

# PUNCH TAVERNS PLC

("Punch" or "the Group")

On track to meet expectations, encouraging recent trading

## Interim Management Statement for the 44 weeks to 26 June 2010

Punch Taverns plc announces its Interim Management Statement for the 44 weeks from the start of the financial year on 23 August 2009.

### **Market Overview**

Market conditions remain challenging given the relatively weak UK consumer environment. We have also seen a marked variation in seasonal trends, with a disappointing snow affected performance in January being more than offset by the good weather benefit seen in May/June. In more recent weeks, trading during the World Cup has been good with like for like sales growth over this period.

### **Trading**

We remain on track to meet our expectations for the financial year.

In Punch Partnerships, our leased and tenanted division, the percentage of pubs on substantive agreements has increased to 84%. Only c.200 of our pubs are currently closed, with the majority of these expected to be sold within the next 6 months. Financial support to our partners has remained stable at just under £2 million per month and we are seeing the benefit of this support with the level of pubs returned from our partners since the half year being less than half the rate experienced for the last two years. Average outlet EBITDA per pub is down 5%, benefiting from estate churn. We continue to invest in the future of our core estate and are on target to invest in over 800 pubs by the financial year end. Management actions have had a positive impact in strengthening the estate with a more stable partner base and fewer closed pubs; however profits remain under pressure as lower drinks margin coupled with reduced rental income from returned pubs impacts profit. Consequently, like-for-like profit decline remains at a similar rate to that reported for the half year.

In Punch Pub Company, our managed division, like-for-like sales in the 44 week period were 2.7% below last year. This reflects improved trading from the half year when sales for the first 28 weeks were down 3.4%. Operating margins have continued to improve since the half year and remain broadly in line with last year. Our pub investment programme and trial and roll-out of new pub concepts continue apace and returns on investment continue to be in line with our expectations. We expect to have invested in over 200 pubs during the course of the full financial year to August 2010.

### **Estate Management**

Over the past four years the strategy of actively churning our pub estate has resulted in a significant improvement in the quality, sustainability and long term growth opportunities of our pubs. This strategy has continued during the course of this year with the disposal of 748 leased and 29 managed pubs, mainly from the non-core estate, together with other assets, generating proceeds of £230 million and £33 million respectively.

The disposals have achieved book value and at an average multiple of 15 times outlet EBITDA. Annualised lost EBITDA from disposals amounts to £15 million and £2 million in the leased and managed divisions respectively. For the full year we anticipate net disposal proceeds of c.£300 million.

## **Financing**

We have made good progress in strengthening our balance sheet. Since the start of the financial year we have reduced gross debt by £664 million, being 16%, £638 million of which was bought back ahead of schedule, at a cost of £617 million excluding swap break costs. Net debt at 26 June 2010 stood at £3.2 billion.

Following the repayment of our convertible bond, all of our debt is in the form of long term mortgage type finance which has a weighted average life of 17 years, secured on over 6,600 of our pubs. The debt fully repays over terms extending to 25 years and is effectively at a fixed rate of interest of 6.8%. We have no bank debt or bullet finance, consequently we have no refinancing requirements.

The equity fund raising undertaken in July last year has provided us with additional resources held at Group level. As at 26 June 2010, we had £170 million of free cash and £137 million of bonds (at nominal value) held at the Group level. These resources have been, and will be used to underpin the net asset value of the Group for our shareholders by protecting the debt structures against default. We have three debt finance structures: Punch A, Punch B and Spirit, all of which have a key DSCR (Debt Service Cover Ratio) financial covenant. Headroom against these covenants has been maintained by our actions in prepaying certain tranches of debt and by utilising cash held outside the debt structures to support the profit performance within them. The annualised cost of this support is anticipated to be c.£45 million evenly spread across the Punch A and Punch B structures.

While current trading continues to be in line with our expectations, given the challenging market environment there could be circumstances where forecast revenues or cash flows are lower than expected. While the level of headroom in our DSCR covenants can be maintained through the support mechanism outlined above, this might increase the level of annual cost. However, we remain confident that the action we have taken and continue to take will provide sufficient headroom to allow us to meet our financial covenants going forwards.

## **Legislation**

While we welcome the new Government's decision in the June budget to reverse the 10% duty increase on Cider, it is disappointing to see that the RPI+2% beer duty escalator remains in place. This combined with the announced 2.5% VAT increase in 2011 will put further unnecessary pressure on the pub trade. Whilst we recognise that the Government needs to take steps to bring the economy back into line, we hope that the VAT increase will be a short term measure that will be rebalanced in the future. We would encourage the Government to recognise the important role that pubs play in local communities and the wider economy and to take positive steps to reduce the tax burden on our licensees.

We continue to work closely with key industry bodies and groups to build a stronger platform for the industry. We are pleased to confirm that our new Code of Practice has been fully accredited by the BII. The Code, which exceeds the BBPA Framework Code of Practice, sets the framework for transparent relationships with our partners as we implement our Pathway to Partnership change programme. Our new Punch Buying Club agreement offering options on Free of Tie Pricing and Guest Ales remains on track to launch in September 2010.

## **Board changes**

As previously communicated, the Board is pleased to announce that Ian Dyson will take over as Group CEO on Monday 6 September 2010. Giles Thorley will remain in the role of Group CEO until that time to complete an orderly handover.

## **Outlook**

We expect the trading outlook in the near term to continue to be uncertain. The tax rises and reduction in public spending announced in the recent budget will inevitably put further pressure on unemployment levels, reduce disposable incomes and constrain consumer confidence. Against this backdrop, we believe it is sensible to plan cautiously and have prepared our financial plans accordingly.

However, we are encouraged by our current trading momentum and are confident that the business change programmes and continued management actions in both sides of our estate are strengthening the business to deliver solid longer-term operational performance.

**6 July 2010**

**ENQUIRIES;**

**Punch Taverns plc**  
Phil Dutton, Finance Director

**Tel: 01283 501703**

**Smithfield Consultants**  
John Kiely

**Tel: 020 7360 4900**

**Conference Call**

There will be a conference call for analysts and investors at 8.30am today on (UK) 0871 700 0345 or (International) +44 (0) 1452 555 566, Conference ID 85600358. 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.