

# Punch Taverns plc

## 2007 Preliminary Results



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P A S S I O N A T E   A B O U T   O U R   P U B S

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# Highlights

- Another year of strong performance driven by acquisitions and organic growth
- Corporate activity focused on business improvement
  - Completion of lease conversion programme
  - Acquisition of Mill House Inns
  - Purchase of stake in Matthew Clark Wholesale
  - Disposal of 986 non core pubs
- Completed £825m refinancing in July 2007



# Results Highlights

Revenue	£1,705m	up	10%
EBITDA	£664m	up	9%
Profit before tax	£282m	up	13%
EPS	84.4p	up	13%
Dividend	15.3p	up	14%

Figures exclude exceptional items



# FINANCIAL REVIEW



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# Financial Review

- Results cover 52 weeks to 18 August 2007
- Results impacted by acquisitions, disposals and conversions
  - full contribution from Spirit Group, acquired 5 January 2006
  - 48 week contribution from Mill House Inns, acquired 14 September 2006
  - Matthew Clark JV formed on 17 April 2007
  - disposal of package of 869 pubs on 16 May 2007
- Completed £825m refinancing in July 2007



# Strong Earnings Growth

£m	<u>Leased</u>	<u>Managed</u>	<u>Share of JV</u>	<u>Group</u>	<u>growth</u>
<b>Revenue</b>	<b>845</b>	<b>860</b>	-	<b>1,705</b>	<b>10%</b>
<b>EBITDA</b>	<b>479</b>	<b>183</b>	<b>2</b>	<b>664</b>	<b>9%</b>
Depreciation, amortisation	(18)	(39)		(57)	
Interest				(328)	
Profit on asset sales				3	
<b>Profit before tax</b>				<b>282</b>	<b>13%</b>
Tax				(58)	
<b>Net Profit</b>				<b>224</b>	<b>15%</b>
<b>Basic EPS</b>				<b>84.4p</b>	<b>13%</b>

Excluding exceptional items



# Evolving Pub Estate

	<u>Leased</u>	<u>Managed</u>	<u>Total</u>
August 2006	7,846	1,410	9,256
Acquisitions	85	93	178
Lease conversions	563	(563)	
Disposals	(933)	(53)	(986)
August 2007	7,561	887	8,448
<i>net change</i>	<i>-4%</i>	<i>-37%</i>	<i>-9%</i>
Average estate size	7,873	1,191	9,064
<i>decrease on last year</i>	<i>-1%</i>		

- Lease conversions programme completed – 637 pubs transferred (including 74 last year)
- Disposals include the sale of 869 leased pubs to Admiral Taverns on 16 May 2007



Managed acquisitions includes 11 lease reversions

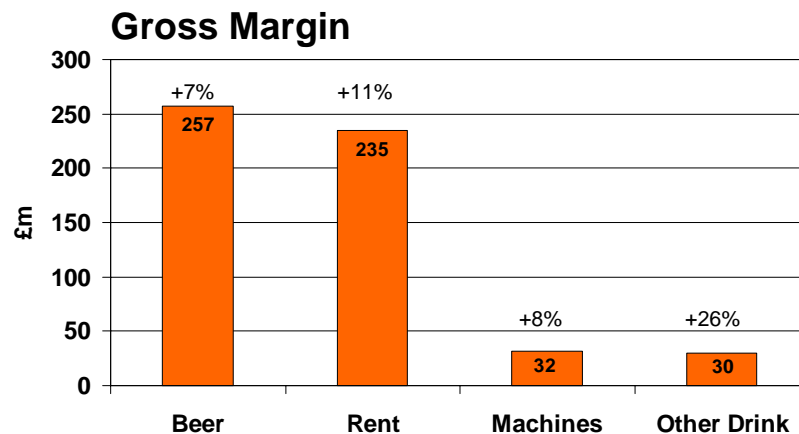


# Profit Growth in the Leased Estate

52 weeks to 18 August 2007

	<u>Total</u>	<u>growth</u>
Average number of pubs	7,873	-1%
£m		
Revenue:		
Beer	498	4%
Rent	236	11%
Machine income	32	8%
Other drinks	79	13%
Total revenue	845	7%
Gross margin	554	10%
Costs	(75)	-8%
EBITDA	479	10%

- Margin 57% (54% last year)
- 11% growth EBITDA per pub
- 2.7% like for like profit growth



