

**Punch**

T A V E R N S

# **Punch Taverns plc**

## **2005 Interim Results**

April 2005

# Highlights

- Continued strong growth
  - Profit before tax has doubled since flotation in 2002
- Steady underlying growth in sales and profit
  - Like for like turnover up 3.4%
- Full integration and consolidation of Pubmaster
  - £9m invested in period with increasing development pipeline
  - 219 Pubmaster pubs now converted to long term Retailer Agreement
- Acquisition and reconstruction of InnSpired estate
  - Integration of 471 selected pubs
- Well placed for further acquisition opportunities

# Results Highlights

## 28 weeks to 5th March 2005

Turnover	£404m	up	33%
EBITDA	£213m	up	33%
PBTA	£103m	up	39%
Profit Before Tax	£99m	up	37%
EPS	29.6p	up	29%
Interim dividend	3.7p	up	28%

Note: Figures shown exclude exceptional items

Punch

TAVERNS

# FINANCIAL REVIEW

Robert McDonald

# Financial Review

- Results cover 28 weeks to 5th March 2005
  - Full contribution from Pubmaster – acquired December 2003
  - 25 week contribution from InnSpired – acquired September 2004
- Acquisitions adding scale to steady organic growth
- Cash generation and strong balance sheet funding expansion

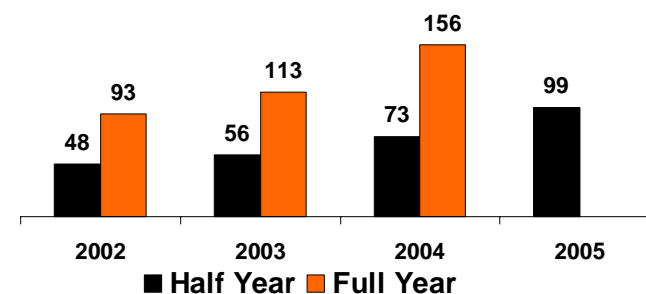
# Strong Earnings Growth

28 weeks to 5th March

	<u>£m</u>	<u>growth</u>
	pre exceptionals	
<b>Turnover</b>	<b>403.6</b>	<b>33%</b>
<b>EBITDA</b>	<b>213.1</b>	<b>33%</b>
Depreciation	(7.0)	
Interest	(103.5)	
<b>PBTA</b>	<b>102.6</b>	<b>39%</b>
Property Profit	0.2	
Amortisation	(3.5)	
<b>PBT</b>	<b>99.3</b>	<b>37%</b>
Tax	(25.1)	
<b>Profit</b>	<b>74.2</b>	<b>30%</b>

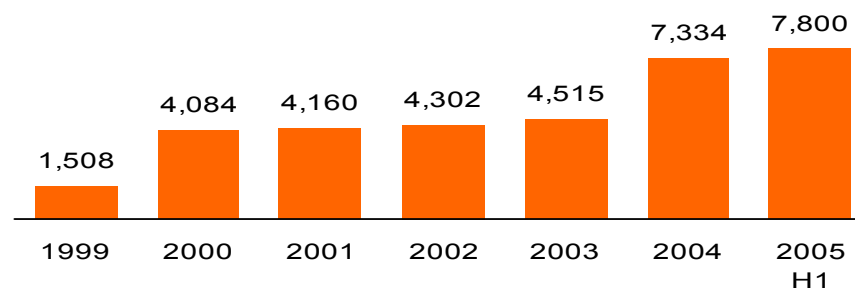
- Operating margin 53%
- Interest cover up to 2.1x
- Rising tax charge now 25%
- Adjusted EPS up 29%

**PBT Progression**



# Pub Numbers by Estate

	Punch estate	Pubmaster estate	InnSpired estate	Total
August 2004	4,407	2,927		7,334
InnSpired Acquisition			1,064	1,064
Other Acquisitions	63	6	3	72
Disposals	-54	-20	-596	-670
March 2005	4,416	2,913	471	7,800
<i>average</i>	<i>4,406</i>	<i>2,917</i>	<i>421</i>	<i>7,744</i>
<i>movement on H1 last year</i>	<i>-2%</i>			



