Langton Capital Limited

17 November 2015

ENTERPRISE INNS (ETI): 95p
Full Year Results – Year to 30 Sept 2015:

Group says has made 'further operational progress' adds its 'strategic execution [is] on track'

Year to end-Sep	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2014 (A)	121.0	19.0	5.0	Nil	Nil
2015 (E)	116.3	18.7	5.1	Nil	Nil
2016 (E)	124.3	19.1	5.0	Nil	Nil

Source: *Company & Broker Estimates*

FY Results: Year to 30 Sept 2015:

Enterprise has today released full year results for the year to 30 September 2015 and our comments are set out below:

- The group has achieved LfL income growth of 0.8% in the year as a whole and +1.0% in the fourth quarter
- Revenue is £625m (2014: £632m) and the group has generated pre-exceptional EBITDA of £296m (2014: £302m).
- Pre-exceptional PBT was £122m against £121m last year
- Adjusted EPS is up 2.1% at 19.4p (2014: 19.0p) and there is no dividend. LfL sales trends are shown below:

Tab.1. Enterprise Inns LfL Income Trends:

Period	Ave.income per pub (%)	LfL income per pub (%)	LfL income, substantive estate (%)
H1 – 2008/09	-8.0		
FY – 2008/09	-8.0		
H1 – 2009/10	-3.1		
FY – 2009/10	-2.0		
H1 – 2010/11	0.0	-5.0	-1.5
FY – 2010/11	+1.0		
H1 – 2011/12	+3.2	-1.6	+1.5
FY – 2011/12	+2.6	-1.2	+2.2
H1 – 2012/13		-4.2	
Est. 'real' decline		-2.0	
Q3 – 2012/13		-2.7	

Find us at:

Recent News Here:

- *Today's email*
- *Recent emails*
- *A day in the life...*
- *Who we are, what we do...*
- *Upcoming news-flow*
- *Recent company updates*
- *Thematic pieces*
- *LinkedIn profile*

Market Cap: £508m
12m range 95p - 136p

Mark.brumby@langtoncapital.co.uk
Suite 415, No1 Alie Street, London, E1 8DE
020 7702 3389

Q4 – 2012/13	+0.6
FY – 2012/13	-2.9
H1 – 2013/14	+1.1
Q3 – 2013/14	+2.1
Q4 – 2013/14	+0.5
FY – 2013/14	+1.4
First 18w 2014/15	+0.3
H1 – 2014/15	+0.6
FY – 2014/15	+0.8
Of Which Q4	+1.0
First 6w of 15/16	'in line'

Source: Company Reports

Operational & Strategic Highlights:

- Enterprise reports 'the execution of our strategic plan for the business is on track.'
- It says 'delivery of this plan will ensure we can best serve our publicans and communities whilst providing a clear path to maximising shareholder value through the optimisation of returns from every asset within our estate.'
- The plan involves:
  - Creating a re-invigorated tied tenanted business. Here business failures are down a further 18%
  - Building a managed business. The group now has 35 managed units (as at 30 September) including a first 'managed expert' pub
  - Creating a quality commercial property portfolio – now 213 sites
  - Investing and disposing where appropriate. Some £69 million (2014: £66 million) has been invested in the estate and net proceeds from the disposal of primarily under-performing assets was £75 million

Balance sheet, capex & other:

- Enterprise says 'our balance sheet remains strong with a total net asset value of £1.35 billion (2014: £1.40 billion).'
- It says 'group net debt includes the most significant liabilities in the balance sheet and has reduced to £2.3 billion (2014: £2.4 billion) during the year.'
- The group points out that it has a balance sheet net asset value of 270p per share
- Enterprise says 'we have a long-term, secure, flexible and tax efficient financing structure comprising bank borrowings, securitised notes and corporate bonds.'
- It adds 'we are a cash generative business and have used excess cash flows to reduce debt.'

Conclusion:

- CEO Simon Townsend 'we are pleased to report further operational progress and a second, successive full year of like-for-like growth in net income across our leased, tenanted and free-of-tie estate.'
- He says 'trading in the first six weeks of the new financial year has been in line with our expectations and continues to maintain our growth momentum.'

Mark.brumby@langtoncapital.co.uk
Suite 415, No1 Alie Street, London, E1 8DE
020 7702 3389

- Mr Townsend adds 'while the market in which our pubs operate remains highly competitive, and as we prepare for the implementation of new legislation in 2016, we are encouraged by the continuing momentum of our business, reflecting the exceptional efforts of our publicans and the strength of our relationships with them.'

- He says 'the implementation of our strategic plan is on track, providing us with greater flexibility with which to optimise returns from each of our assets and deliver greater value to our shareholders' and adds 'our managed house estate is being successfully expanded and our commercial property portfolio continues to grow in both scale and quality in line with our plans.'

Langton Comment: Enterprise has reassured that its transformation, though clearly still not without risk, is on track.

It's leased and tenanted business is stable, it now has a working managed operation, it has identified the first units to be operated in its commercial property division and has continued to make capital investments and to dispose of pubs.

Trading is a little slower in H2 than H1 but this appears to be confined to Q3 with Q4 amongst the best in the year.

Current trading is in line and, as the group is pencilled in to earn around 19p in the current year, the group's shares trade on an undemanding 5x earnings.

Of course debt is still high and there is no dividend. The former is reducing and a move re the latter would be welcomed by the market.

The group's shares have fallen by around 30% over the last 6mths or so and this looks a little over-done. Whilst the MRO remains unclear as to the detail and Enterprise still has to execute on what appears to be a sensible growth strategy, its shares look relatively cheap.

Contact – Mark Brumby - +44(0)20 7702 3389

mark.brumby@langtoncapital.co.uk