Growth measured against last year excluding GRS Inns, sold June 2006

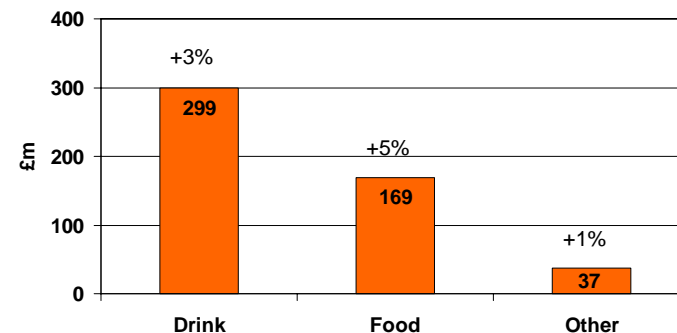


# Profit Growth in the Managed Estate

£m	Core managed estate	Like for like growth	Transition estate	Total
Ending No. of Pubs	836		51	887
Average No. of Pubs	830		361	1,191
Drink	394	2%	125	519
Food	261	6%	24	286
Other	37	1%	18	55
<b>Total revenue</b>	<b>693</b>	<b>4%</b>	<b>167</b>	<b>860</b>
<b>Gross margin</b>	<b>505</b>	<b>4%</b>	<b>126</b>	<b>631</b>
Pub costs	(279)	-5%	(80)	(359)
Rent payable	(36)	-3%	(9)	(45)
<b>Outlet EBITDA</b>	<b>191</b>	<b>1%</b>	<b>38</b>	<b>228</b>
Central overheads				(46)
<b>EBITDA</b>				<b>183</b>

- Like for like core estate growth:
  - Revenue growth +3.5%
  - Pub profit growth +1.4%
- Average Outlet EBITDA per pub in the closing estate is up 15% on last year
- £14m overhead reduction

**Gross Margin**



Like for like growth relates to 755 outlets owned by Spirit for the whole of FY06 and FY07  
 Transition estate comprises pubs sold during the year and pubs which do not fit into the four core operating divisions



# Cash Generation and Investment

£m	<u>2007</u>	<u>2006</u>
EBITDA	664	606
Exceptional items	(42)	(8)
Working capital, provisions, etc	(71)	3
Pension top up contributions	(3)	(34)
<b>Operating Cashflow</b>	<b>548</b>	<b>567</b>
Interest	(329)	(301)
Dividends	(37)	(32)
Tax paid	(19)	(32)
<b>Cash generated for investment</b>	<b>163</b>	<b>202</b>
Investment - Leased	(117)	(100)
Investment - Managed	(85)	(41)
Acquisitions - individual pubs	(81)	(65)
Acquisitions - Mill House (07) / Spirit (06)	(21)	(206)
Acquisitions - Matthew Clark JV	(37)	-
Disposals	405	835
<b>Cash generated pre financing</b>	<b>227</b>	<b>625</b>

- One off costs and working capital outflows relating to the Spirit integration
- Interest cover 2.0x
- Low cash tax
- Significant investment
- Acquisitions net of acquired debt



# Strong Balance Sheet

£m	<u>2007</u>	<u>2006</u>	
Fixed assets	6,699	6,698	● 94% of estate freehold or long lease
Goodwill	556	538	
Working capital	(217)	(341)	● Stable long term debt structure
Non current liabilities, provisions	(400)	(406)	
Cash	268	562	● Net debt down to 7.4x EBITDA (2006 8.3x)
Debt	(5,169)	(5,624)	
Net assets	1,737	1,427	● Property backed options and REITs continue to be reviewed against objective of maximising long term shareholder value
<i>Net debt</i>	<i>4,901</i>	<i>5,062</i>	



# Secure Long Term Debt

	August 2007		August 2006	
	Nominal Value £m	Effective Interest Rate	Nominal Value £m	Effective Interest Rate
Securitised debt				
Punch A	2,100		1,760	
Punch B	1,249		1,249	
Avebury	-		106	
Spirit	1,250		1,250	
Total	<u>4,599</u>	6.6%	<u>4,365</u>	6.8%
Bank debt	43	5.6%	622	6.6%
Convertible bonds	275	6.3%	275	6.3%
Nominal Value	<u>4,917</u>	6.6%	<u>5,262</u>	6.7%
Finance lease obligations	21		27	
Fair value adjustment	231		335	
Gross Debt	<u>5,169</u>		<u>5,624</u>	

Effective interest rate calculated as interest expense over nominal value of debt



# Tax and Exceptional Items

• Expenditure on integration of acquisitions, conversion of pubs to leased and integrating support structures	(42)
• Net reduction in property provisions in Spirit	22
• One off charge on refinancing	(11)
• Credit on fair value of interest rate swaps	54
• Net tax credit following agreement of tax treatments	<u>31</u>
	<u>54</u>
• Taxation	
• Effective tax charge 20% due to indexation of acquired asset base costs	
• Cash tax of £19m; 7% (effective rate) continues to be low as we utilise brought forward losses	
• 2008 tax charge forecast to be 20 - 23%; cash tax expected to be nil following agreement of prior year tax treatment	



# Financial Review Summary

- 6<sup>th</sup> successive year of strong performance
- Transformation of Spirit acquisition completed
- No exposure to volatile credit markets
- Well placed to consider all opportunities