## Contribution by Estate

£m (pre exceptionals)	<u>Punch</u> (28 wks)	<u>growth</u>	<u>Pubmaster</u> (28 wks)	<u>InnSpired</u> (25 wks)	<u>Total</u>
Turnover	241.4	4%	141.4	20.8	403.6
Gross profit	156.3	4%	81.9	12.3	250.5
Costs	(21.4)	-2%	(14.5)	(1.5)	(37.4)
EBITDA	134.9	5%	67.4	10.8	213.1
<i>Margin</i>	<i>56%</i>		<i>48%</i>	<i>52%</i>	
<i>EBITDA per pub (annualised)</i>	<i>£57k</i>		<i>£43k</i>	<i>£48k</i>	

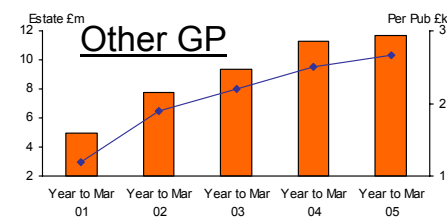
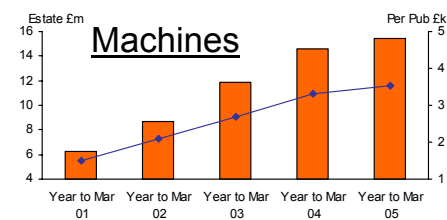
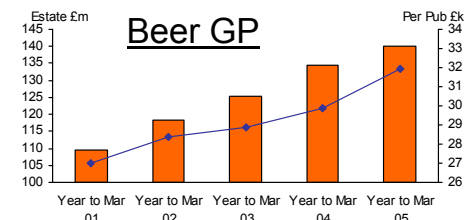
- Punch growing turnover and profit despite 2% fewer pubs
- Pubmaster margin improved to 48% from 45% last year (H1)
- InnSpired estate generating immediate accretion on investment from 471 retained pubs

## Income Stream Progression

	Punch (28 w ks)	<i>growth</i>	Pubmaster (28 w ks)	InnSpired (25 w ks)	<b>Total</b>
<b>Turnover £m</b>					
Beer	144.4	4%	84.4	13.3	<b>242.1</b>
Rent	68.6	5%	29.9	5.2	<b>103.6</b>
Machines	8.7	3%	6.2	0.5	<b>15.4</b>
Other	19.7	7%	20.9	1.9	<b>42.5</b>
<b>Total</b>	<b>241.4</b>	<b>4%</b>	<b>141.4</b>	<b>20.8</b>	<b>403.6</b>
<b>Gross Profit £m</b>					
Beer	73.4	3%	41.2	5.9	<b>120.4</b>
Rent	68.4	5%	29.7	5.2	<b>103.3</b>
Machines	8.7	6%	6.3	0.5	<b>15.4</b>
Other	5.8	3%	4.7	0.7	<b>11.3</b>
<b>Total</b>	<b>156.3</b>	<b>4%</b>	<b>81.9</b>	<b>12.3</b>	<b>250.5</b>

Note: Pubmaster Other includes GRS Inns (net turnover £8.6m, gross profit £1.5m)

### PUNCH ESTATE ONLY



 Total Punch Estate  
 Average per pub

# Growing Turnover and Margin

## Average per pub

	Turnover	EBITDA
Punch	+5.8%	+6.7%
Pubmaster	+3.1%	+4.1%
InnSpired	+2.1%	+6.0%

## Like for Like

	Turnover	Pub Contribution
Punch	+3.4%	+2.4%

- All estates benefit from shared support cost synergies
- Punch estate benefits most from acquisition and disposal
- Pubmaster most impacted by transition
- Like for like growth impacted by increased cost of new distribution arrangements

Notes:

1. Pubmaster and InnSpired averages are compared to pre-acquisition management accounts.
2. Like for like estate includes all pubs except acquisitions made since Aug 2003 (97% of current Punch estate)

# Cash Generation and Uses

£m	<u>2005</u> 28 weeks
EBITDA	213
Working capital, provisions, etc	(13)
Infrastructure investment	(1)
Tax paid	(8)
<b>Cash generation</b>	<b>191</b>
Enhancement investment	(29)
InnSpired acquisition	(212)
Other acquisitions	(40)
Disposal proceeds	22
Interest	(99)
Dividends	(15)
<b>Additional net debt</b>	<b>(182)</b>

- Cash generation is 47% of turnover, despite increasing tax
- InnSpired funded by generated cash and debt
- Key uses of cash are:
  - Investment in the business
  - Acquisitions
  - Servicing debt
  - Dividends

