

19 July 2011

**Leisure: Greene King (GNK): 480p
Agreed offer for Capital Pubs @ 235p**

- Greene King has this morning announced an agreed cash offer of 235p per share for Capital Pub Company
- The bid values Capital Pub's equity at £70m and implies an enterprise value of £93m
- Capital's agreed final dividend of 2.25p per share will no longer be paid
- The target company's directors are unanimously recommending the deal and will be voting their shares (c9.8% of the group) in favour
- Greene King has irrevocable acceptances totalling some 33.7% of Capital's equity, suggesting that the transaction is virtually a done deal
- The purchase, at some 10.4x historic house EBITDA for the year to end-March 2011 (and at a little short of £3m per pub), will provide the enlarged Greene King with some 250 pubs in the Greater London area
- Despite coming at a 17.5% premium to Fuller's indicative price, Greene King reports that the deal will be earnings enhancing in its first full year and returns will exceed the cost of capital in year one
- Greene King suggests that the deal represents a 'fair price for a high quality, largely freehold pub estate' and will update analysts further at 8am

Langcap view: Greene King continues to acquire good quality assets albeit at full prices. The company, via its purchases of Cloverleaf, Realpubs and now Capital, is paying a material premium to build cost but is taking share in selected markets. The group, whose shares should generate around 51p for the current year and perhaps 54p in 2012/13 suggesting that the company's shares trade on little more than 10x this year's earnings, will update further at 8am

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