

# FINANCIAL REVIEW



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# Financial Review

- Results cover 28 weeks from 19 August 2007 to 1 March 2008
- Smaller pub estate due to major disposal programme last financial year
- 28 week contribution from Matthew Clark JV
- Current financial year will be a 53 week year



# Earnings Growth from Smaller Pub Estate

£m	<u>Leased</u>	<u>Managed</u>	<u>Share of JV</u>	<u>Group</u>	<u>Growth</u>
<b>Average estate size</b>	<b>7,575</b>	<b>875</b>	-	<b>8,450</b>	<b>(9%)</b>
<b>Revenue</b>	<b>451</b>	<b>363</b>	-	<b>814</b>	
<b>EBITDA</b>	<b>259</b>	<b>63</b>	<b>2</b>	<b>323</b>	<b>(5%)</b>
Depreciation, amortisation	(11)	(22)		(33)	
Interest				(159)	
Profit on asset sales				2	
<b>Profit before tax</b>				<b>133</b>	<b>1%</b>
Tax				(29)	
<b>Net Profit</b>				<b>104</b>	<b>2%</b>
<b>Basic EPS</b>				<b>39.0p</b>	<b>1%</b>

Excluding exceptional items



# Smaller Pub Estate

	<u>Leased</u>	<u>Managed</u>	<u>Total</u>
March 2007	8,119	1,185	9,304
August 2007	7,561	887	8,448
Acquisitions	18	1	19
Lease conversions	18	(18)	
Disposals	(16)	(2)	(18)
March 2008	7,581	868	8,449
<i>net change</i>	0%	(2%)	0%
Average estate size	7,575	875	8,450
<i>decrease on last year</i>	(5%)	(34%)	(9%)

- Smaller, better quality estate following strategic disposals completed in 2007



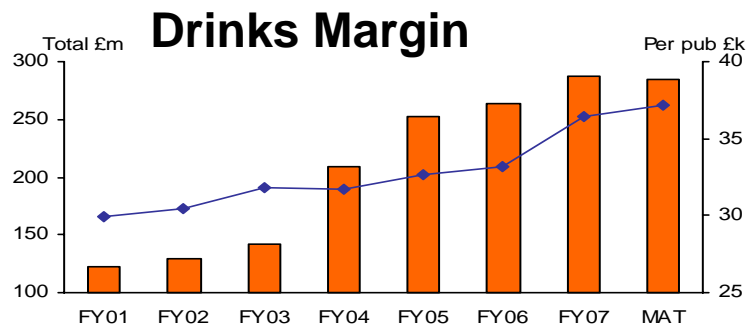
# Profit Growth in the Leased Estate

<u>28 weeks to 1 March 2008</u>	<u>£m</u>	<u>Growth per pub</u>
Beer	257	4%
Rent	135	16%
Machine income	17	2%
Other drinks	42	12%
<b>Total revenue</b>	<b>451</b>	<b>8%</b>
<b>Gross margin</b>	<b>297</b>	<b>8%</b>
Costs	(31)	11%
<b>EBITDAR</b>	<b>266</b>	<b>11%</b>
Rent payable	(7)	(160%)
<b>EBITDA</b>	<b>259</b>	<b>10%</b>

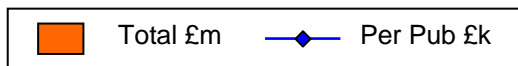
- EBITDA up 4% from 5% fewer pubs
- EBITDA per pub up 10%
- EBITDAR per pub up 11%
- Like for like pub contribution down 2.0%



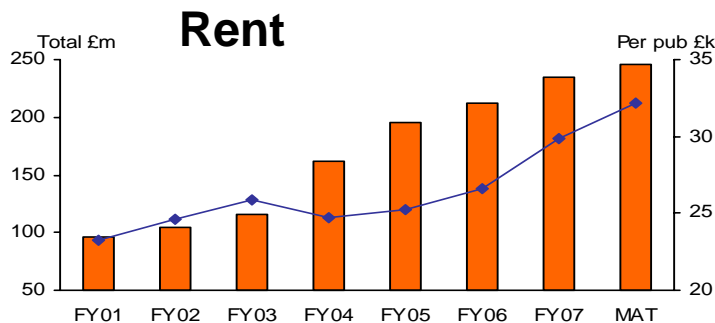
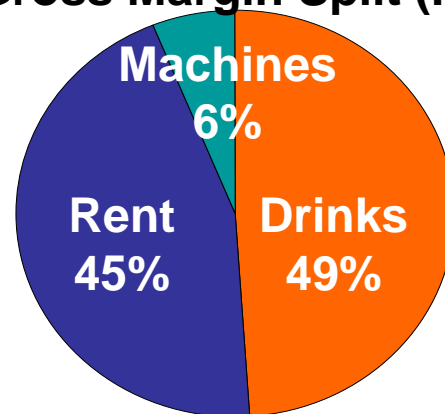
# Leased Income Streams