# Asset Rich Balance Sheet

	21st August 2004	5th March 2005
£m		
Fixed assets	3,569	3,811
Goodwill	105	113
Working capital	(135)	(128)
Provisions	(103)	(115)
Cash	165	143
Securitized debt	(2,787)	(2,770)
Other debt	(14)	(190)
Net Assets	800	864
<i>Net debt</i>	<i>2,635</i>	<i>2,817</i>

- Asset base increased by InnSpired acquisition
- Average pub book value £489k
- Securitized debt covers most of Punch and Pubmaster estates
- Considering options to refinance other debt, covering InnSpired and recent acquisitions, onto long term basis

Note: Cash and debts are shown net of £32m cash collateralised loan notes

# Accounting Points

- **Exceptional non-recurring costs** of £10.8m (pre-tax):
  - £7.9m on finance charges associated with the InnSpired debt structure
  - £2.9m on reorganisation costs, primarily InnSpired and Pubmaster integration
- **InnSpired acquisition**
  - Only the retained estate of 471 pubs are included in profits – all others accounted for in the fair value calculation
  - Goodwill arising of £12m to be amortised over 20 years – charge in period £0.3m
- **Taxation**
  - Effective tax charge of 25.3% of PBT before exceptional items, 23.4% post exceptional items
  - Is expected to be similar for full year then rise towards 30% in next 2 years

# IFRS

## Timetable:

- Applies from next financial year, commencing 21<sup>st</sup> August 2005
- Accounts to 20<sup>th</sup> August 2005 to be restated to new basis – expected early 2006
- First reporting to cover interim results in April 2006

## Key Points:

- Anticipate relatively minor impact on reported earnings:
  - Amortisation of goodwill will cease
  - Minor impact from share-based transactions for employees
  - Possible impact from depreciation or asset impairment – policy being assessed
  - Minor impact from movements in derivatives or pension schemes
- Some impact on balance sheet:
  - Deferred tax provision will increase due to theoretical potential gain on assets
  - Financial instruments and DB pensions fair value taken on balance sheet
  - Possible impact of future asset revaluation – policy being assessed
- No impact on cash flows in the business
- No impact on debt covenants

