

Punch

TAVERNS

# Punch Taverns plc

## 2006 Preliminary Results



Preliminary Results 2006

[www.punchtaverns.com](http://www.punchtaverns.com)

HELPING RETAILERS BUILD BETTER BUSINESSES

# Highlights

- 5<sup>th</sup> successive year of strong performance driven by acquisitions and organic growth
  - Profit before tax up 21%
- Significant further enhancement in quality of pub estate
  - Pubs continue to trade well
  - Greater capability for further value growth
- Spirit Group restructuring plan on track
  - Pubs performing strongly
  - Disposal plan largely complete
  - Lease conversion programme on track
  - Infrastructure simplified and refocused

# Results Highlights

Revenue	£1,546m	up	101%
EBITDA	£606m	up	47%
Profit Before Tax	£250m	up	21%
EPS	74.9p	up	13%
Dividend	13.4p	up	19%

Figures exclude non-recurring and exceptional items

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# FINANCIAL REVIEW

Preliminary Results 2006

[www.punchtaverns.com](http://www.punchtaverns.com)

HELPING RETAILERS BUILD BETTER BUSINESSES

# Financial Review

- Results cover 52 weeks to 19 August 2006
- Results significantly enhanced by recent major acquisitions and disposals
  - 32 week contribution from Spirit Group, acquired 5 January 2006
- Reported on an IFRS basis
  - 2005 presented as announced on 27 April 2006

# Strong Earnings Growth

£m	<u>Existing Operations</u>	<u>Acquired</u> (32 weeks)	<u>Group</u>	<u>growth</u>
<b>Revenue</b>	<b>802</b>	<b>745</b>	<b>1,546</b>	<b>101%</b>
<b>EBITDA</b>	<b>435</b>	<b>172</b>	<b>606</b>	<b>47%</b>
Depn, Amort	(15)	(31)	(46)	
Interest			(312)	
Property Profit			1	
<b>PBT</b>			<b>250</b>	<b>21%</b>
Tax			(55)	
<b>Net Profit</b>			<b>195</b>	<b>17%</b>
<b>EPS</b>			<b>74.9p</b>	<b>13%</b>

Excluding non-recurring and exceptional items

# Improving Pub Estate

	<u>Leased</u>	<u>Managed</u>	<u>Total</u>
August 2005	8,227		8,227
Acquisitions	96	1,835*	1,931
Lease conversions	74	(74)	
Disposals	(551)	(351)	(902)
August 2006	7,846	1,410	9,256
<i>net change</i>	-5%		13%
Average estate size	7,945		
<i>increase on last year</i>	2%		

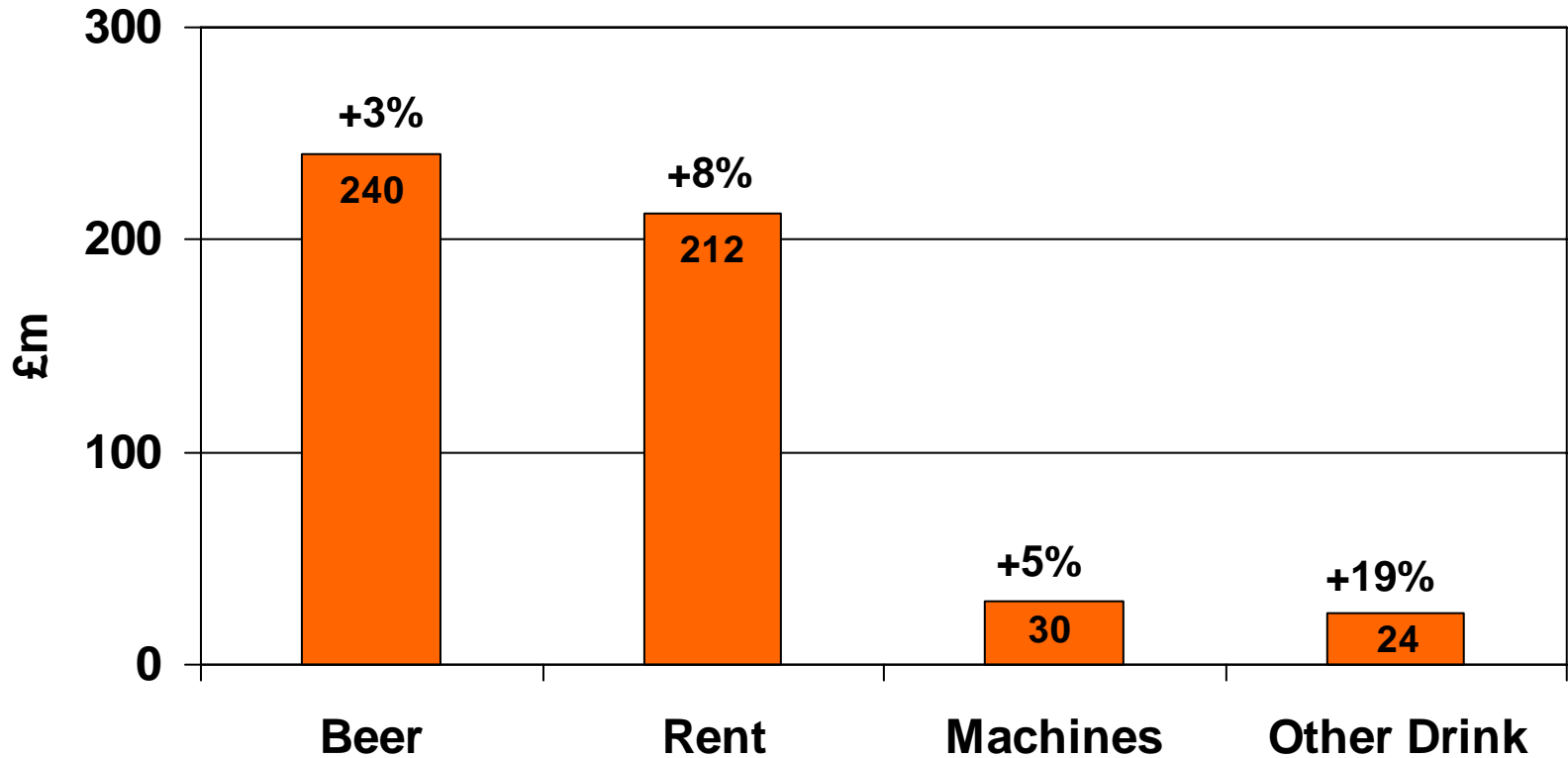
\*Includes 5 pubs transferred from GRS Inns

