25 Sep 2013

Following the announcement of its FY numbers this morning, Punch Taverns hosted a webcast meeting for analysts and our comments are set out below:

- **Trading:** Group reminded listeners that the core estate is c3,000 units & that it is performing in line with expectations
    1. Core units are in the balance sheet at 737k per pub whilst non-core are only 290k
    2. EBITDA for the year was ‘slightly ahead’ of guidance
    3. Tax rates will fall a little further
    4. Group reiterated its c1% expected LfL growth in core this year, 1% to 2% in FY15 and c2% in FY16 and thereafter
    5. Non-core (in FY13) was down by c5% LfL – the substantively let pubs fell by only 2% with pubs for disposal doing the damage
- **Strategy & operational review:** This was addressed at some length (attracting lessees, sourcing good pubs etc.) and has been somewhat overlooked by (worried) investors over recent years
    1. Good operators: Approach has evolved to attract good operators; just over 50% of applicants are now from outside the industry
    2. Good pubs: investment catch-up is ‘ahead of plan’ & has allowed introduction of Punch Foundation Tenancy
    3. Good offer: was 22%, currently 27% from food with a target of 35%; food will ‘be a driver, but these are still pubs’
    4. Good growth prospects: helping with free wifi, Punch buying club, sustained help etc.
    5. Other: the group is addressing its pubs for disposal, plan is to either sell now, sell later, protect or return to core
- **Cash flow, balance sheet & disposals:** The group is ‘slightly ahead’ of where it planned to be on disposals
    1. Disposals netted £149m in FY13 and this may fall a little to c£100m in the current year (c350 pubs)
    2. Group remains ‘highly cash generative’
    3. Capex was £58m but may fall to c£45m this year
    4. The group has cash both in and outside its securitisations + these will be partially utilised ‘in the upcoming restructuring’
- **Debt & Restructuring:** The group has reiterated that it believes it can come to a ‘consensual agreement’ during Q4 of this financial year
    1. The discussions now include the ABI’s steering committee
    2. Net cost of support of securitisations in FY13 was £23m
    3. Net cost of support in FY14 would be ‘significantly higher’
    4. Failure to effect a restructuring ‘may result in a breach’

Langcap Comment: Presenting to a TV camera rather than a room full of analysts, Punch nonetheless managed to convey the impression that trading, debt negotiations and life in general, though difficult, was on something of an improving trend.

Risks remain very material both on the downside but also on the upside and, should Punch, a company that (excluding write-downs) has yet to make a loss and

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that continues to make its interest payments, be successful in restructuring its balance sheet, then the shares may prove to be very good value indeed.

It has yet to breach its covenants, it is currently still in the driving seat with its bond holders, it has cash outside the securitisations, a 50% share in Matthew Clark and what may be arguably thought of as options on two very large (but currently out of the money) parcels of pubs.

The group's debt is fixed in nominal terms and, should inflation pick up, its real value would fall. Depending upon clients' attitude towards risk, the group's shares could be attractive.

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25 Sep 2013

Punch Taverns has this morning reported full year numbers to its 17 August year end and our comments are set out below:

- Punch Taverns has this morning reported full year numbers to 17 August saying that EBITDA came in at £216m against £238m last year – it guided to 'between £210m and £220m' on 2 September
- The group has reported a PBT of £49m against £64m in 2012 and generated earnings per ordinary share of 5.7p (2012: 7.2p)
- The group says that it has a 'strong cash position' with net debt having fallen by £122m (being 6%)
- Re trading, the group updated to its year end on 2 September, so new trading news is limited
- The group has seen 'improving LfL trends in net income' with core estate net income up 0.4% in Q4
- Core LfL income is down 2.4% on the year (though on a rising trend) with the group saying this is 'ahead of guidance of -3% to -4%' and recent trends are shown below:

Period	***LfL EBITDA/pub % (Total estate)***	***LfL EBITDA/pub % (Core estate)***	***LfL EBITDA/pub % (Non-core estate)***
FY 07/08	-3.4		
H1 2008/09	-11.3		
H2 2008/09			
Full year 2008/09	-11.0		
H1 FY 2009/10	-11.0		
Full year 2009/10	c-11		
H1 2010/11	-7.0		
FY 2010/11	-5.2	-2.1	-13.0
H1 (28w) 2011/12		-2.1	
FY 2011/12		-3.7	
First 16w 2012/13		-5.2	
Second 12w of 12/13		-3.5	
FY 2012/13		-2.4	
Q4 FY 2012/13		+0.4	