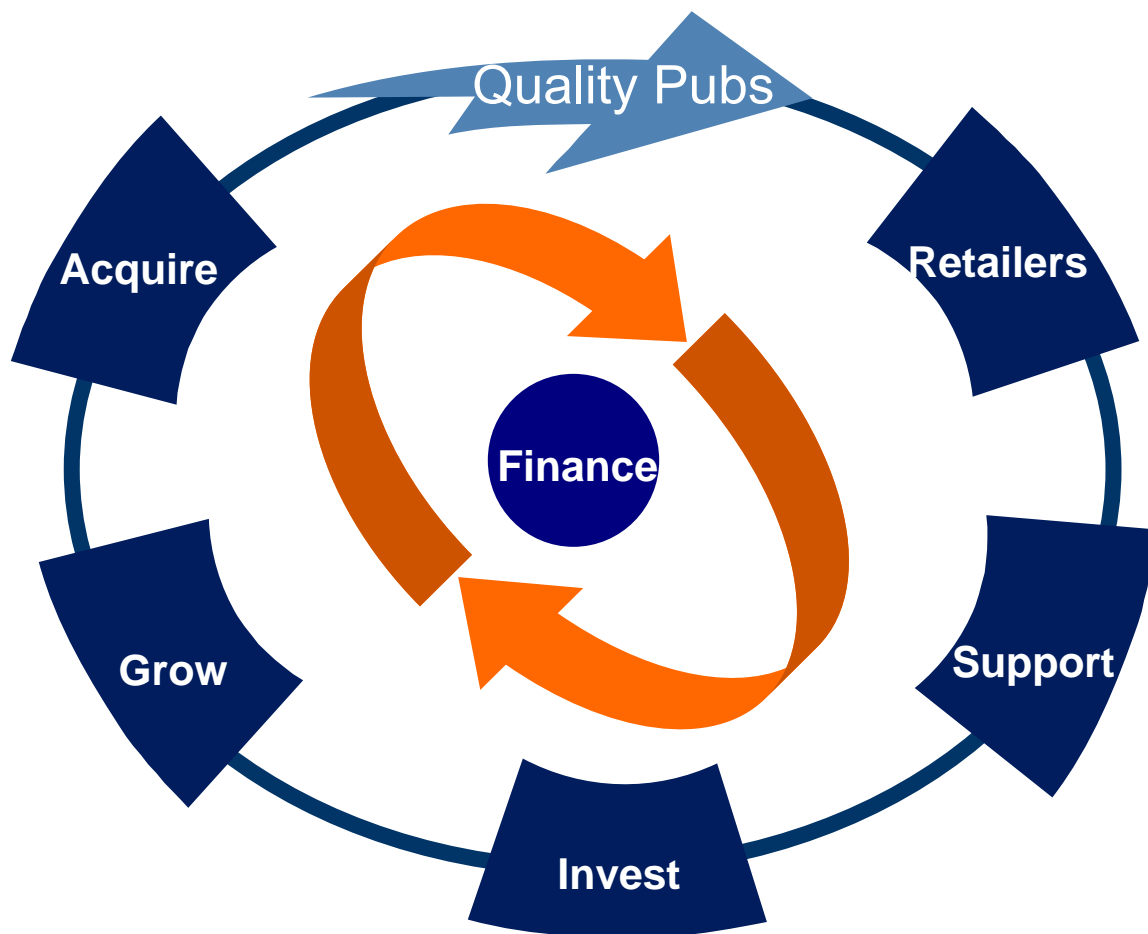
**Punch**

T A V E R N S

# Business Review

Giles Thorley

# Business Review



- Consistent and proven strategy:
  - To add value through the business model
  - To acquire more pubs

# Business Model in Action

## Retailers:

- Applicant numbers for our pubs currently exceed 180 per week
- 620 pubs now signed onto new long term Retailer Agreement since launch last summer

## Support:

- 7,146 retailer training days in first half year
- Licensing support package assisting move to more flexible hours

## Investment:

- 397 pub developments for £26m at 25% ROI.
- Includes £9m spend on Pubmaster estate – pipeline now building

## Growth:

- Retail Experience programme
- Over 2,000 new lager fonts installed since last August

## Acquisitions:

- 72 individual pub acquisitions for £40m at 12% ROI
- InnSpired acquisition and retention of core estate

# Extracting Value from InnSpired

10 <sup>th</sup> September	InnSpired acquisition completed, 1,064 pubs for £335m
24 <sup>th</sup> September	Sale completed of 51 InnSpired pubs for £12m in a package of 88 to Admiral Taverns
22 <sup>nd</sup> November	InnSpired securitised debt structure refinanced
17 <sup>th</sup> January	Retained 471 pubs (including 3 acquisitions) integrated into Punch
28 <sup>th</sup> January	Sale completed of 545 lower quality InnSpired pubs to Pubfolio Ltd for £162m

- Best InnSpired pubs extracted for 9.6x historic EBITDA, after all costs
- Very smooth integration process – infrastructure sold to Pubfolio
- Pubs trading well
- Potential synergy benefit of around £2m pa to be realised

# Industry Watch

- Licensing
  - Commenced February, applications due in by August
  - Punch selling in Licensing Support Package and retaining the premises licence
    - 93% uptake of package with excellent feedback from retailers
- Smoking
  - White Paper proposes ban in food premises by 2008
  - Industry commitment to move to:
    - No smoking at the bar and back of house by end 2005
    - 35% of trading area in all pubs smoke free by end 2005
    - 80% of trading area in all pubs smoke free by 2009
  - Punch selling in smoke reduction strategy:
    - 70% take up by retailers to date
    - Clear understanding of changing consumer preferences

# Summary and Current Trading

- An excellent first half, continuing the growth story
- Trading continues to be robust
- Pubmaster and InnSpired present new growth opportunities
  - Development investment
  - Modern lease agreements
  - Purchasing synergies
- We remain well placed to take advantage of further acquisition opportunities
- Confident of satisfactory outcome for the year



# Appendices

# Adding Value Through Retailer Experience

- First three events run in Scotland during April with 130 delegates
- 55 events planned by Christmas 2005
  - Impact on over 1,500 pubs and over 2,000 delegates
  - Full follow-up activity
- Key aims:
  - Increase footfall into outlet
  - Increase visit frequency
  - Increase transaction values
  - Create a better broader consumer experience
  - More profitable retailers