# Business Review



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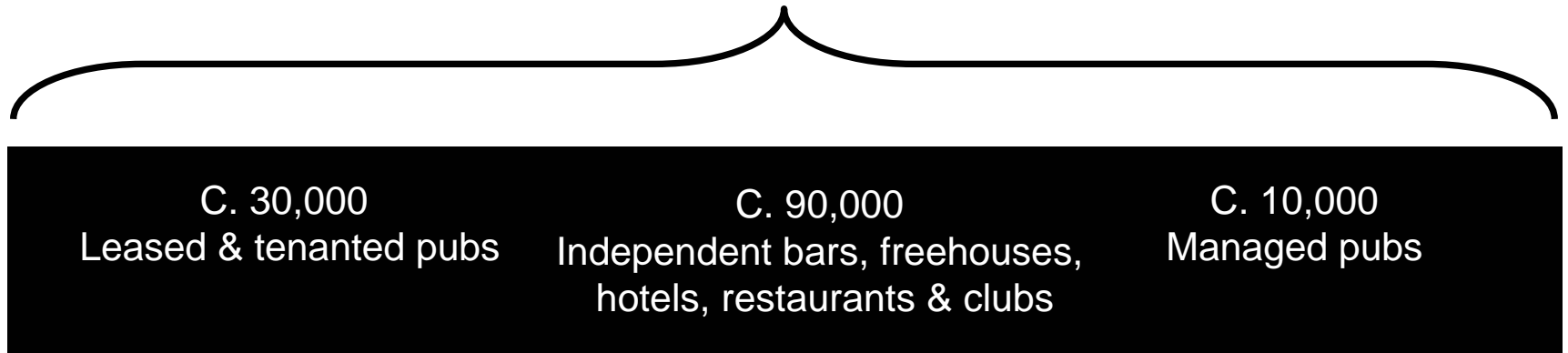
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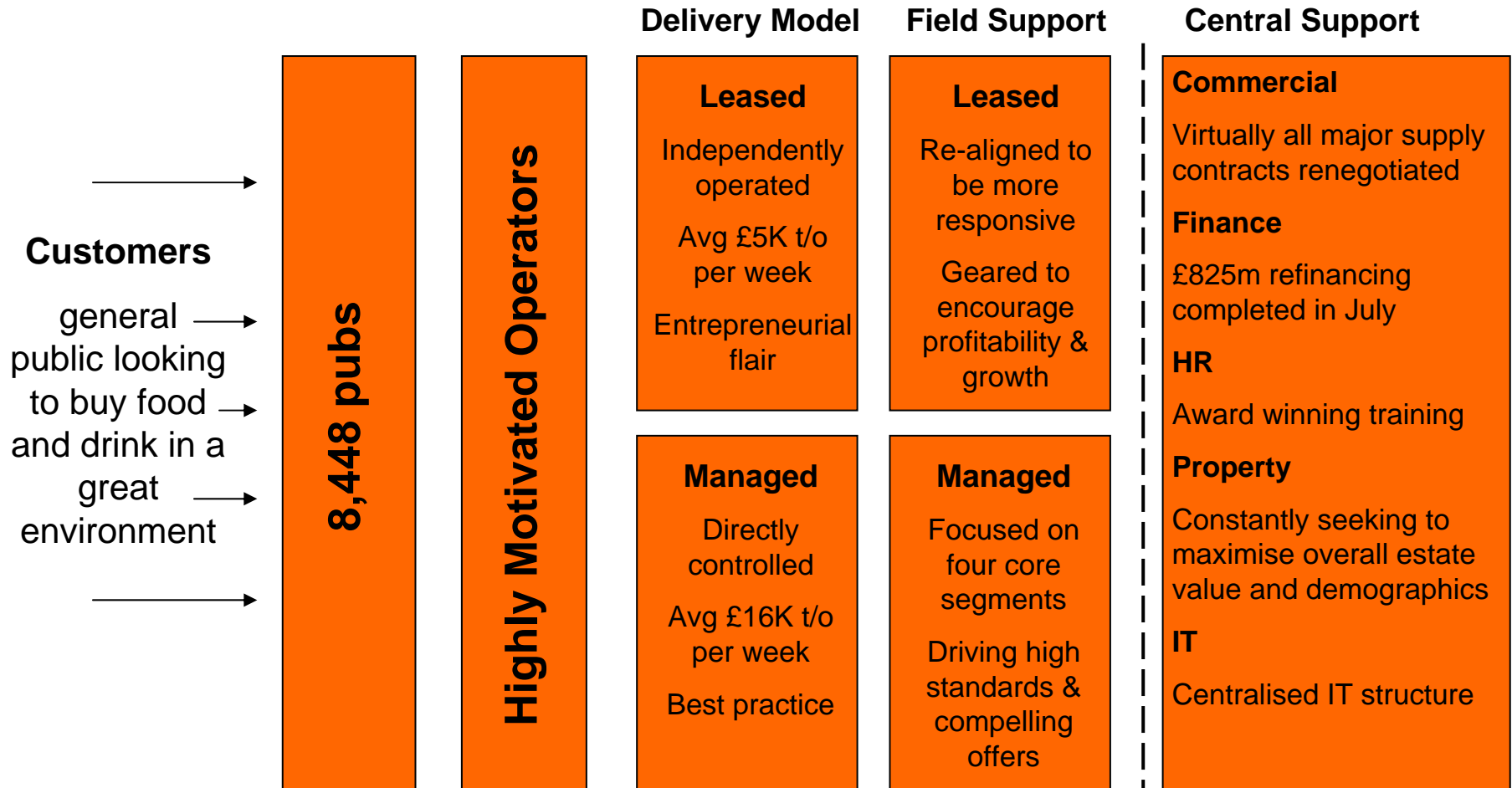
# Punch Taverns & the Licensed Trade

