

# PUNCH TAVERNS PLC

("Punch" or "the Group")

## Interim Management Statement for the 16 weeks to 12 December 2009

Punch Taverns plc announces its Interim Management Statement for the 16 weeks from the start of the financial year on 23 August 2009.

### **Market overview**

Our results for the last financial year ended 22 August 2009 were, as previously reported, materially impacted by the challenging market conditions faced across the UK pub industry. While the economy has benefited from historically low interest rates; ongoing high levels of unemployment, impending duty and VAT increases and an uncertain UK consumer environment will continue to put downward pressure on spending in pubs.

These challenges have, as anticipated, continued into our new financial year. Consequently, management actions have continued to focus on stabilising operating performance, improving cash flow and reducing the level of debt.

We believe that the industry has made and continues to make constructive progress in responding to the key themes identified by the BESC Report and we are confident that we can move forward together to bring about positive change.

We remain disappointed by the Government's decision not to reduce duty on beer and will continue to lobby for fairer treatment of pubs through our support for the BBPA Back My Pub campaign and other initiatives. We recognise that the pub is the cornerstone of our heritage and is the lifeblood of many local communities and will continue to work with the Government and industry to secure its future.

### **Leased Estate**

Our focus into the new financial year continues to be on stabilising business performance for ourselves and our licensees. In this difficult economic environment, we continue to believe it is important to work closely with our licensees, not only to help them develop their business but also to offer financial support where appropriate through rent concessions and special discount schemes. In the circumstances we have taken proactive steps to increase our support to c.£2.0 million per month, up from an average of £1.6 million per month across last year. We are beginning to see the benefit of this assistance with the number of pub returns from licensees being materially down on the previous year and the level of closed and Tenancy at Will properties available for let also down on last year.

We continue to further evolve our leased business model and have introduced a number of improvements to cement our commitment to build more honest and transparent partnerships with our licensees. We have re-launched our recruitment website to indicate expected earnings and hosted our first Partner Forum to source direct feedback from licensees. We are in the process of updating our Charter to ensure that it exceeds the standards laid out in the new Industry Code of Practice and are reviewing the role of our Business Relationship Managers to build capability. Application numbers remain strong and we are confident that the tenanted and leased model continues to offer a very attractive proposition to entrepreneurs seeking a low cost method of entering the pub trade and running their own pub.

While management actions have had a positive impact on stabilising the estate, profits remain under pressure due to ongoing beer volume decline in the on-trade and lower rental income from licensee pub returns and increased levels of partner support. Like-for-like profits in the 16 weeks to 12 December continue to show a similar rate of decline to that reported in the last financial year.

### **Managed Estate**

As announced at our preliminary results on 14 October, significant focus has been placed on delivering our Operational Excellence programme. While we are still in the relatively early stages of this programme, we are very pleased with the initial indications which have seen significant improvements in both employee retention and guest satisfaction measures. We are committed to the full rollout of this programme which will be completed during the course of this year.

Sales in our managed estate for the first 16 weeks on a like-for-like basis were down 1.6% on last year. Within this, sales in our City Pub division were up 6.7%, however overall sales were impacted by relatively soft trading in both the premium food and price led food pubs as a weak consumer environment impacted both the premium end of the market and put pressure on the family eating out segment. Operating margins continue to be impacted by inflationary cost pressures and higher rents following the return of onerous leases to the Group. Excluding the impact of reversionary leases, underlying operating margins have now stabilised, as we see the benefit of further efficiency improvements within the core estate.

We have recently introduced new food menus across our estate and our continued focus on quality offerings at an affordable price delivered with excellent guest service will be the key drivers to delivering an improved sales performance. Guest feedback to the new menus has been extremely positive and we have seen improved trading over the last 4 weeks.

### **Capital structure**

During the past year we have taken action to increase free cash flow and reduce debt and this clearly remains a strategic priority for the current year.

Our ongoing divestment programme has progressed extremely well. In the first 16 weeks of the year we have disposed of 352 pubs, 224 from our turnaround division, 114 from the core leased estate and 14 from our managed estate, realising net proceeds of £127 million. The disposals are in line with book value and at average multiples of c.11 times EBITDA. Our programme to dispose of non-core assets has resulted in the disposal of £40 million (annualised) EBITDA in the last financial year and a further £11 million (annualised) EBITDA in the year to date. Given the success to date with this programme we are raising our estimate for full year disposals to c.£300 million, however, we will only continue to dispose of sites where such actions are in the best interests of shareholders.

Following the repayment of £708 million of gross debt in the previous financial year, we have continued to delever our balance sheet with a further reduction in gross debt of £438 million (10%) in the year to date, of which £434 million was ahead of schedule.

All of the convertible debt has now been repaid leaving £3,347 million of net debt. All of our debt is long-term securitised debt which has an average life of 18 years and is secured on over 7,100 pub properties. The securitised debt amortises over periods extending up to 26 years. Scheduled amortisation amounts to only £30 million for the remainder of this year and £55 million for the following financial year.

The level of headroom on the key DSCR financial covenant ratios will, as anticipated, be impacted by trading conditions this year. Consequently, we do not expect the cash upstream ratio's to be met this financial year. While the level of headroom in our covenants will reduce, as previously stated, we remain confident that the action management has taken to date and continues to take will provide sufficient headroom to allow us to meet all of our financial covenants going forwards.

**Outlook**

Trading into this financial year has as expected remained difficult, and the challenging economic environment and our smaller pub estate will affect profitability in the short term.

Despite these near-term challenges, we continue to invest substantial sums of capital expenditure across the estate. We are confident that the operational strategy that we have set out in both the leased and managed divisions will enable us to deliver solid longer-term operational performance.

Our strategy of rapidly reducing the size of our debt, with over £1.5bn having been repaid since 2006, leaving only long-term amortising securitised debt finance in place, leaves us with a more robust, sustainable financing structure for the future.

**16 December 2009**

**ENQUIRIES;****Punch Taverns plc**

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**Conference Call**

There will be a conference call for analysts and investors at 8.30am today on (UK) 0800 694 0257 or (International) +44 (0) 1452 555 566, Conference ID 46349591. The title of the call is Punch Taverns IMS.

**Forward-looking statements**

This announcement may contain certain statements about the future outlook for Punch. Although we believe our expectations are based on reasonable assumptions, any statements about future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.