## Profit Through Quality:

- Value of quality
- Perfect draught dispense
- The wine opportunity
- Perfect spirit and mixer
- Profitable merchandising
- Responsible drinking and legislation

# Adding Value Through Training

## Training Undertaken (August – March)

Programme	Retailers Trained	Number of Days
Induction (MLR)	666	6,660
eX!Factor	92	184
Investment (ISP)	182	302
<b>Total</b>	<b>940</b>	<b>7,146</b>

## National Innkeeping Training Awards

### Winner for:

- Best Development Programme
- BDM Development Award

### Judges' Comments:

*"We were impressed by the passion and commitment of the team. The development programme itself was clearly appropriate and focused on the needs of its market."*



## Celebrating Success

### Publican Awards

'Peach Pub Company' WINNER  
 Entrepreneurial Business of the Year  
 'Y Coed Duon, Blackwood' FINALIST  
 Newcomer of the Year

### Publican Pub Food Awards

'Helyar Arms, East Coker' WINNER  
 Newcomer of the Year  
 'Square & Compass, Rigton' WINNER  
 Sunday Pub Lunch of the Year

### NITAs – Our Retailers

'Graham Rowson' WINNER  
 Licensee Training of the Year

### NITAs – Our Partners

'Sharon Rutledge' FINALIST  
 Professional Trainer of the Year  
  
 'Daniel Pettigrew' FINALIST  
 Professional Trainer of the Year

### MA Best Pub Awards

'Helyar Arms, East Coker' WINNER  
 Newcomer of the Year  
 'Punch Tavern' 'Black Bull' FINALISTS  
 'Red Lion' 'Plungington Tavern'



## Acquisition Examples



**Romany Inn (Bampton) Spend £650k**

- Mid market local
- 10 letting bedrooms
- Good food potential
- 13.5% ROI after minor investment



**Huntingtower Arms (Grantham) Spend £350k**

- Basic local on main road site
- Wet led with opportunity for food
- 13.3% ROI

# Investment Example Rose & Crown, Harpenden

BEFORE



AFTER



- Shared investment between Punch (£80k) and retailer (£20k)
- Internal and external refurbishment to upgrade from basic to mid market local
- New contemporary food offer filling a gap in the market and attracting new clientele

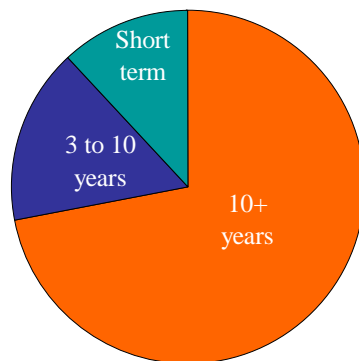
# Lease and Tenancy Agreements

Lease type in March 05:

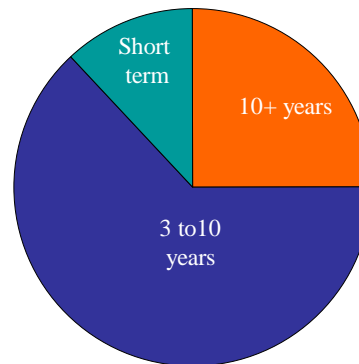
Retailer Agreement/PGL	25%
Standard lease	30%
Tenancy	33%
TAW	10%
Not trading	2%

- 55% of pubs now on long term leases :
  - Punch 72% (69% March 04)
  - Pubmaster 25% (22% Mar 04)
  - InnSpired 84%
  
- 620 pubs now signed on new long term Retailer Agreement since launch last summer
  - Includes 219 Pubmaster pubs