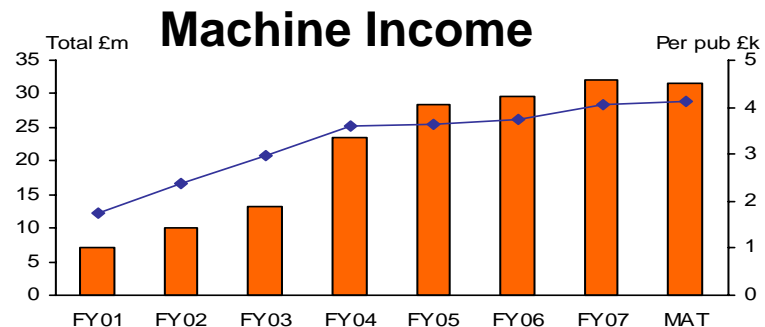
Drinks margin per pub +3% CAGR



### Gross Margin Split (H1)



Rent per pub +5% CAGR



Machine income per pub +14% CAGR

MAT represents 52 weeks to 1 March 2008



# Increased Profit per Pub in the Managed Estate

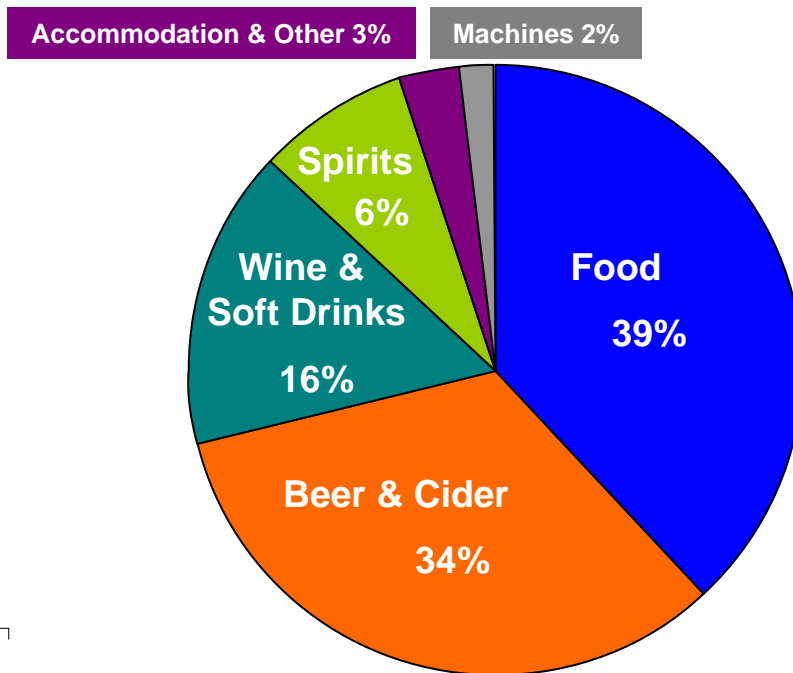
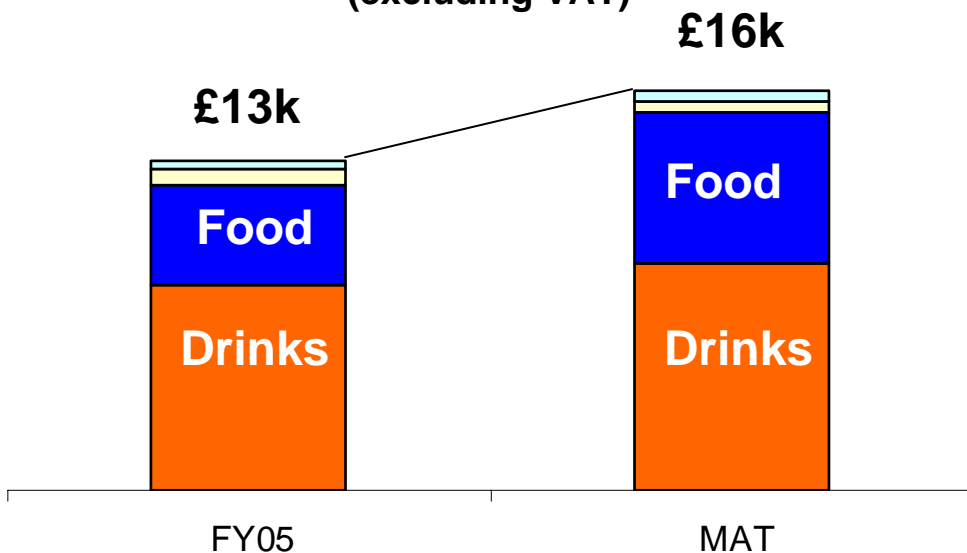
<u>28 weeks to 1 March 2008</u>	<u>£m</u>	<u>Growth per pub</u>
Drink	204	4%
Food	138	35%
Other	21	(1%)
<b>Total revenue</b>	<b>363</b>	<b>14%</b>
<b>Gross margin</b>	<b>263</b>	<b>13%</b>
Pub costs	(161)	(18%)
Support costs	(18)	(2%)
<b>EBITDAR</b>	<b>84</b>	<b>7%</b>
Rent payable	(21)	(22%)
<b>EBITDA</b>	<b>63</b>	<b>4%</b>