# Profit Growth in the Leased Estate

52 weeks to 19th August	<u>Total</u>	<u>growth</u>	
Average number of pubs	7,945	2%	● Like for like revenue growth +1.0%
£m			
Revenue:			
Beer	479	3%	● Like for like pub profit growth +1.9%
Rent	212	8%	
Machine income	30	5%	
Other drinks	70	8%	
GRS Inns *	12		
Total revenue	803	4%	
Gross margin	507	5%	
Costs	(71)	-6%	
EBITDA	436	5%	
<i>Margin</i>	<i>54%</i>		
<i>EBITDA per pub</i>	<i>£55k</i>	<i>4%</i>	

\* GRS Inns was sold in June 2006

# Leased Gross Margin



Excludes GRS Inns gross margin £1m

# Profit Growth in the Managed Estate

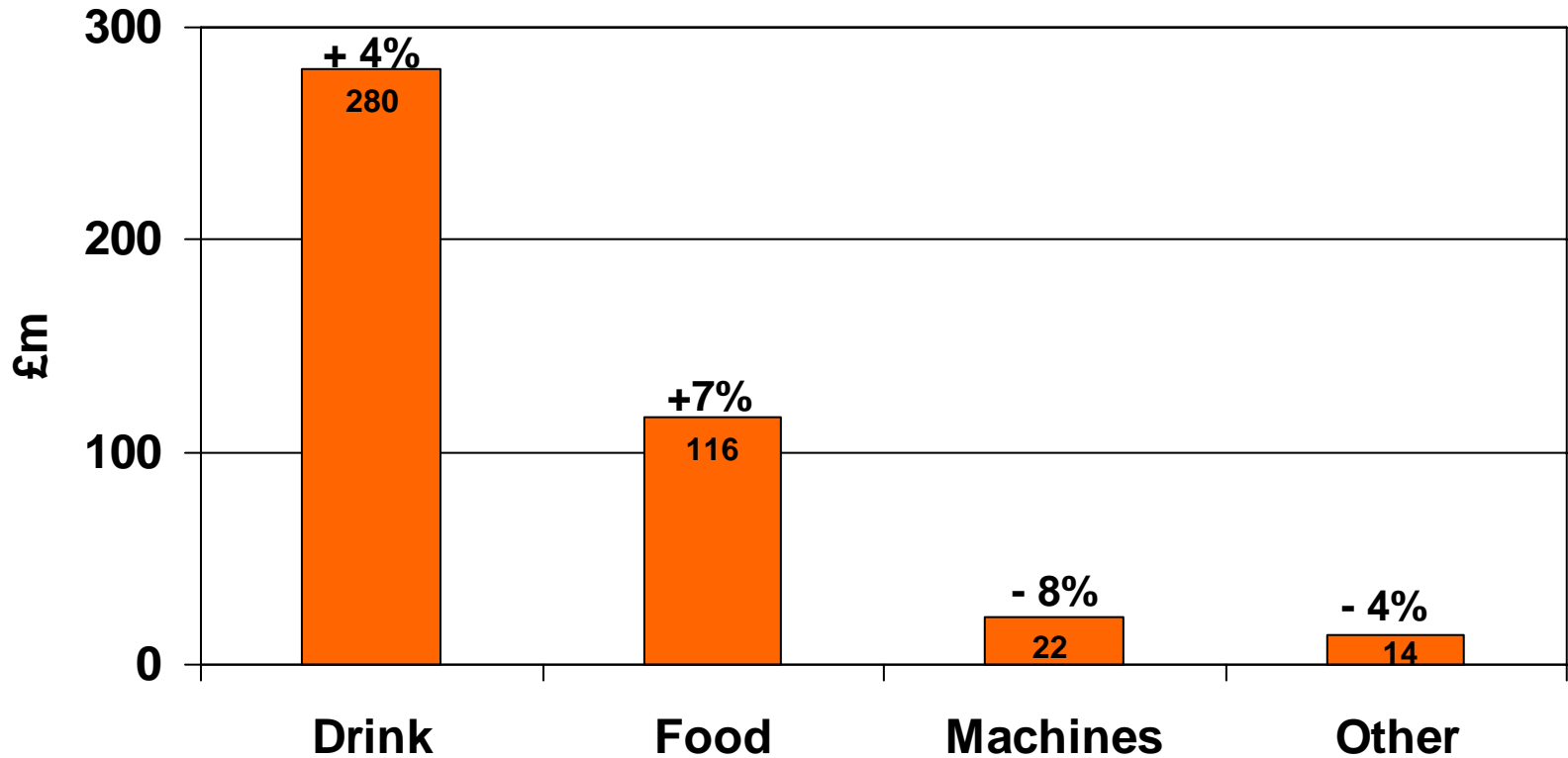
(32 weeks post acquisition)

£m	Closing estate	<i>growth</i>	Sold / Converted	Total
No. of Pubs	1,379		456	1,835
Drink	373	4%	90	463
Food	179	5%	55	234
Machines income	22	-8%	7	29
Other	14	-4%	3	17
<b>Total revenue</b>	<b>588</b>	<b>4%</b>	<b>155</b>	<b>743</b>
<b>Gross margin</b>	<b>432</b>	<b>4%</b>	<b>112</b>	<b>544</b>
Pub costs	(232)	-6%	(65)	(297)
Rent payable	(29)	-2%	(10)	(39)
<b>Outlet EBITDA</b>	<b>171</b>	<b>2%</b>	<b>37</b>	<b>208</b>
Overheads				(37)
<b>EBITDA</b>				<b>171</b>

- Like for like revenue growth +3.6%
- Like for like pub profit growth +2.4%

Closing estate refers to year end estate of 1,410 less 31 pubs sold pending completion at the year end