Source: Punch Taverns

- **Trading:** The group has benefited from a continued improvement in like-for-like trends in net income through the year
- Some 96% of the core estate is now let on substantive agreements, up from 94% at August 2012
- During the year, the group has made 476 core investments at an average spend of £102k per pub – the group plans to invest in 2,900 units over five years

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- Food mix has picked up, the group is providing 'increased field support' and the Punch Buying Club is now used by 90% of lessees, up from 72% a year ago
- The group has introduced the Punch Foundation Tenancy (PFT) under which it provides partners with a refurbished unit, ready to go
- Some 48 pubs are operating under PFTs, drink sales are up by 50% in such units and the group says 'we plan to extend to c200 pubs in 2014'
- Some 433 pubs have been sold for £149 million; this is ahead of book value and has been achieved at a multiple of 18x EBITDA
- A total of 116 units have been transferred back to the core division 'following the improvement in the performance of a number of pubs'
- **Debt restructuring:** There is no change to guidance.
- Here the group says it 'has continued an extensive process of engagement with a broad range of stakeholders'
- This has 'taken longer than previously anticipated (but) the Board believes that a consensual restructuring can be launched in the fourth quarter of the 2013 calendar year'
- It will update 'in due course' but seems here to be reassuring that the process is ongoing and the group, whilst cautioning that there are 'material uncertainties', has reported its numbers as a Going Concern
- The group has traded in line with expectations and Executive Chairman Stephen Billingham says 'we have made excellent progress in implementing operational changes' and reassures that 'expectations of future income growth for the core estate remain unchanged'
- The core should 'return to like-for-like net income growth of up to 1% in the new financial year and between 1% and 2% (in 2015) before returning to a long-term net income growth rate of c.2% in the 2016 financial year

Langcap Comment: Punch has reported numbers in line with its management's expectations and is now registering positive LfL EBITDA numbers, at least in its core estate.

And it is selling non-core units, investing in those units that it intends to keep and its discussions with its bond holders are ongoing. Crucially, the group considers itself to still be a Going Concern and believes that an agreement can be concluded before the end of December.

If the group is successful in selling off its non-core units at above book, in turning around the performance of its core estate and in refinancing its debt, then its shares are very cheap indeed.

On the other hand, if any or all of the above things do not happen, then there may not be a short term trigger for the failure of the group but its future would nonetheless look bleak.

Forecasts are relatively meaningless at the moment but, for the sake of completeness, the market is expecting something in the region of 5.2p of earnings in the new financial year, suggesting that the group's shares trade on a PER of a little over 3x.

Any move to re-schedule the company's debts along the lines proposed early in the year would be very welcome news but this is 'taking longer' than had been anticipated and may require concessions to be made to bondholders.

In the meantime, the group's equity represents a small cash pile in PLC (perhaps 8p - 10p), a 50% share in Matthew Clark and what may be arguably thought of as options on two large, but very out of the money securitisations.

Any uptick in inflation would arguably bring the attractions of fixed nominal levels of debt to the fore. Punch's shares carry a material level of risk but the potential upside is also significant – and non-symmetrical in that the shares can only fall by 100% but are theoretically capable of rising by much more.

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2 Sep 2013

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Punch Taverns has this morning updated on trading to its 17 August year end and our comments are set out below:

- Punch Taverns has this morning updated on full year trading saying that average net income per pub rose by 1.5% in the full year
- The group reports that LfL EBITDA per pub in its core estate was a positive 0.4% in Q4 (down 2.4% on the full year – was down 3.5% om Q2 and down 5.2% in Q1)
- Recent trends are shown below:

Period	***LfL EBITDA/pub % (Total estate)***	***LfL EBITDA/pub % (Core estate)***	***LfL EBITDA/pub % (Non-core estate)***
FY 07/08	-3.4		
H1 2008/09	-11.3		
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Full year 2009/10	c-11		
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H1 (28w) 2011/12		-2.1	
FY 2011/12		-3.7	
First 16w 2012/13		-5.2	
Second 12w of 12/13		-3.5	
FY 2012/13		-2.4	
Q4 FY 2012/13		+0.4	