- EBITDA down 31% from 34% fewer pubs
- EBITDA per pub up 4%
- EBITDAR per pub up 7%
- Like for like sales down 2.8%



# Managed Income Streams

## Average Weekly Sales (excluding VAT)



**Sales Mix**  
(core managed estate)

MAT represents 52 weeks to 1 March 2008



# Cash Generation

Cash Generation (£m)	2008 H1	2007 H1	Last 12 months
EBITDA	323	340	647
Operating cash flow	264	240	571
Interest	(156)	(174)	(312)
Tax received/(paid)	21	(11)	13
	<b>129</b>	<b>55</b>	<b>272</b>
Investment - Leased	(46)	(58)	(107)
Investment - Managed	(38)	(43)	(78)
<b>Free Cash Flow</b>	<b>45</b>	<b>(46)</b>	<b>87</b>
Acquisitions	(22)	(75)	(85)
Disposals	19	60	364
Dividends	(27)	(24)	(41)
	<b>15</b>	<b>(85)</b>	<b>325</b>

- Interest cover increased to over 2.0x
- H1 cash flows impacted by usual seasonal working capital increases
- Tax repayment of overpaid taxes in previous years
- £150m investment planned for full year



# Strong Balance Sheet

£m	<u>March 2008</u>	<u>August 2007</u>
Fixed assets & investments	6,749	6,703
Goodwill	556	556
Net debt (nominal value)	(4,644)	(4,655)
Net other liabilities	(573)	(523)
Deferred tax	(331)	(344)
Net assets	1,757	1,737

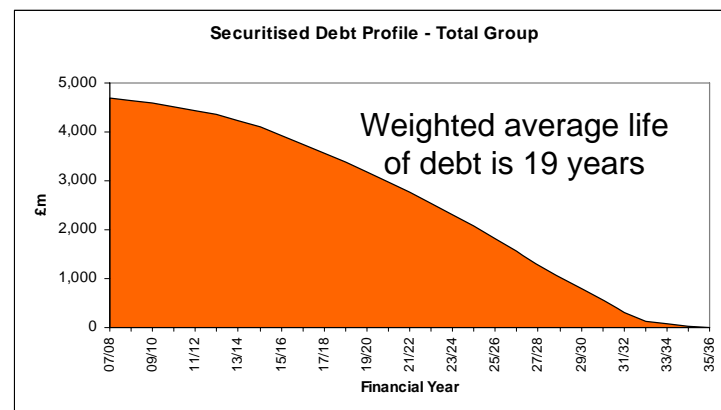
- 94% of estate freehold or long lease
- REIT options under review



# Secure Long Term Debt

## Debt Structure

Debt Structure	March 2008		August 2007	
	Nominal Value £m	Effective Interest Rate <sup>1</sup>	Nominal Value £m	Effective Interest Rate <sup>1</sup>
Securitised debt				
Punch A	2,084		2,100	
Punch B	1,249		1,249	
Spirit	1,250		1,250	
Total	<u>4,583</u>	6.6%	<u>4,599</u>	6.6%
Bank debt	0	5.6%	43	5.6%
Convertible bonds <sup>2</sup>	283	6.3%	281	6.3%
Gross Debt	<u>4,866</u>	6.6%	<u>4,923</u>	6.6%
Cash	(223)		(268)	
Net Debt (nominal value)	<u>4,644</u>		<u>4,655</u>	



- Acquisition bank debt now fully repaid
- Next significant repayment event - Convertible December 2010



<sup>1</sup>Effective interest rate calculated as interest expense over nominal value of debt

<sup>2</sup>including accretive value at balance sheet date



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# Financing Ratios

	2008 H1	2007 H1
Interest Cover	2.0x	1.9x
Net Debt to EBITDA	7.2x	7.3x
DSCR	4 Qtr (actual)	Financial Covenant
- Punch A	1.65x	1.25x
- Punch B	2.20x	1.50x
- Spirit	2.15x	1.30x

- Significant headroom exists in the financial covenants



# Tax and Exceptional Items

- Exceptional items
  - £5m on redundancy and related costs
  - £19m movement in fair value of interest rate swaps
  - £7m net tax credit
- Taxation
  - Effective tax charge 22% due to indexation of acquired asset base costs
  - Full year tax rate 20% - 23%
  - £21m repayment of overpaid tax from prior years



# Financial Review Summary

- PBT in line with last year despite smaller estate, smoking ban and weak consumer confidence
- Free cash generation of £129m before investment
- Secure long term debt with no requirement to refinance
- Significant headroom in all debt structures
- Strong balance sheet underpinned by predominantly freehold assets