# Managed Gross Margin



Numbers above refer to the closing estate

# Group Cash Generation and Uses

£m	<u>2006</u>	<u>2005*</u>
EBITDA	606	414
Working capital, provisions, etc	(5)	(10)
Pension top up contributions	(34)	(1)
Tax paid	(32)	(14)
<b>Cash generation</b>	<b>535</b>	<b>389</b>
Infrastructure investment	(7)	(3)
Investment in leased pubs	(97)	(72)
Investment in managed pubs	(37)	0
Interest	(301)	(203)
Dividends	(32)	(25)
<b>Cash generated pre funding, acquisitions and disposals</b>	<b>61</b>	<b>86</b>
Acquisitions	(271)	(135)
Disposals	836	200
Financing	(309)	(71)
<b>Net Increase in Cash</b>	<b>317</b>	<b>80</b>

- Significant cash generation
- Increasing investment
- Acquisition of Spirit only  
£206m net of cash acquired

\* Restated under IFRS  
Preliminary Results 2006

# Strong Balance Sheet

£m	<u>2006</u>	<u>2005*</u>
Fixed assets	6,698	4,328
Goodwill	503	269
Working capital	(341)	(166)
Non current liabilities, provisions	(371)	(295)
Cash	562	246
Debt	(5,440)	(3,259)
Derivative financial instruments	(184)	0
Net assets	1,427	1,123
<i>Net debt</i>	<i>4,878</i>	<i>3,013</i>

- Estimated market value of pub estate £7bn
- 94% of estate is freehold or long leasehold
- Sophisticated debt structure
- 27% growth in net assets

\* Restated under IFRS

# Efficient Debt Structure

	Nominal Value £m	Effective Interest Rate
Securitised debt		
Punch A	1,760	7.2%
Punch B	1,249	6.2%
Avebury	106	7.8%
Spirit	1,250	6.6%
Total	<u>4,365</u>	6.8%
Bank debt	622	6.6%
Convertible bonds	275	6.3%
Nominal Value	<u>5,262</u>	6.7%
Finance lease obligations	27	
Fair value adjustment	151	
Gross Debt	<u>5,440</u>	

- All debt is at fixed rates
- Securitised debt is investment grade and fully repaid over terms to 2035
- Spirit debt facility of £1,250m reduced to £621m at year end, now £502m
- Convertible bonds are repayable in 2010 but may be converted to equity

# Accounting Points

- Non-recurring and exceptional items
  - £8m licensing and reorganisation of Spirit Group
  - £40m credit on interest rate swaps
  - £21m tax credit
- Taxation
  - Effective tax charge of 22%. Likely to remain below 30% standard rate due to indexation of acquired asset base costs
  - Cash tax at 13% of PBT, due to capital allowances and utilisation of losses. Likely to remain below 30% standard rate.
- Spirit acquisition accounting
  - Transactions connected with the acquisition (including planned disposals) accounted for through fair values
  - Goodwill on Spirit acquisition revised to £235m, primarily relates to debt and financial instrument valuations

# Financial Review Summary

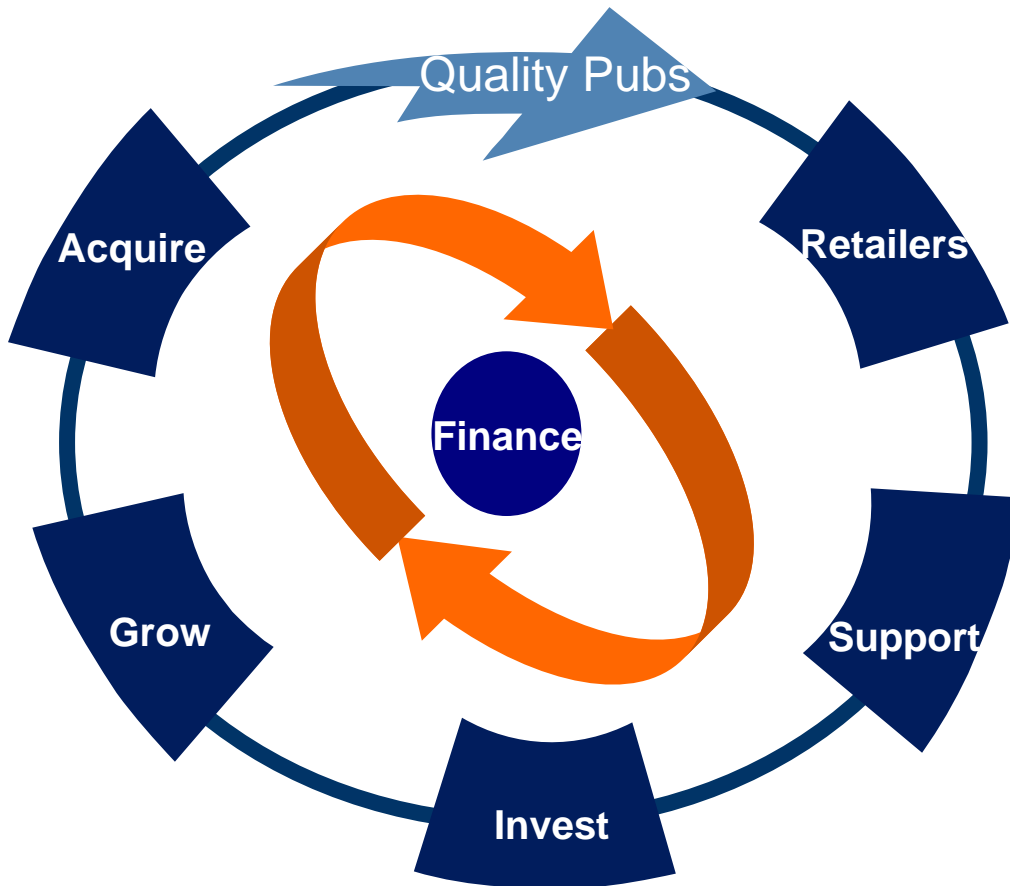
- Strong financial performance continues:
  - 28% pa compound growth in PBT in last 4 years
- Balance sheet and cash generation continue to provide robust platform for business growth