Source: Punch Taverns

- **Trading:** The group has benefited from 'improving like-for-like trends in net income' and reassures that 96% of the core estate is now let on substantive agreements, up from 94% at August 2012
- During the year, the group has made 476 core investments at an average spend of £102k per pub – the group plans to invest in 2,900 units over five years
- Some 433 pubs have been sold for £149 million; this is ahead of book value and has been achieved at a multiple of 18x EBITDA
- **Debt restructuring:** Here the group says it 'has continued an extensive process of engagement with a broad range of stakeholders'
- This has 'taken longer than previously anticipated (but) the Board considers that a consensual restructuring can be launched in the second half of 2013'
- It will update 'in due course' but seems here to be reassuring that the process is ongoing
- The group has traded in line with management expectations and will report full year underlying EBITDA 'of between £210 million and £220 million'

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- The core should ‘return to like-for-like net income growth of up to 1% in the new financial year and between 1% and 2% (in 2015) before returning to a long-term net income growth rate of c.2% in the 2016 financial year’
- Chairman Stephen Billingham concludes ‘we have made excellent progress in implementing operational changes that we expect will deliver further improvements in the underlying performance of the business.’
- He concludes ‘we are encouraged by our first quarter of net income growth since demerger, and we reiterate our previous expectations of net income growth in the core estate for the years ahead.’

Langcap Comment: Punch is trading in line with its management’s expectations and is now registering positive LfL EBITDA numbers, at least in its core estate.

And it is selling non-core units, investing in those units that it intends to keep and its discussions with its bond holders are ongoing.

If the group is successful in selling off its non-core units at above book, in turning around the performance of its core estate and in refinancing its debt, then its shares are very cheap indeed.

On the other hand, if any or all of the above things do not happen, then there may not be a short term trigger for the failure of the group but its future would nonetheless look bleak.

Forecasts are relatively meaningless at the moment but, for the sake of completeness, the market is expecting something in the region of 5.5p of earnings in the current year, suggesting that the group’s shares trade on a PER of around 2x.

Any move to re-schedule the company’s debts along the lines proposed early in the year would be very welcome news but this is ‘taking longer’ than had been anticipated and may require concessions to be made to bondholders.

In the meantime, the group’s equity represents a small cash pile in PLC (perhaps 8p - 10p), a 50% share in Matthew Clark and what may be arguably thought of as options on two large, but very out of the money securitisations.

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13 June 2013

Following Punch Taverns' comments on its proposed debt restructuring on Monday, the ABI has responded and Punch Taverns has commented on that response and our comments are set out below:

- **The ABI's comments & the Punch response:**
- **Lack of contact:**
    1. The ABI maintains that neither it nor its legal advisors have had any involvement in the negotiation of the Revised Restructuring Proposals
    2. Punch maintains 'there are a number of statements made by the ABI Special Committee in their statement today (yesterday) that are inaccurate'
    3. The company says it has attempted to contact the ABI 'on no less than five separate occasions during the last month.'
    4. It continues 'even on 6th June 2013, the ABI Special Committee declined in writing a request for a meeting by Punch and stated that 'the Committee believes it will be very useful to have discussions with you once the revised proposal is made public'.'
    5. Punch adds Punch further notes that the ABI Special Committee and its advisers failed to attend the stakeholder meeting held today (yesterday)'
    6. Hence the ABI's comment is not inconsistent with that of Punch but Punch maintains the lack of contact is not for want of trying
- **Lack of access to due diligence materials:**
    1. The ABI says 'our financial and legal advisers have not been provided with access to material parts of the standard due diligence information requested by them'
    2. Punch says that 'extensive due diligence materials have been made available to all parties, including the advisers to the ABI Special Committee.'
    3. It then goes on to list material including the legal documentation and models that it has made available
    4. Punch says 'the majority of this information was made available to the ABI Special Committee's advisers in 2012'
- **Underlying issues:**
    1. Punch says that it is disappointing that it has not been able to engage
    2. It says that 'one matter where Punch has been unable to reach agreement with the advisers to the ABI Special Committee relates to their professional fees'
    3. It says 'the Board considers these fee demands to be disproportionate to all other adviser fees'
    4. Both sides suggest that it is unsatisfactory to make proposals publicly whilst not speaking directly – yet both sides are continuing to do so
- Where to from here?
    1. Some elements (but not many) of the ABI comment are conciliatory