C. 130,000 On Licensed Premises in UK



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# Our Operational Approach

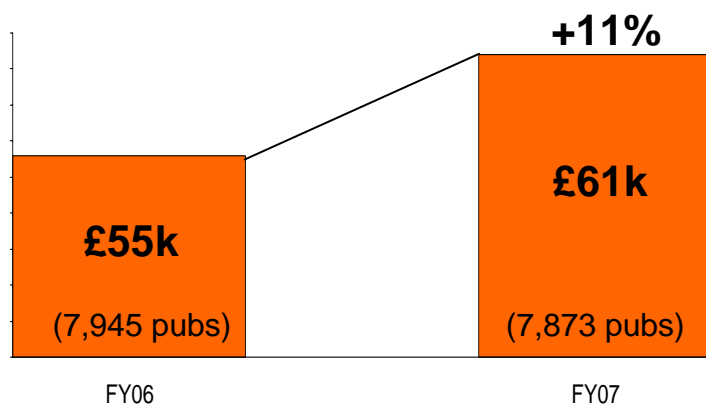


*“Optimising sales & service”*

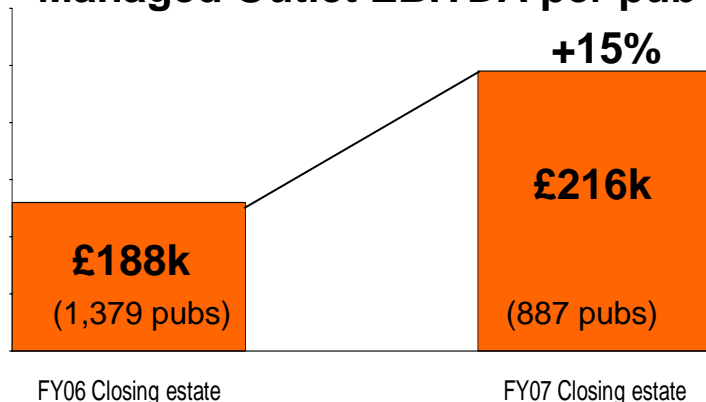


# Estate Quality Improving

## Leased EBITDA per pub



## Managed Outlet EBITDA per pub



- Leased estate quality has been improved this year by:
  - 637 completed transfers
  - 933 disposals including the recent package sale
  - Organic growth
- Full year impact of transfers/disposals gives run rate EBITDA per pub of £65k in closing estate of 7,561 leased pubs
- Year end managed estate of 887 pubs is of substantially higher quality than last years closing estate due to:
  - Acquisition of Mill House Inns
  - Disposals
  - Transfers to lease
  - Organic growth



# Leased Estate Well Positioned

- **Great pubs**

- Managed transfer programme completed
- Package disposal to Admiral Taverns in May 2007
- Over 1,000 developments for £89m
- 85 individual acquisitions for £64m
- £17m spend on acquisition of freehold interests
- 71% of pubs now on long term agreements
- Average EBITDA per pub up 11% this year

- **Great support**

- 15,000 retailer training days and 3 industry training awards (NITA)
- 285 beer brands available to lessees
- Other drinks range expanded through Matthew Clark JV



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# Successful Retailers

- **Direct indicators of retailer profitability are strong**
  - Average retailer profitability has grown 9% to c£38k
  - 662 assignments at an average premium of £71k
  - Over 6,600 applicants and 1,800 lettings this year
  - Overdue debt is low and has reduced
  - Rent concessions of £2.3m are steady at c1% of rent roll



# Focused Managed Estate

- **Great pubs**
  - Mill House Inns acquired in September 2006
  - £44m development investment on proven concepts
  - Finalists in Pub Food concept of the year for our Chef & Brewer menu
  - Wacky Warehouse - Best Children's Party Venue 2007
  - Average weekly sales £16k (excl VAT)
- **High & improving standards**
  - Mystery customer scores improved by c.5%, driven by "Clean and Cared for pubs" and "Great Service"
  - Food Quality measure improved by c.10%, due to improvements in cooking, presentation and storage
- **Strong support and control**
  - In house training academy for pub managers launched
  - Personal development assessments for all pub managers
  - Carbon management programme to reduce utility usage
  - Improved labour rota model