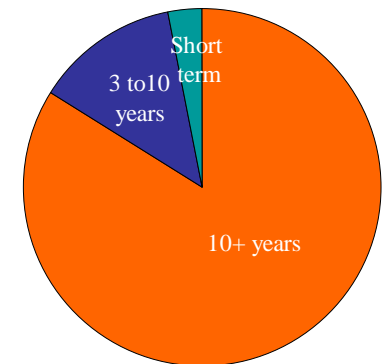
**Punch**



**Pubmaster**

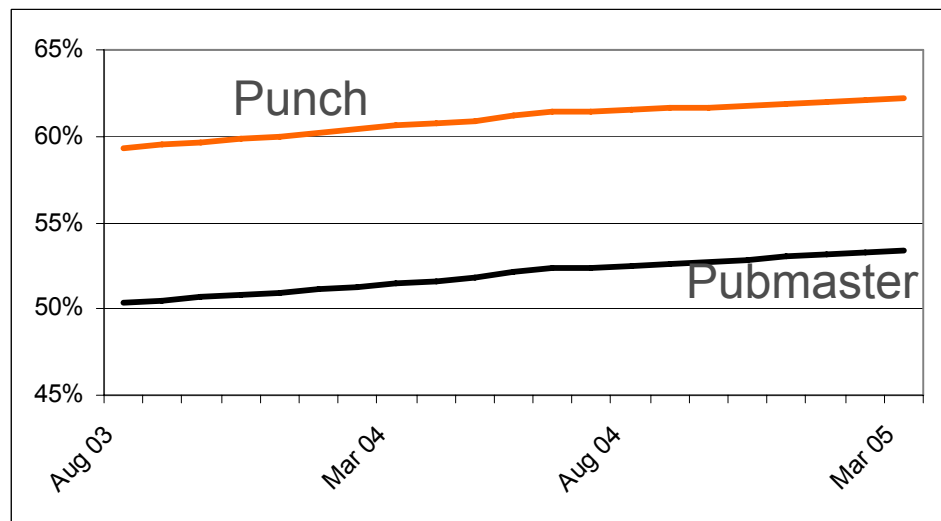


**InnSpired**



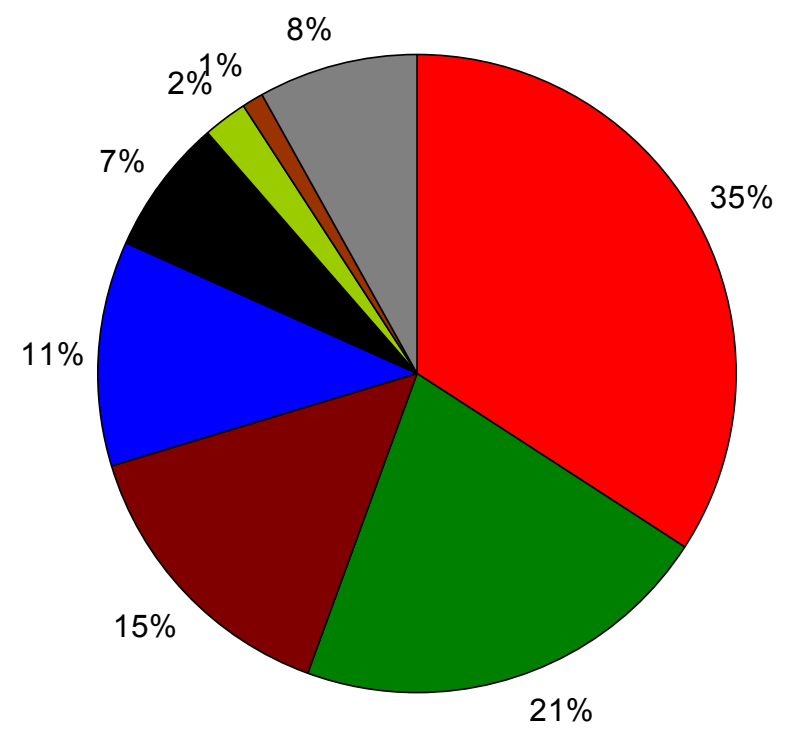
# Beer Mix

## Lager Mix Continues to Rise



- Margin on standard draft lager is 36% higher than standard draft ale

## Suppliers

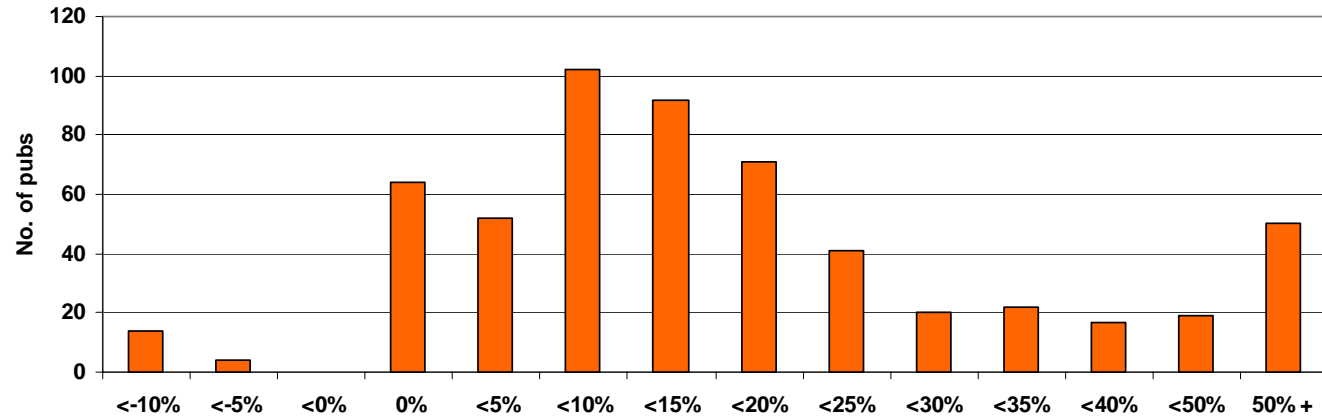


- COORS
- CARLSBERG UK
- INTERBREW
- SCOTTISH COURAGE
- DIAGEO
- GREENE KING
- W'HAMPTON & DUDLEY
- 67 OTHERS

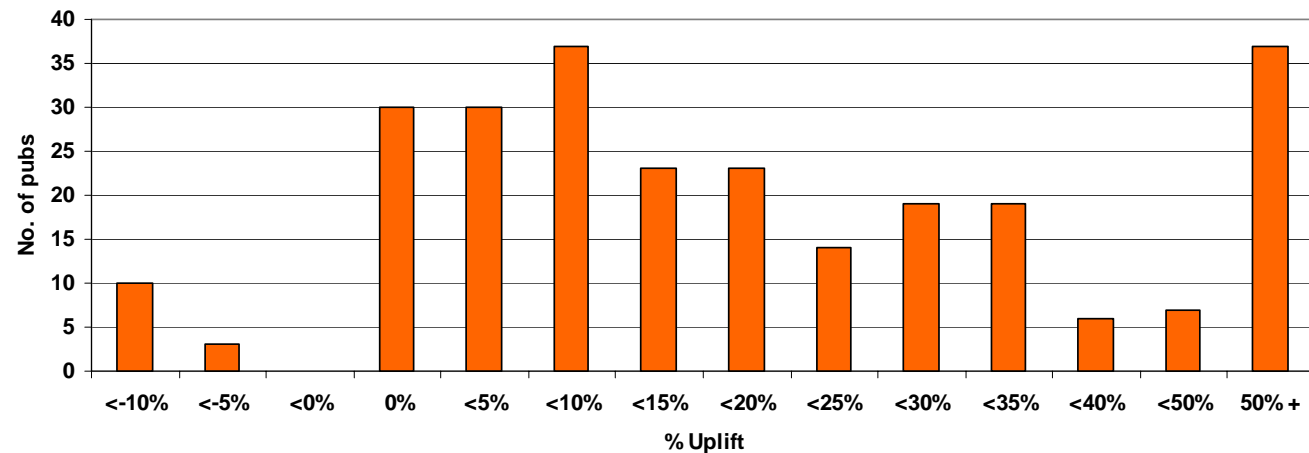
## Agreeing Fair Maintainable Rents

- Rent is assessed on the estimated fair maintainable retail profit of the individual pub
- Rent is negotiated and agreed with the retailer
- There are a wide spread of uplifts achieved demonstrating this 'individual' pub approach
- In the first half 140 new rents have been agreed on lease renewals at an average uplift of 25%. 288 rent reviews have been agreed at an average uplift of 15%
- In exceptional difficulties, rent concessions are granted. There are currently 226 such concessions with annualised rental value of £3m.