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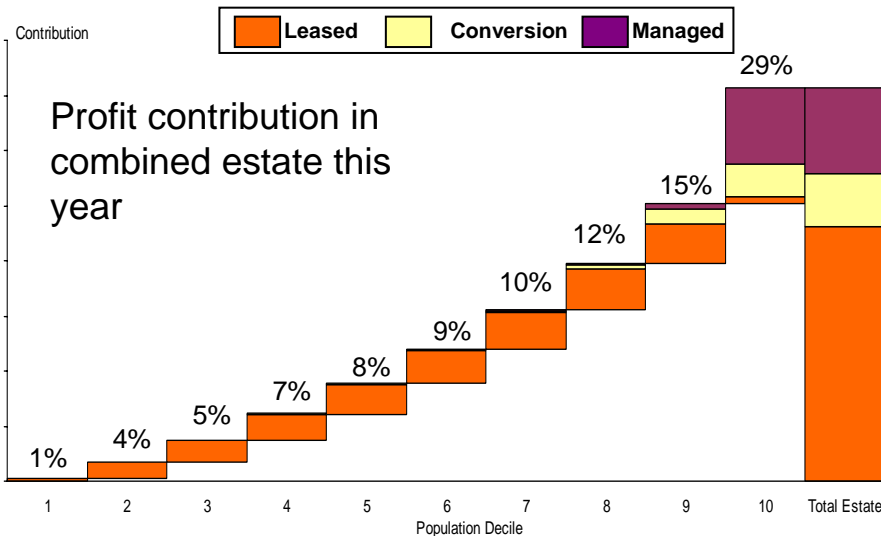
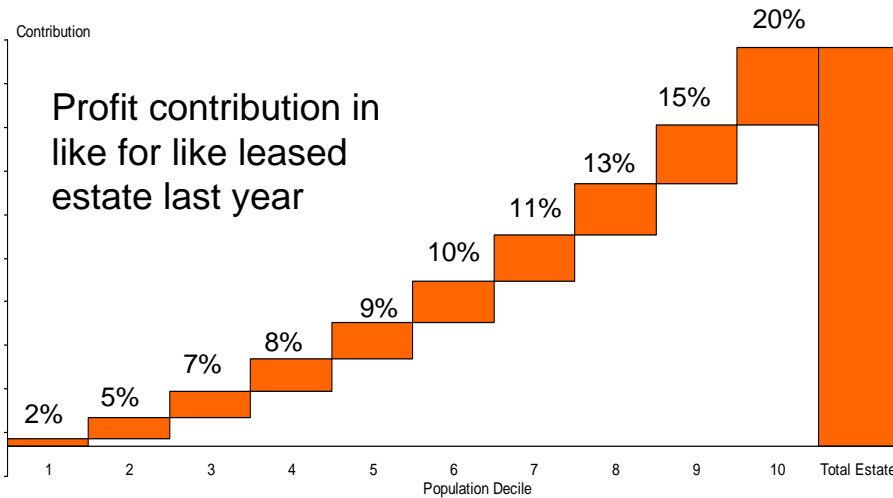
# Business Review

# Business Review



- Consistent and proven strategy:
  - To add value through the business model
  - To constantly develop and improve estate
  - To acquire more pubs when opportunities arise
- Spirit acquisition provides capability:
  - To increase the overall quality of the estate
  - To maximise future acquisition opportunities
  - To build the value of streamlined managed business
  - To enhance the value creating options for the business

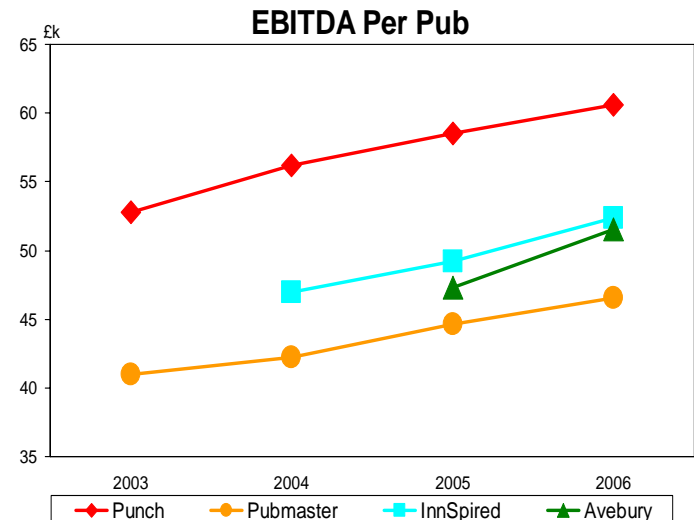
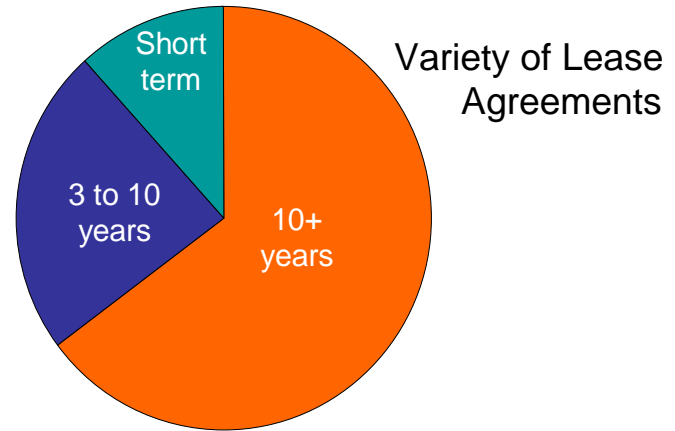
## Improving Estate Quality



- Acquisition of Spirit, together with pub disposals, has provided a material increase in quality profile of the estate
- Average profit per pub across whole estate now c£69k per annum, 30% higher than last year

## Leased Business Continues To Perform Well

- **Pub opportunities are in demand**
  - Applicant numbers average 129 a week
  - 65% of pubs are now on long-term agreements
  - Over 1,000 pubs let last year
  
- **We continue to invest with retailers**
  - Over 950 developments for £78m at c25% ROI.
  - 96 individual pub acquisitions for £65m at 11% ROI
  
- **EBITDA growing across all estates**
  
- **Publican Leased Pub Company of the Year twice in the last three years**



# Retailer Profitability

- Direct indicators of retailer profitability are strong
  - From over 2,700 business assessments this year, we estimate average retailer profitability of c£35k, increasing year on year
  - The average assignment premium is now £80k
  - Overdue debt is low and falling
  - Rent concessions of £2.7m are steady at c1% of rent roll
  - Average agreed rent increase on review is 8%
- We continue to give active support
  - Over 15,000 retailer training days covering nearly 5,000 retailers. 97 Retail Experience programmes run reaching 2,053 pubs.
  - Active preparation for the smoking ban, ongoing licensing support
  - 306 beer brands on offer