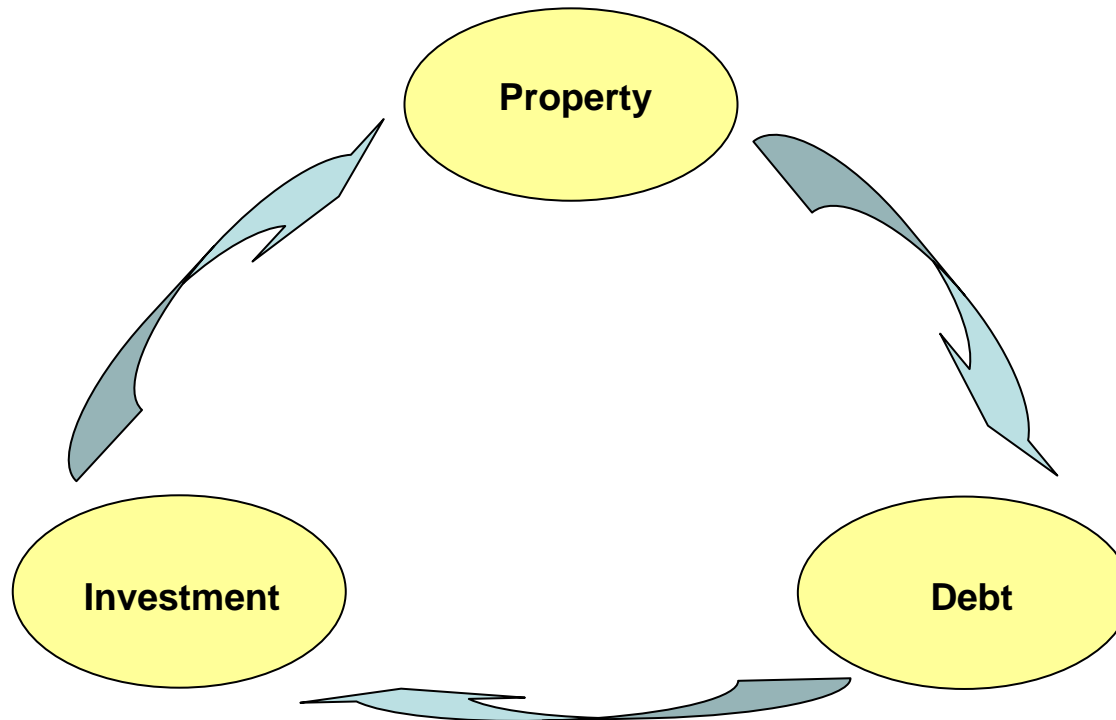
# Four Focused Managed Segments

The four core segments each operate in distinct markets

	Value Food	Quality Food	City	Locals
Total no. of pubs	198	150	184	304
Mill House Inns	34	12	10	22
Average Sales per week	£20k	£20k	£15k	£12k
Profit Conversion	29%	28%	40%	36%
Food Sales %	54%	58%	22%	17%
Average food spend	£6	£10	£7	£5
				



# Financing Strategy



# Financing Strategy

- **Investment in improving estate quality**
  - £164m acquisition of Mill House Inns
  - £117m investment in leased estate
  - £85m investment in managed estate
  - £326m sale of 869 pubs to Admiral Taverns
- **Refinancing completed in July 2007**
  - Acquisition bank debt repaid
  - All debt is at fixed rates
  - Key ratios:

Debt : EBITDA	7.4x
Interest cover	2.0x
WACD	6.6%



# Spirit Acquisition Review

	Spend	No of Pubs	EBITDA (FY05)	Multiple
<b>Original Acquisition</b>	£2.7bn	1,830	£278m	9.7x
<b>Disposals</b>	£(0.8)bn	(400)	£(70)m	
<b>Net Acquired</b>	£1.9bn	1,430	£208m	9.2x

**Leased**

No of pubs	637
Run rate EBITDA	£72m

**Managed**

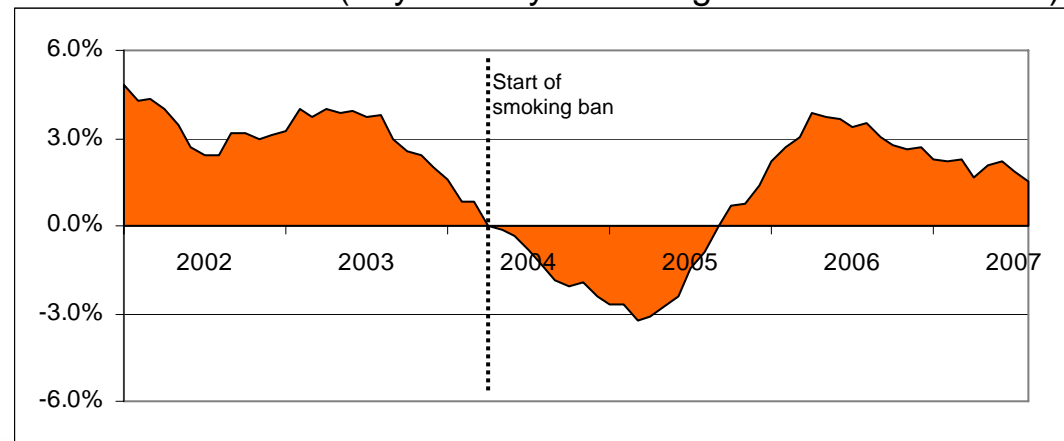
No of pubs	793
Run rate EBITDA	£148m



# Life after the Smoking Ban

- Well prepared: smoking solutions completed ahead of the ban
- Too early to assess overall effect of the ban
  - Scottish pubs back in growth
- Importance of retail standards and credible food offer will be key

