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## PUNCH TAVERNS (PUB): 16.5p Debt Restructuring Conference Call

*Punch hosts conference call to detail restructuring proposals...*

Year to end-Aug	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2012 (A)	52.4	7.2	2.3	Nil	Nil
2013 (A)	17.0	5.7	2.9	Nil	Nil
2014 (E)	46.0	5.4	3.1	Nil	Nil

Source: Company & Broker Estimates

### Proposed Debt Restructuring:

Following the announcement of its final debt restructuring proposals, Punch Taverns hosted a conference call for analysts and our comments are as follows:

#### Current Trading:

- Punch updated on current trading saying that the recent improvement in trading has continued
- Core LfL EBITDA is up by 1.5% in the first 20 weeks – guidance for the full year remains up 1% as summer comps will be tough
- Disposals are being made (c£25m in year to date) at slightly ahead of book. The investment in the estate, at c£100k per pub, is continuing with £45m thus far spent over 400 pubs

#### Restructuring Introduction:

- The securitisations are over-levered and unsustainable. Current leverage is c9x EBITDA in Punch A and c8.4x in Punch B
- Failure to agree would likely lead to appointment of a receiver. Swap losses would crystallise (c£242m) and cash in the securitisations, £123m in A and £65m in B, would be used to prepay class A notes.
- The appointment of a receiver would be 'value destructive for all stakeholders'

#### Basic Terms:

- Creates a 'robust & sustainable debt structure' with next target bullet maturities not until 2028 in A and 2020 in B
- The A's in both securitisations are reinstated in full with modified Spens terms

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Market Cap: £106m  
12m range 6.5p 16.5p

- Debt would fall from \$2.33bn to £1.83bn (due to redemptions at a discount) and leverage would fall from 11.0x to 8.7x
- There would be £500m less in contractual debt-servicing payments over the next five years

#### The Response of the ABI:

- The ABI has commented this morning saying 'the revised proposals announced by Punch today were not agreed with the Committee prior to announcement.'
- It goes on to say 'the Committee and its advisers have had limited interaction with the Company and its advisers since the previous proposal announced on 9 December 2013'
- And it adds 'the Committee's advisers did not have sight of transaction documents prior to today's announcement.'
- In the circumstances, it says 'the Committee and its advisers are reviewing today's announcement, and proposed transaction terms.'
- The ABI reminds readers that its note-holders have blocking stakes in a number of classes of Punch A and B notes, including the Class A of both transactions.
- The ABI has responded to each of the prior restructuring proposals and has dismissed them quickly. That it has not done so today may be 1) partly because the terms are nearly acceptable but also 2) because the use of the word 'final' has raised the stakes

#### Conclusion:

- Chairman Stephen Billingham repeated that he believes this is 'a good deal' and that there is now 'operating momentum in the business'

#### Langton Comment: The presentation was useful but changes little.

The management seem to mean it when they say that the proposals are final and have thus, if this is correct, put the ball in the ABI's court.

The ABI has responded but has responded less negatively than hitherto. This is perhaps not surprising given the use of the word 'final' but it is to be hoped that the body's members can find common ground.

Of course the senior bondholders, whose instruments are trading in most cases above par, could always sell in the market. They are debt holders, after all, and didn't sign up for an equity profit in the first place, rather for interest and their capital back and both are on offer either from Punch or from the bond market.

And could a junior bond holder scupper the deal? Possibly but why? There may be an attempt at greenmail but the deal is 'final' and any junior bondholder would surely only succeed in crystallising a loss.

Hence we may have a nervous few weeks ahead of us but, as mentioned on a number of occasions, there is a lot to play for and some grounds to hope at least that common sense can be made to prevail. See also our 8am note.

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