# Spirit Acquisition Plan is on Track

- Excellent progress being made with plan to :
  - Sell selected pubs with lower prospects or better alternative use
  - Convert smaller high quality pubs to lease
  - Develop larger high quality pubs to top quality managed estate
- Operational structure simplified and focused
- Strong management team in place
- Supply contracts being successfully renegotiated
- Debt structure reorganised
- Complementary Mill House Inns acquisition completed

# Disposal Programme Nearing Completion

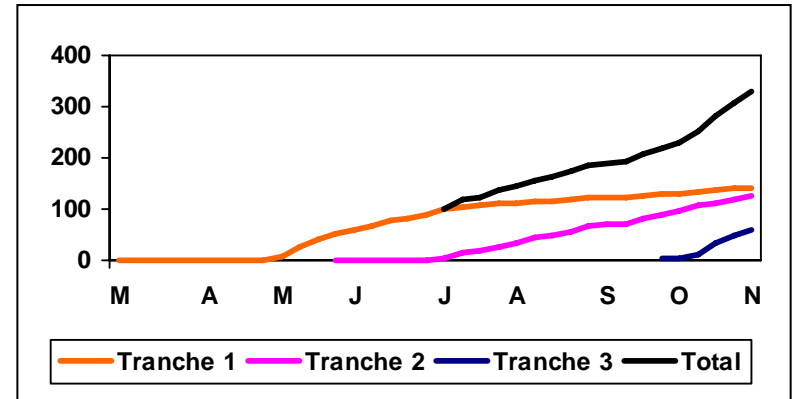
- Non core or less sustainable pubs selected for disposal
- 389 disposals completed as at 3 November 2006
- Disposal multiples exceed original acquisition value

Package	No of Sites	Proceeds £m	Short Leasehold	Outlet EBITDA Multiple
Orchid	290	571	33%	9.4x
Old Orleans	31	26	87%	7.6x
Individuals	68	126	19%	14.8x
Total	389	723	35%	10.0x

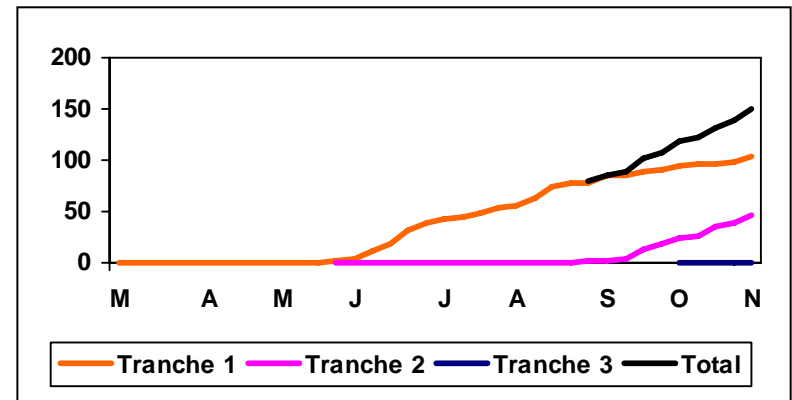
## Conversion Progress

- Conversion programme on track
- Specialist teams to separately manage ongoing estate and transfers
- Three tranches now marketed :
  - 1<sup>st</sup> phase -212 pubs at end of February
  - 2<sup>nd</sup> phase -249 pubs at end of May
  - 3<sup>rd</sup> phase -266 pubs in October
- 155 transfers now complete with further 175 COAs (Confirmation of Agreement) in legal process
- Average rent of £54k - in line with expectation
- Trading in transition estate remains robust pre conversion :
  - 0.2% sales decline
  - 1.6% outlet EBITDA decline

Number of Agreements (COA)

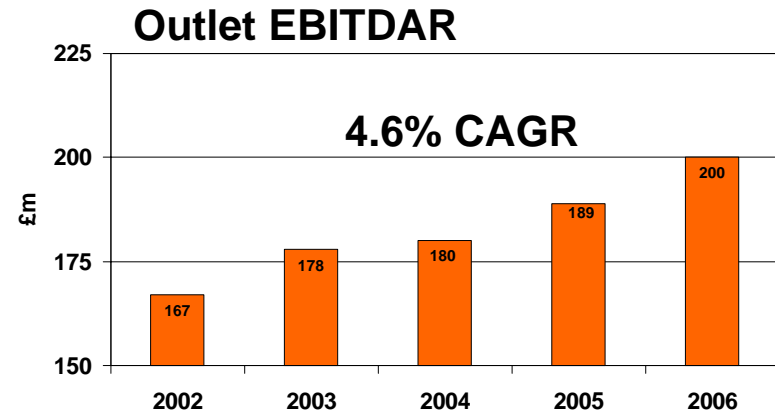
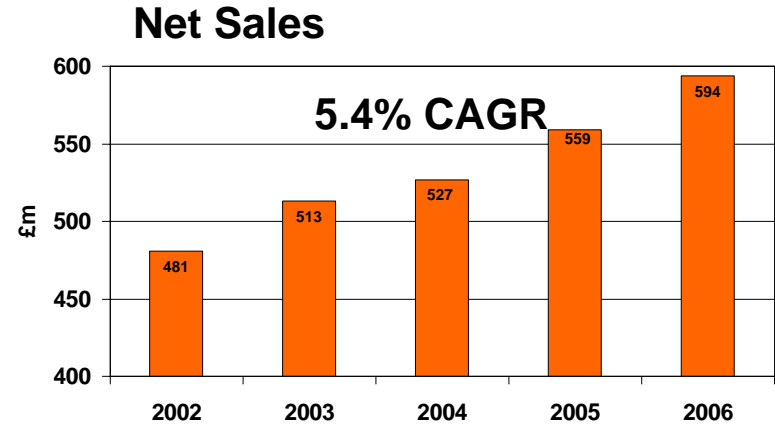


Number of Lettings



# Top Quality Core Managed Estate

- Strongly performing estate over sustained period
- Sales and profit growth maintained in the 32 weeks post acquisition
  - Like for like sales up 6.0%
  - Strong food growth up 7.6%
  - Outlet EBITDA up 4.6%
- Pro-forma estate metrics :
  - £17k average sales per week
  - £290k average outlet EBITDAR pa