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2. The body (the ABI) wants more details but it did not attend the stakeholder meeting yesterday
3. As concessions have been made (by Punch), some ABI members may be more willing to accept the deal
4. The solidity of the ABI case, with Punch now suggesting that its advisors are charging too much in fees, may be tested
5. The ABI's advisors maintain that they have blocking positions but, if some of its members were to defect rather than presumably see the company put into administration, this could be up for review

- **Press comment & other:**
    1. Various observers including elements of the Press have suggested that this has descended into a bar-room brawl
    2. The pun was perhaps irresistible but that does not mean that it is not somewhat accurate

Langcap Comment: The public brawling is perhaps a little disturbing but may simply be a more public airing of what is likely to go on behind the scenes in most restructuring and the fundamentals have not changed.

Punch's equity remains the product of taking one large number (freeholds) and knocking off another (debt). If the scheduled amortization of the debt can be prevented (via a restructuring) from putting the company into breach, it has to be remembered that the group is paying its interest c1.35c over and, excluding write-offs, it has never made a loss.

The game may still be very much worth the candle and, though some bonds would retain their capital even if the entire company fell down, others (and certainly the equity) would not.

This may lead to an inconsistency in approach with some 'stakeholders' more willing to face the abyss than others but, as many bondholders will hold more than one category of bond, they may be held back from taking the ultimate step because they would lose elsewhere in their portfolios

It remains the case that, if Punch is successful in re-scheduling its debts, equity will have a 20+ year (currently out of the money) option on two large securitisations and this is potentially valuable.

Should a bout of even modest inflation occur, asset values should rise whilst debt would remain fixed. The equity value would inflate and the value per share could have material upside. This is not, however, without very significant risk. For interest, yesterday's Tweets are included below:

- *Punch: big company but small market cap; the fate of billions + billions of debt + assets is being determined here*
- *Punch: Bond holders (ABI) says it 'considers that it is unlikely that it will be able to support a proposal' re refinancing*
- *Punch: ABI accepts 'certain key terms remain to be clarified'; wants info on cash-out option + reiterates it wasn't consulted pre the RNS*
- *Punch: ABI interested in notes that waive their rights to prepayment + terms at which unnamed junior Noteholder would exchange its Notes*
- *Punch brinkmanship: 'going concern' issues will soon loom up + directors won't trade if knowingly insolvent; so when is a bluff not a bluff?*
- *Punch brinkmanship: both sides threatening to burn down the house? Petrol flying around, lit matches etc. but game's still worth the candle*
- *Punch brinkmanship: ABI publicly proposes that 'process of making public proposals…is unsatisfactory + is not conducive to agreeing terms'*
- *Punch debt: ABI 'represents blocking positions in all the classes of senior notes' but could concessions lead some members to defect?*

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Langton Capital Limited

11 June 2013

Following Punch Taverns' comments on its proposed debt restructuring yesterday, some facts have become apparent from a closer reading of the documentation and a number of parties have made their views known. Our comments are set out below:

- **The Proposals:**
- Whilst the restructuring proposals are subject to the agreement of a number of stakeholders, Punch Taverns has given some details as to what it has in mind:
    1. The removal of the ability to upstream surplus cash from the securitisations, save for £4m from Punch B, should remove one of the senior bond-holders' major objections
    2. The suggestion that junior bondholders should cancel some of their notes in exchange for cash (at a discount to par) and take reinstated notes at par has been supported by at least one 'substantial junior bondholder'
    3. Punch B, B1 notes would be written down by 17.0%, B2 notes by 17.9% and C1 notes by 73.9%
    4. The suggestion that an element of junior bondholders' coupon should be rolled up would, if accepted, ease the group's cash constraints
    5. Each class of notes would see their maturity extended by five years – but the aspiration would be repay sooner
    6. Covenants would be simplified and focus on leverage rather than net worth and DSCR covenants
    7. Cash interest costs per annum would be reduced by £21m in Punch A and by £11m in Punch B
    8. Some £157m of cash in the securitisations would be used to redeem senior notes on day one
    9. The 'cash out' terms (details to be announced) would allow some potentially unhappy bondholders to exit – some bonds are currently trading at above par
- **Various Views & The Way Forward:**
- Stakeholders will continue to jockey for position but we would highlight the following:
    1. Punch says the it believes its proposals 'are capable of obtaining the support of a sufficient number of stakeholders to allow them to be implemented'
    2. Perhaps it would, wouldn't it? The company goes on to say 'it has not been possible to reflect all of the views' in the revised proposals
    3. The ABI has not been consulted and says 'these proposals had not been discussed with the Committee before publication'
    4. The ABI, 'which represents blocking positions in all the classes of senior notes of both Punch A and Punch B, is currently considering the proposal'
    5. The company may face 'going concern' questions from its auditors post its August year end

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6. This may be determining the timetable by which proposals will be put to stakeholders before the end of this month
7. The PLC will now seek to arrange meetings for this week
8. If there is no agreement?
    1. Opinions differ. The securitisations may go into default; they may go their separate ways, lose any synergies that they currently have and appoint managers for their pubs
    2. PLC would have sufficient cash to continue for some time – and it would not support the securitisations going forward
    3. Getting cash out, however, may not be possible due to some cross guarantees such as that for the Punch B pension fund

- **Other & Conclusion:**
    1. The disposal programme is 'ahead of our target to realize £105m of net proceeds' in 2012/13
    2. A meeting should be called this week; agreement may or may not be forthcoming but proposals will most likely be put to stakeholders by end-June
    3. Some categories of bonds would receive back all of their capital even if there was no agreement but others would not
    4. There remains a great deal of risk but also material share-price upside should a deal be agreed

Langcap Comment: Punch's equity is the result of taking one large number (freeholds) and knocking off another (debt).

This is currently thought by the market to be a small number and it may be, on some measures, negative. However, if Punch is successful in re-scheduling its debts, equity will have a 20+ year, admittedly out of the money, option on two large securitisations and this is potentially valuable.

Should a bout of even modest inflation occur, asset values should rise whilst debt would remain fixed. The equity value would inflate and the value per share could have material upside. This is not, however, without risk.

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10 June 2013

Punch Taverns has this morning updated on Q3 trading & revised its debt restructuring proposals and our comments are set out below:

- Punch Taverns has this morning updated on Q3 trading, saying that it is 'on track to meet full year expectations'
- The group has also revealed revised restructuring proposals that will be put to its senior bond holders
- **Trading:**
    1. The group is seeing 'improving like-for-like trends in net income'
    2. Core estate like-for-like net income down 0.7% in the third quarter (-3.3% 40 weeks to 25 May 2013)
    3. Now '94% of core estate (is) let on substantive agreements'
    4. The group has sold 246 pubs 'and certain other assets' for £84 million (ahead of book) at a multiple of 18x EBITDA
    5. The investment in core pubs is continuing at an average spend of c.£100k per pub
    6. The group says it is seeing 'improving trends in the underlying business' and recent trends are shown below:

Period	***LfL EBITDA/pub % (Total estate)***	***LfL EBITDA/pub % (Core estate)***	***LfL EBITDA/pub % (Non-core estate)***
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H1 (28w) 2011/12		-2.1	
FY 2011/12		-3.7	
First 16w 2012/13		-5.2	
Second 12w of 12/13		-3.5	
Q3 2012/13		-0.7	
First 40w of 2012/13		-3.3	

Source: Punch Taverns

- **Capital Restructuring:**
    1. Following the ABI's earlier rejection of Punch' proposals, the group says that it 'has undertaken an extensive process of engagement with a broad range of…stakeholders'
    2. Following feedback, it has revised its restructuring terms
    3. It is proposing directing 'more of the finite cash resources available to the Group to the senior classes of notes'

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4. But this should still provide ‘good value recovery for the junior classes of notes’
5. The group maintains ‘these changes are in the interests of all stakeholders and increase the likelihood of successfully implementing a restructuring’
6. But arguably it did say that last time as well

