

# PUNCH TAVERNS PLC

(“Punch” or “the Group”)

## Acquisition of Mill House Inns (“Mill House”)

Punch Taverns plc today announces the acquisition of the entire issued share capital of Mill House Inns from the Bank of Scotland and the management team of Mill House.

### Highlights

- Mill House comprises a managed estate of 82 high quality, principally freehold or long leasehold, food-led neighbourhood pubs
- This bolt-on portfolio enhances the Spirit acquisition, completed earlier this year, and further increases the overall quality of Punch's estate. The acquired pubs will be integrated into one of the three go-forward Spirit segments: Value Food, Premium Food and Quality Local
- The acquisition values Mill House at £164 million and will be funded from new short term bank borrowings
- In the first full year of operation, this acquisition is expected to be both earnings enhancing and to deliver a return in excess of Punch's weighted average cost of capital

### Information on Mill House

Mill House Inns, a private company, operates a high quality neighbourhood pub estate of 82 pubs located throughout South England and the Midlands. The pubs are generally situated off the high street in edge-of-town or semi rural locations and have a strong 41% / 59% food / drink mix. 90% of the estate is freehold or long leasehold.

In 2005 Mill House underwent a management buyout which prompted a strategic review of the business that resulted in a significant development of the estate. This involved the introduction of three new trading styles (Mill House Inns, Top Dog and food destination pubs) and, in line with its strategy of rationalising the portfolio, high quality pubs were added to the portfolio through the acquisition of the Pioneer Pub Group whilst their gastro pubs, and tail end pubs were divested.

Mill House has experienced continuous growth over the last five years. As at July 2006, Mill House's unaudited balance sheet had gross operating assets of £147 million. As at July 2006, Mill House generated an unaudited run rate outlet EBITDA of £16.2 million (before central costs and overheads).

## **Consideration and financial effects**

A wholly owned subsidiary of Punch is acquiring Broomco (3708) Limited, the holding company of the Mill House Group. The consideration for the acquisition is the payment of £169 million in cash at completion (including the assumption of £5m in cash). The cash consideration is to be funded from new short term bank borrowings.

## **Effect and benefits of the acquisition**

Following the Spirit acquisition in January, Punch consolidated around 680 of Spirit's very high quality managed pubs into a separate division. This established the necessary infrastructure to allow for the conversion of Spirit's other 740 managed pubs into the leasing format, a process that is on track to be complete by August 2007.

Punch has consistently demonstrated its ability to extract value from acquisitions. In line with its stated strategy to maximise the business portfolio and thereby create value for shareholders, Punch management has continued to seek opportunities to further increase the quality of its pub estate.

The acquisition of Mill House was an opportunity that fits precisely this scenario. With this transaction, Punch is securing 82 of the highest quality neighbourhood pub assets in the UK which will complement Punch's existing estate. The Mill House portfolio shares a similar customer profile to that of Spirit and will integrate well into the three existing Spirit divisions of Value Food, Premium Food, and Quality Locals. The estate's strong food mix will further increase Punch's exposure to high growth food markets ahead of the forthcoming smoking ban in England and Wales next year.

Mill House is an excellent fit with Punch. Following integration, synergies are expected to be generated from purchasing benefits and other cost savings. The acquisition is expected to be both earnings enhancing and to deliver a return in excess of Punch's weighted average cost of capital in the first full year of operation.

## **Current trading**

As announced at the time of Punch's pre-close trading statement on 6 September 2006, trading across the Group has continued in line with Board expectations.

Punch expects to announce full year results on Thursday, 9 November.

**Giles Thorley**, Chief Executive of Punch Taverns plc, commented:

***"We are delighted with the acquisition of Mill House which fits neatly into our stated strategy of securing opportunities to further increase the quality of our estate as we continue to build the highest quality pub portfolio in the UK."***

***"Mill House is one of the best food-led pub businesses in the market and complements our existing estate, providing scope for synergy benefits and good returns from the outset. Our structure gives us the flexibility to own and operate the best pubs in the most appropriate trading format which enables us to maximise shareholder value."***

**14 September 2006**

Punch will be hosting a conference call for analysts at 8.30am today. Please call Jamie Ramsay at College Hill on 020 7457 2048 for dial-in details. The presentation will be available for download on the Punch website ([www.punchtaverns.com](http://www.punchtaverns.com)) from 7.30am today.

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