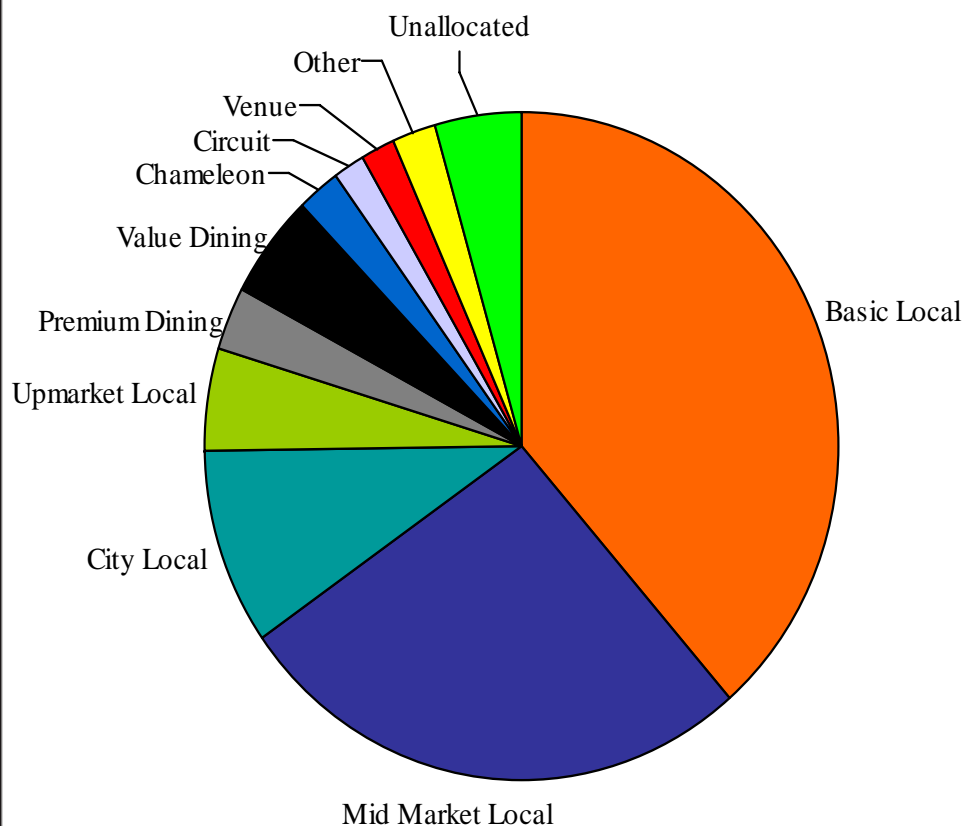
**Completed Rent Reviews**  
2003/04 & 2004/05  
- Rental uplift achieved



**Completed Lease Renewals**  
2003/04 & 2004/05  
- Rental uplift achieved



# Most Pubs are Community Locals



	Punch	Pubmaster	InnSpired	Total
Basic Local	1,412	1,397	155	2,964
Mid Market Local	1,248	785	128	2,161
City Local	503	195	106	804
Upmarket Local	267	112	11	390
Premium Dining	155	81	6	242
Value Dining	205	190	48	443
Chameleon	124	29	2	155
Circuit	83	23	5	111
Venue	82	45	2	129
Others	337	56	8	401
<b>Total Pubs March 2005</b>	<b>4,416</b>	<b>2,913</b>	<b>471</b>	<b>7,800</b>

# Geographical Mix of Estate

DTI REGION	Punch	Pubmaster	InnSpired	Total
Scotland	360	102	0	<b>462</b>
North	94	344	35	<b>473</b>
North West	428	671	17	<b>1,116</b>
Yorkshire & Humberside	620	368	30	<b>1,018</b>
Wales	298	129	19	<b>446</b>
West Midlands	722	218	21	<b>961</b>
East Midlands	286	230	19	<b>535</b>
East Anglia	77	269	5	<b>351</b>
South West	186	247	177	<b>610</b>
London	365	23	9	<b>397</b>
South East	980	312	139	<b>1,431</b>
<b>Total (March 2005)</b>	<b>4,416</b>	<b>2,913</b>	<b>471</b>	<b>7,800</b>

# Illustrative Investment Considerations

## HOW TO SPEND £100m FREE CASH

	incremental EBITDA	incremental PBT	EPS accretion (p)
Investment (25% return)	25	25	7.0
Acquisition - (£400m at 12% return)	48	27	7.6
Share buy back @ £6.50 per share			3.4
Repay debt at 7%		7	2.0

## ACCELERATING “INFLATION +” GROWTH

	Year 1	Year 2	Growth
EBITDA	100	105	5%
Interest	(50)	(50)	
PBT	50	55	10%
EPS			10%

Example: Assumes interest cover of 2x

Interim Results 2005

## GROWING SHAREHOLDER FUNDS