Source: Spirit Group management accounts

## Managed Divisions

Spirit core estate now organised into 3 focused divisions

### Value Food

Units	154
Sales:	£161m
Outlet EBITDAR:	£45m
Food sales:	54%

### Quality Food

Units	136
Sales:	£150m
Outlet EBITDAR:	£45m
Food sales:	56%

### Quality Locals

Units	399
Sales:	£284m
Outlet EBITDAR:	£111m
Food sales:	19%



Note: sales and EBITDAR from 2006 management accounts

# Smoking Ban – Scottish Experience

## Key Facts

- Smoking solutions developed for all 493 Scottish pubs
- Growth in food sales but some decline in beer sales and machine income.
- Leased estate turnover down c1.5% but rental income remains strong and defaults low
- Managed estate overall sales down 0.1% but food sales up 3.6%

## Key Learnings

- Planning and preparation are key
- Pubs with good amenities, strong food offer or good outside drinking area have benefited from the ban
- Retail standards are important. Product quality, range and display



Moorings, South Queensferry



Red Stone Inn, Ayr

# Smoking Ban - England and Wales

- Building Awareness:
  - Smoking Action Group in operation since October 2005
  - “BRM Smoking toolkit” to assist business development
  - DVD of experience for retailers to accompany extensive training programme
- Preparing our Pubs:
  - Action plan for every pub : “No Action No option”
  - 95% of pubs have usable outside space
  - 78% of leased and all managed pubs have kitchens
  - £18m specific capex earmarked for smoking solutions
  - Heightened standards measurement and strengthened catering development team



Newcastle smoking seminar



Havelock, Washington

# Summary and Outlook

- 2006 was a year of excellent progress. The business has traded well. The Spirit acquisition plan is on track. The future holds much potential
- 2007 has started well, in line with expectations
- In creating the best quality leased and managed estates, we are consolidating our position as the UK's premier pub company whilst retaining the flexibility to maximise future returns for shareholders

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# Appendices

# Acquisitions and Disposals

Package Transaction	Timing	No of Pubs	Value
Acquisition of Avebury Holdings	Aug 05	409 leased	£219m
Sale to Admiral Taverns	Sept 05	45 leased	£15m
Sale to Admiral Taverns	Dec 05	203 leased	£40m
Acquisition of Spirit Group	Jan 06	1,830 managed	£2,679m
Sale to Petchey Group	Jan 06	205 leased	£98m
Sale to G1 Group	Feb 06	39 leased	£5m
Sale to Orchid (GI Partners)	June 06	290 managed	£571m
Acquisition of Mill House Inns	Sept 06	82 managed	£164m

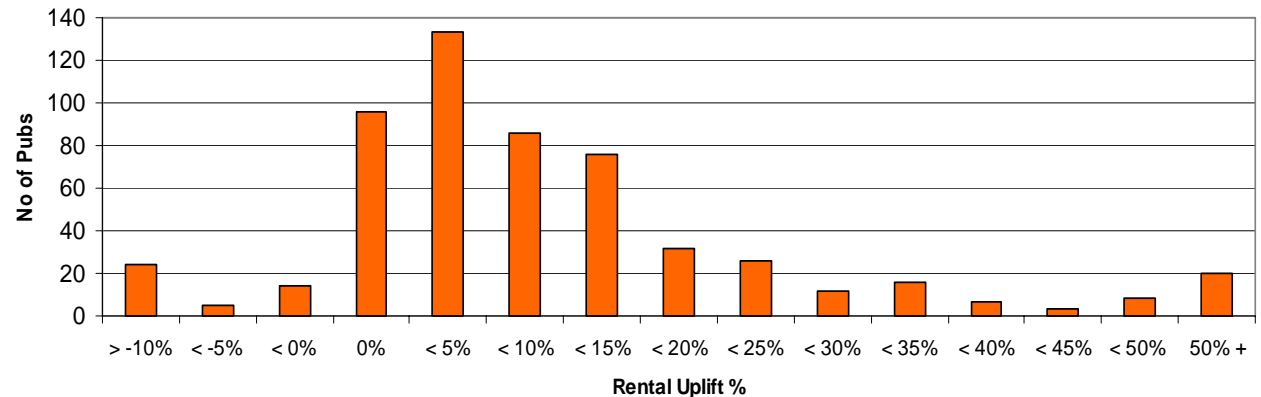
# Leased Estate Profit Contribution

52 weeks to 19 August 2006	<u>Original</u>	<u>InnSpired</u>	<u>Avebury</u>	<u>Spirit</u>	<u>Total</u>	<u>growth</u>
Average Pub Numbers	7,074	465	395	11	7,945	2%
Revenue £m						
Beer	426.0	27.6	24.2	1.0	478.8	3%
Rent	190.9	10.7	10.0	0.5	212.1	8%
Machine income	26.3	1.2	2.0	0.1	29.6	5%
Other drinks	62.1	4.6	3.3	0.2	70.2	8%
GRS Inns	12.5				12.5	-23%
Total	717.8	44.1	39.5	1.8	803.3	4%
Gross Margin £m						
Beer	215.2	13.8	10.5	0.5	240.0	3%
Rent	190.6	10.7	10.0	0.5	211.8	8%
Machine income	26.3	1.2	2.0	0.1	29.6	5%
Other drinks	20.4	2.1	1.3	0.1	23.9	19%
GRS Inns	1.3				1.3	-49%
Total	453.8	27.8	23.8	1.2	506.6	5%
Costs	(63.8)	(3.5)	(3.5)	(0.1)	(70.9)	-6%
EBITDA	390.0	24.3	20.3	1.1	435.7	5%
Margin	54%	55%	51%		54%	
EBITDA per pub	£55k	£52k	£51k		£55k	

