the increase, larger pack formats and recreating the pub experience at home represent a growing opportunity

Format

Mini kegs have added £2m incremental value in the last 12 months

SUMMARY & RECOMMENDATIONS

Engage and entice consumers to discover & enjoy PBAs for any drinking occasion

The PBA category continues to be the star performer in the Off-Trade beer market, delivering +12% growth in both volume and value vs. a beer market growing at +3.2% value.*

Attracting younger drinkers and benefiting from consumer trends towards more premium 'crafted' formats of beer, the future of the PBA category have never looked better.

Brewer innovation is broadening the diversity of beer styles and experiences and over 500K new consumers have been recruited to the category in the last year.

Ensuring that this new generation of new shoppers are nurtured and developed is crucial to the future prospects of the category and we believe there is an opportunity to make the category worth £1bn by 2020.

We hope you have found this report and our recommendations insightful and thought provoking. If you have any questions and would like to discuss developing your PBA category further, please get in touch.

P. Warren

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* Symphony IRI March 2014

Hop onboard for a taste tour of our Country's Finest Beers from Marston's

Our continental friends may know a thing or two about wine but no one knows beer quite like this great nation. Each region has its own unique brewing heritage complete with distinctive tastes and local favourites.

Here's a flavour of our full range of beers, hop on board and take a taste tour from the Lakes to the south coast.

Golden Pale Ale
ABV 4.7%

Jennings Cumberland Ale

Superbly refreshing golden ale, brewed with Pure Lakeland water. Cumberland Ale is synonymous with the Lake District and has been in continuous growth over a number of years.

English Pale Ale
ABV 4.5%

Marston's Pedigree

Brewed in the world famous Burton Union brewing system, Pedigree ferments and slowly matures like no other beer in the world. No wonder it's the favourite beer of the England Cricket team.

Bitter
ABV 3.8%

Banks's Bitter

From the heart of the black country comes this classic easy drinking bitter famous across the West Midlands for its malty, hoppy flavours and clean bitter finish.

Organic Golden Ale
ABV 4.6%

Brakspear Oxford Gold

Craft brewed in Witney, using Target and Goldings hops to provide a zesty aroma and fruity flavour, delivering the taste of Oxfordshire.

Ruby Beer
ABV 5.2%

Wychwood Hobgoblin

The legendary Hobgoblin brewed with roasted malts for a well balanced, rich, smooth taste, full of mischievous character. The No.2 top selling PBA and most shopped ale brand in the UK.

Strong Ale
ABV 5.1%

Ringwood Old Thumper

The wild boar of beers, Old Thumper is a copper coloured full-flavoured strong ale currently amongst the fastest growing brands in the PBA category.

JENNINGS
MARSTON'S
BANKS'S
WYCHWOOD
BRAKSPEAR
the oxfordshire beer
RINGWOOD BREWERY

MARSTON'S

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