- **Proposals:**
  1. These would reduce debt service payments by £600m over 5 years and cut leverage by c1.8x EBITDA by 2018
  2. A slitting the group and loss of synergies would be avoided
  3. Up-streaming of cash (leakage from the point of view of the bond-holders) would be avoided
  4. Punch proposes to offer some senior bond holders an early ‘cash-out’ option
- **Conclusion:**
  1. The group says its new proposals reflect recent discussions and ‘achieve an equitable solution by directing more of the Group’s finite cash resources to the senior classes of notes’
  2. The group also reiterates that support will be required from a number of stakeholders who still have ‘a range of views’
  3. The target remains to begin the implementation of the restructuring this month, June 2013

Langcap Comment: Punch’s trading in line with its management’s expectations and, though Q3 will have been aided by reasonable weather against last year’s deluge, an improving trend appears to be discernible.

But the restructuring proposals will be the centre of attention and here the reaction of the AIB is critical. The senior bond-holders wish to receive their due but they will, arguably, not wish to burn the house down in order to do so.

The terms will be complicated and the 10-page addendum to today’s trading update will be a basis for discussion.

When Punch last made proposals (in February), the ABI (through its advisors) was quick to point out that they did not support the deal and its reaction now will be keenly awaited.

Execution risks remain very material but, for those tolerant of such a material uncertainty, there is considerable upside risk in Punch’s shares.

Forecasts are relatively meaningless at the moment but, for the sake of completeness, the market is expecting something in the region of 5.5p of earnings in the current year, suggesting that the group’s shares trade on a PER of around 2x.

Any move to re-schedule the company’s debts along the lines proposed outlined today would be very welcome news but the agreement of the ABI will be critical.

Punch is still targeting end-June for an agreement after which time it may consider other options.

In addition to its equity in the two very large but out of the money securitisations, the group’s equity represents a small cash pile in PLC (perhaps 8p - 10p) and a 50% share in Matthew Clark.

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19 April 2013

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Punch Taverns yesterday updated the market on its discussions with stakeholders re a potential restructuring and our comments are set out below:

- **Punch updates on restructuring proposals:** Punch Taverns yesterday updated on its restructuring proposals after a meeting with stakeholders on Wednesday.

    1. The group acknowledges that a wide range of stakeholders will have to approve the proposals if they are to have a chance of success and it says that 'a wide range of views was expressed at the meeting'.

    2. The group reiterated that it did not believe that a pre-pack could be executed as it 'is not in the interests of stakeholders as a whole and the Board cannot support such an option.'

- **More from Punch on its potential restructuring:** The group reports that it had not anticipated reaching any binding agreements on Wednesday but it does say that 'views were expressed that provide a basis for further discussion with stakeholders.'

    1. It says that these discussions are on-going and reports 'the Board continues to believe that a consensual restructuring is in the best interests of all stakeholders and that a restructuring can be launched in the first half of 2013'.

- **Value within the group:** Of course the value of Punch's equity depends very much on the value of its securitisations and the passage of time will furthermore diminish the value per share of the group's PLC cash if it continues to support Punch A and Punch B.

    1. But the company does report that a 'desktop property valuation undertaken by…GVA' has valued the properties within Punch A and Punch B at some £2,321m compared with the £2,201m of debt therein.

- **More on Punch's valuation:** That excess (of £120m) is admittedly wafer thin in terms of the absolute numbers involved, but it does represent around 18p per share and illustrates the fact that much of the value in Punch's shares is its out-of-the-money-options on two, very large securitisations.

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1. Elsewhere, Punch's 50% share of distributor Matthew Clark could and should contribute around £5m or more to the company after tax and may be worth a multiple of eight to ten times that much (or 6p to 8p per share) in capital terms.

2. In addition, some £93m of cash was held in the PLC (14p per share) at the group's H1.

- **Conclusion on Punch:** Hence there is risk but there may be some value in the equity. It would be too simplistic to take the 18p + 7p + 14p and say that the equity is worth 39p because the outcome could be a binary one.

    1. The equity may get swept away by a trading downturn or by a huge, debt-for-equity swap or it may benefit from a little bit of inflation whereby the value of its assets rises but the real value of its debt does not.