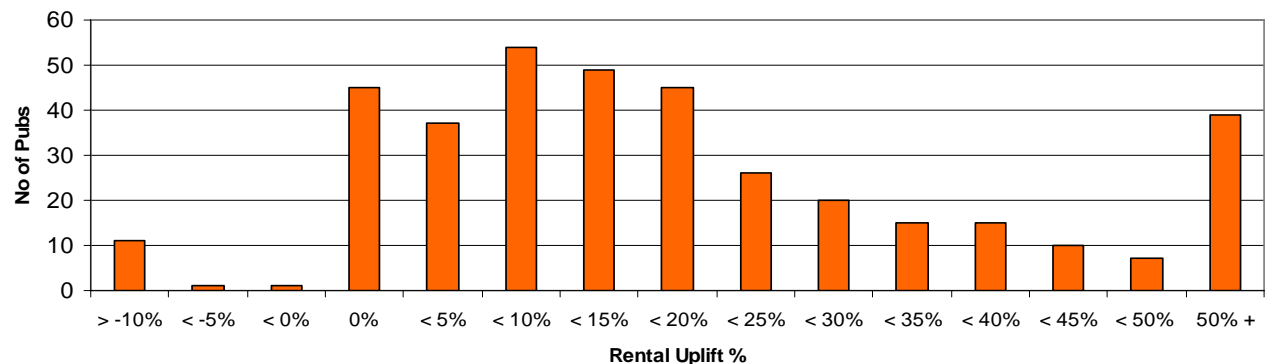
## Agreeing Fair Maintainable Rents

- 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 2006, 558 rent reviews have been agreed at an average uplift of 8%. 375 new rents have been agreed on lease renewal at an average uplift of 19%.
- In exceptional difficulties, rent concessions are granted. At 19 August 2006 there were 181 concessions, with annualised rental value of £2.7m.

Completed Rent Reviews  
2006- Rental uplift achieved



Completed Lease Renewals  
2006- Rental uplift achieved



# Closing Managed Estate Profit Contribution

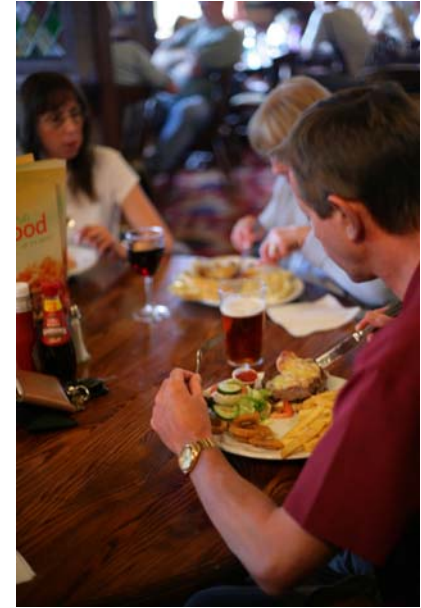
£m	-----32 weeks-----						2006 * 52 weeks
	Core Estate	growth	Transition estate	growth	Closing Estate	growth	
Number of pubs	689		690		1379		1379
Drink	213.1	6.0%	160.1	1.5%	373.2	3.9%	592.1
Food	143.2	7.6%	35.4	-3.2%	178.6	5.2%	282.0
Machines	10.5	-5.1%	11.8	-10.6%	22.3	-8.2%	36.7
Other	11.3	-2.7%	2.6	-8.7%	13.9	-3.7%	21.3
<b>Total Sales</b>	<b>378.1</b>	<b>6.0%</b>	<b>209.9</b>	<b>-0.2%</b>	<b>588.0</b>	<b>3.6%</b>	<b>932.1</b>
Drink	161.9	6.2%	117.5	2.1%	279.4	4.3%	440.4
Food	94.4	9.2%	21.7	0.1%	116.1	7.4%	182.4
Machines	10.5	-5.1%	11.8	-10.6%	22.3	-8.2%	36.7
Other	11.3	-2.7%	2.6	-8.7%	13.9	-3.7%	21.3
<b>Total Margin</b>	<b>278.1</b>	<b>6.4%</b>	<b>153.6</b>	<b>0.6%</b>	<b>431.7</b>	<b>4.2%</b>	<b>680.8</b>
Labour Costs	(96.7)	-7.1%	(51.7)	-1.0%	(148.4)	-4.8%	(236.6)
Utilities	(10.8)	-30.0%	(7.4)	-26.3%	(18.2)	-28.4%	(27.3)
Other pub costs	(39.3)	-6.7%	(26.2)	2.1%	(65.5)	-2.9%	(111.6)
Rent Payable	(19.3)	-2.0%	(9.6)	-3.4%	(28.9)	-2.2%	(45.9)
<b>Outlet EBITDA</b>	<b>112.0</b>	<b>4.6%</b>	<b>58.7</b>	<b>-1.6%</b>	<b>170.7</b>	<b>2.4%</b>	<b>259.4</b>
Outlet EBITDA per pub							<b>£188k</b>

\*Source: Spirit Group management accounts

Closing estate represents year end estate less 31 pubs contracted for sale at year end

## Value Food Division

Number of Pubs	154
Sales pa	£161m
Outlet EBITDAR pa	£45m
Food % of Sales	54%
Covers per week	1850
Spend per head	£7.10



- **Vision** : Britain's 1st choice for fantastic value everyday meals.
- **Essence** : Warm and friendly food pubs serving good value quality meals.
- **Customers** : Even split of white and blue collar workers with high numbers of over 45 and 25-34 many of whom are female.
- **Customer Occasion** : Can't be bothered to cook.
- **Competitive Advantage** : Food quality and service that exceeds expectations for price paid.

## Quality Food Division

Number of Pubs	136
Sales pa	£150m
Outlet EBITDAR pa	£45m
Food % of Sales	56.0%
Covers per week	1300
Spend per head	£10.90



- **Vision** : Exceptional, market leading pub food with service to match.
- **Essence** : High quality pub food, excellent service, cosy and relaxed atmosphere.
- **Customers** : Professional, management and white collar with high number of over 45s. Even split of male and female with many visiting once a month or more.
- **Customer Occasion** : Informal eating out with partner/friends.
- **Competitive Advantage** : Food quality, great service, clean and cared for pubs.