Bar sales in Ireland (% year on year change in MAT retail sales)



Source: CSO Ireland



# Summary and Outlook

- Business has never been in better shape to face challenges and capitalise on opportunities
  - Quality of estate improved
  - Acquisitions integrated and synergies in place
  - Health of our retailers is robust
- However we remain cautious given the short uncertainty surrounding effect of the smoking ban and consumer confidence on the industry



# Appendices



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# Corporate Social Responsibility

- **Environment**

- Director responsible for reducing Group's energy usage
- Roll out of smart metering in managed estate
- Spirit shortlisted for Environment Agency Water Efficiency Awards

- **Responsible Retailing**

- Actively supporting the BBPA's Challenge 21 initiative
- New children's menu in managed estate with reduced fat and salt content
- Implemented BBPA's code of practice on gaming



# Leased Estate Profit Contribution

52 weeks to 18 August 2007 £m	<u>Original</u>	<u>growth</u>	<u>Conversions</u>	<u>Total</u>	<u>growth</u>
Average number of pubs	7,544	-5%	329	7,873	-1%
Revenue:					
Beer	457	-4%	41	498	4%
Rent	217	2%	19	236	11%
Machine income	28	-5%	4	32	8%
Other drinks	71	1%	9	79	13%
Total	773	-2%	72	845	7%
Gross margin					
Beer	237	-1%	20	257	7%
Rent	216	2%	19	235	11%
Machine income	28	-5%	4	32	8%
Other drinks	27	14%	3	30	26%
Total	508	1%	46	554	10%
Other Costs	(67)	-2%	(1)	(68)	-6%
Rent Payable	(3)	45%	(4)	(7)	-31%
EBITDA	438	1%	41	479	10%
<i>Margin</i>	<i>57%</i>		<i>56%</i>	<i>57%</i>	
<i>EBITDA per pub</i>	<i>£58k</i>	<i>6%</i>	<i>£124k</i>	<i>£61k</i>	<i>11%</i>

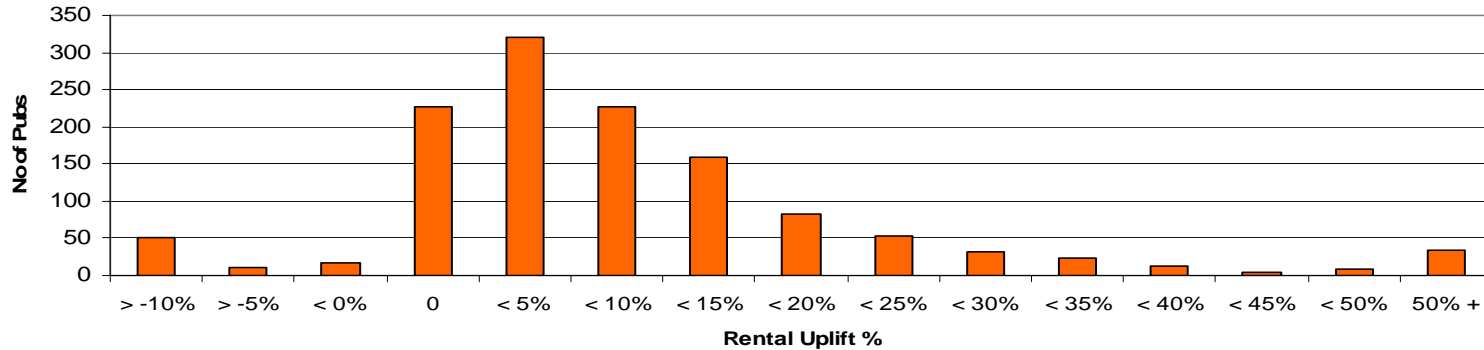
Growth measured against last year excluding GRS Inns, sold June 2006



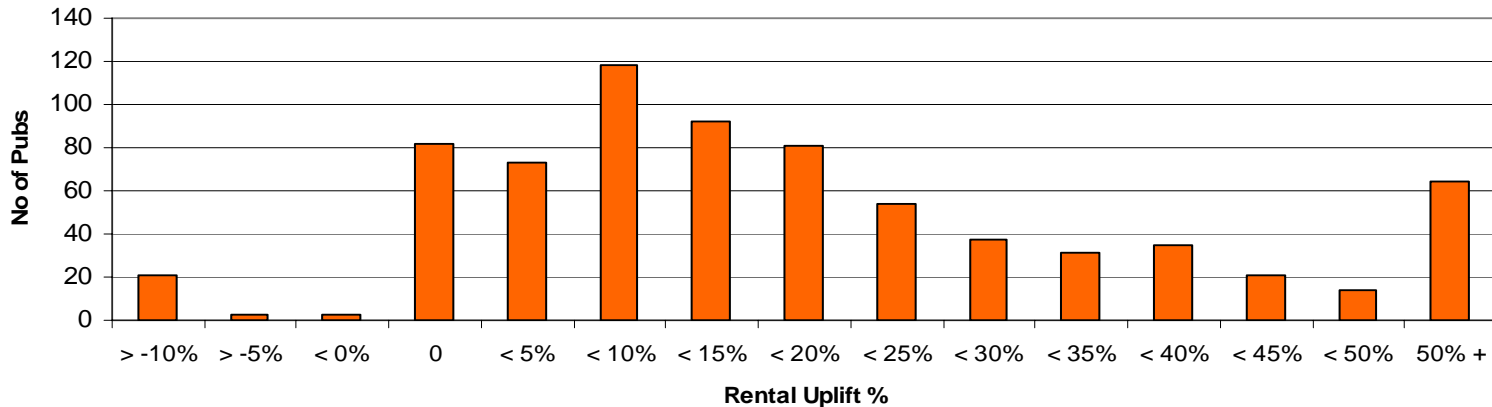
# Agreeing Fair Maintainable Rents

- 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
- 706 rent reviews this year have been agreed at an average uplift of 7%. 354 new rents have been agreed on lease renewal at an average uplift of 16%.
- In exceptional difficulties, rent concessions are granted. At August 2007 there were 149 concessions, with annualised rental value of £2.3m.