# Quality Locals Division

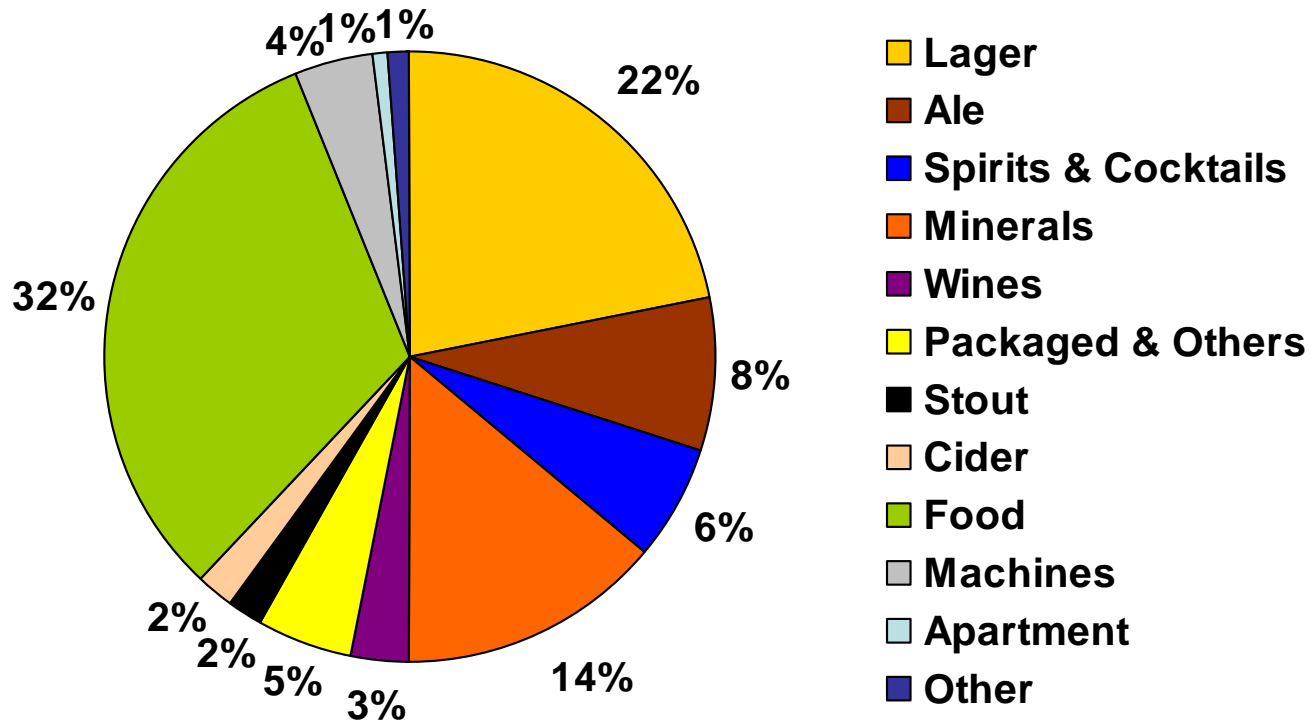
Number of Pubs	399
Sales pa	£284m
Outlet EBITDAR	£111m
Food % of Sales	19%
Covers per week	500
Spend per Head	£6.60



- **Vision** : A great local with a sense of belonging, identity and something to participate in.
- **Essence** : Authentic friendly pubs with great service, products & standards.
- **Customers** :  
 London : Large numbers of professional and office workers many visiting once a week or more.  
 Locals : Mid market appeal to white and blue collar workers many of whom are over 45 and visiting once a week or more.
- **Customer Occasion** : Friendly drink, food and participation.
- **Competitive Advantage** : The best people delivering the best ranges at great value for money.

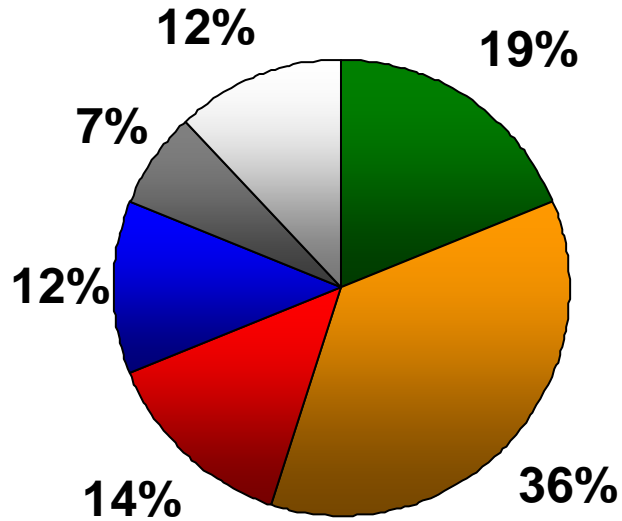
## Spirit Sales Mix

Sales by Category (Full Year 2006)

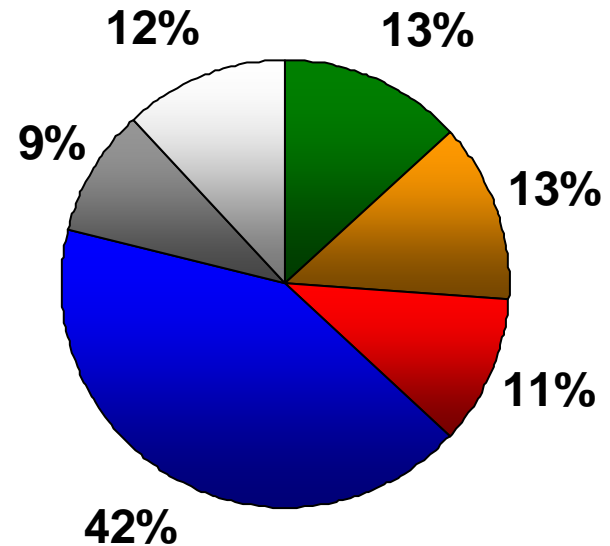


## Beer Supply Mix

### Punch Leasing



### Spirit Managed



■ Carlsberg ■ Coors ■ InBev ■ S&N ■ Diageo ■ Others

**Beer mix by supplier (Full Year 2006)**

# Illustrative Investment Considerations

## HOW TO SPEND £100m FREE CASH

	incremental EBITDA	incremental PBT	EPS accretion (p)
Investment (25% return)	25	25	6.7
Acquisition - (£400m at 11% return)	44	26	7.0
Share buy back @ £10.00 per share			2.7
Repay debt at 7%		7	1.9

## ACCELERATING “INFLATION +” GROWTH

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

Example: Assume interest cover of 2x

## GROWING SHAREHOLDER FUNDS