Completed Rent Reviews  
FY06 and FY07  
Rental uplift achieved



Completed Lease Renewals  
FY06 and FY07  
Rental uplift achieved



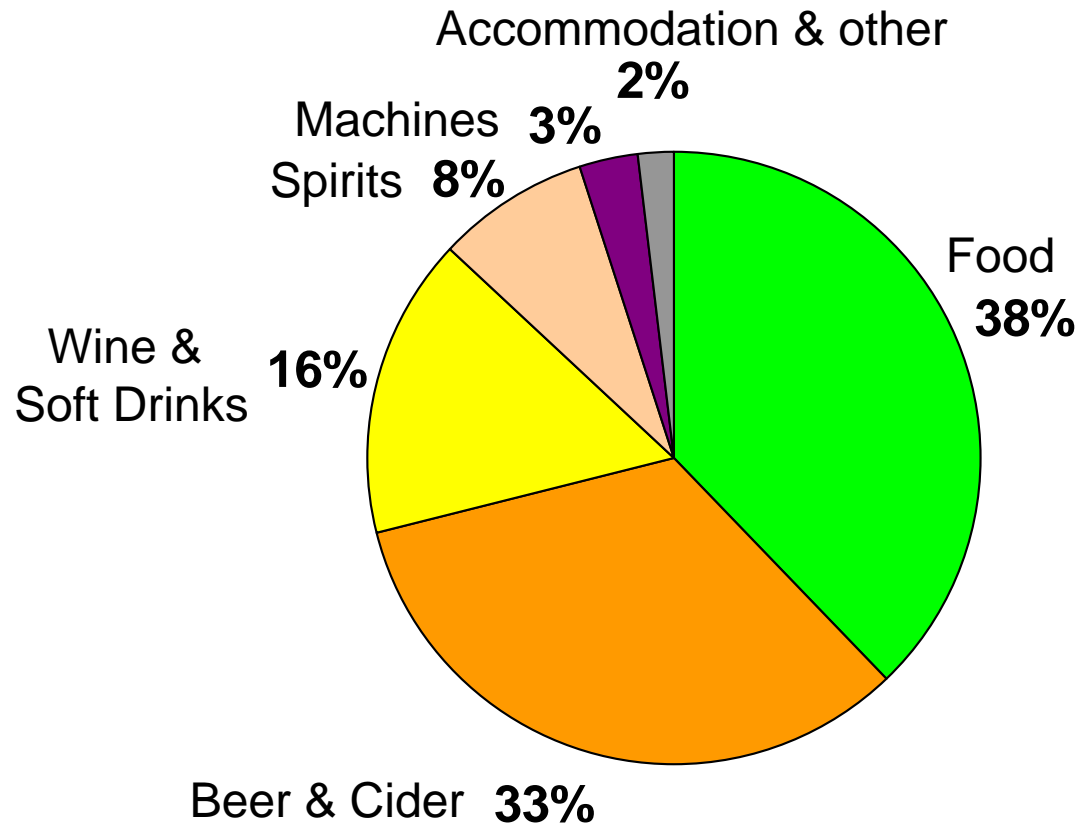
# Managed Estate Profit Contribution

£m	Spirit core managed	Like for like growth	Mill House Inns (48 weeks)	Transition estate	Total
Ending No. of Pubs	758		78	51	887
Average No. of Pubs	758		72	361	1,191
Drink	372	2.3%	23	125	519
Food	246	5.8%	15	24	286
Machines income	17	-5.3%	2	11	30
Other	15	9.6%	4	7	25
<b>Total revenue</b>	<b>649</b>	<b>3.5%</b>	<b>44</b>	<b>167</b>	<b>860</b>
Drink	282	3.1%	17	97	397
Food	159	4.5%	10	13	182
Machines	17	-5.3%	2	11	30
Other	15	9.6%	4	5	24
<b>Gross margin</b>	<b>473</b>	<b>3.5%</b>	<b>33</b>	<b>126</b>	<b>631</b>
Labour costs	(166)	-2.6%	(13)	(43)	(222)
Utilities	(22)	-28.0%	(2)	(9)	(33)
Other pub costs	(69)	-5.1%	(7)	(28)	(104)
Rent payable	(35)	-3.2%	(1)	(9)	(45)
<b>Outlet EBITDA</b>	<b>181</b>	<b>1.4%</b>	<b>10</b>	<b>38</b>	<b>228</b>

Like for like growth relates to 755 outlets owned by Spirit for the whole of FY06 and FY07  
Transition estate comprises pubs sold during the year and pubs which do not fit into the four core divisions



# Core Managed Sales Mix

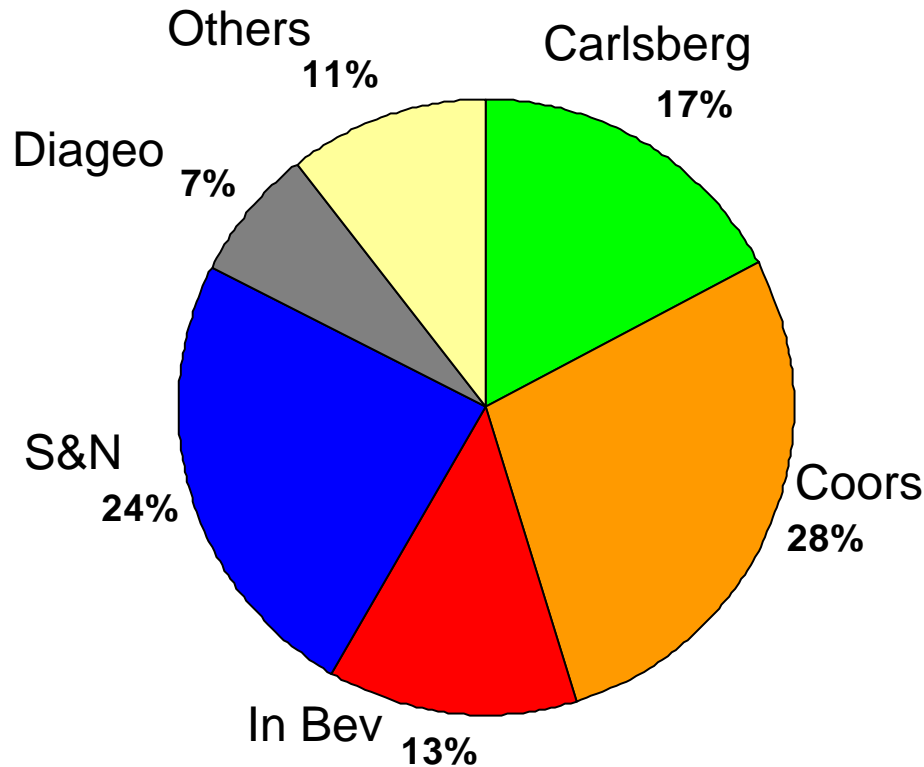


Well positioned to capitalise on consumer expenditure growth in eating out

Sales in the core managed estate (Year to August 2007)



# Beer Supply Mix



Revised deals agreed with the majority of our major suppliers during the year

Beer mix by supplier (Year to August 2007)



# Developing the Business

- Matthew Clark joint venture
  - Matthew Clark is UK's largest independent drinks wholesaler and distributor with wide product range and sales expertise
  - Normalised EBITDA of £15m with experienced management team
  - Punch investment £35m for 50% ownership with Constellation Europe
  - Earnings enhancing: Punch's share of post-tax profit for the 4-months post acquisition is £1.6m
  - Opportunity to extend our range of goods and services to leased retailers, and drive synergy benefits through purchasing contracts



# Illustrative Investment Considerations

## HOW TO SPEND £100m FREE CASH

	incremental EBITDA	incremental PBT	EPS accretion (p)
Investment (20% return)	20	20	5.3
Acquisition - (£400m at 11% return)	44	23	6.1
Share buy back @ £10 per share			3.3
Repay debt at 7%		7	1.8

## GROWING SHAREHOLDER FUNDS