    2. Three years of inflation at 4%, for example, would theoretically add £290m (44p per share in addition to the 39p mentioned above) to the group's gross asset value and nothing to debt.

    3. Add in a little 'time value' for the 20-odd year option over the securitisations and there is potentially (and with a degree of risk) a material amount of upside.

Langcap Comment: Punch's shares reacted with apparent disinterest to yesterday's announcement but it would appear to be that we are approaching the end-game.

For better or worse, something is probably going to be decided. The equity holders also own a chunk of the junior debt and they have to date made the only proposal that is out there.

The senior debt holders, whilst unhappy, may decide that, as they are most likely to get paid out in full either under the status quo or in the case of a restructuring, it would be unwise to sink the ship and threaten their own investment at this stage in the game.

They (senior note-holders) may hold out for some sort of warrant concession and this may be forthcoming. But even if it isn't, neither spouse would be well-advised to burn down the family home just to stop their ex getting a half of it.

Forecasts are relatively meaningless at the moment but, for the sake of completeness, the market is expecting something in the region of 5.5p of earnings in the current year, suggesting that the group's shares trade on a PER of less than 2x.

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Langton Capital Limited

5 April 2013

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Punch Taverns has this morning reported H1 numbers (28w) to 2 March 2013 and our comments are set out below:

- Punch Taverns has this morning reported H1 numbers for the 28w to 2 March saying that it generated EBITDA of £117m and turned in a profit before tax of £26m
- Basic EPS is 3.0p, the group has £254m of cash reserves and is 'on track to meet full year expectations'; there is no dividend
- The group says that there has been an 'improvement in core estate LfL net income, which was down by 3.5% in Q2 having been down by 5.2% in Q1; recent trends are shown below:

Period	***LfL EBITDA/pub % (Total estate)***	***LfL EBITDA/pub % (Core estate)***	***LfL EBITDA/pub % (Non-core estate)***
FY 07/08	-3.4		
H1 2008/09	-11.3		
H2 2008/09			
Full year 2008/09	-11.0		
H1 FY 2009/10	-11.0		
Full year 2009/10	c-11		
H1 2010/11	-7.0		
FY 2010/11	-5.2	-2.1	-13.0
H1 (28w) 2011/12		-2.1	
FY 2011/12		-3.7	
First 16w 2012/13		-5.2	
Second 12w of 12/13		-3.5	

Source: Punch Taverns

- Numbers re current trading are not given; comps will be tough in March (good weather last year and snow this), meaning that some slippage in the rate of reduction in decline should perhaps be expected in Q3
- The company expects the core estate to decline by between 3% and 4% this year before returning to growth of between 0% and 1% next year (and then 1% to 2% in 2015 and 2% thereafter)
- Regarding the potential refinancing proposed on 7 February, the group says 'we have continued to engage with the many stakeholders who will need to approve the restructuring proposal'
- It says that 'a range of views have been expressed' but 'believes that a consensual restructuring can be launched in the first half of 2013'
- Despite the current snow, the group concludes 'we expect to make further progress in the second half of the financial year'

Langcap Comment: Punch is trading in line with its management's expectations and is now registering better (at least less bad) LfL EBITDA numbers.

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This may slip back in March but the summer, bearing in mind that there wasn't one last year, should be good and refinancing discussions, although the outcome cannot be taken for granted, are continuing.

Hence we still are, where we are. If the group is successful in selling off its non-core units at above book, in turning around the performance of its core estate and in refinancing its debt, then its shares are very cheap indeed.

On the other hand, if any or all of the above things do not happen, then there may not be a short term trigger for the failure of the group but its future would nonetheless look bleak.

Forecasts are relatively meaningless at the moment but, for the sake of completeness, the market is expecting something in the region of 5.5p of earnings in the current year, suggesting that the group's shares trade on a PER of less than 2x.

Any move to re-schedule the company's debts along the lines proposed early in February would be very welcome news but may require concessions to be made to bondholders. In the meantime, the group's equity represents a small cash pile in PLC (perhaps 8p - 10p), a 50% share in Matthew Clark and what may be arguably thought of as options on two large, but very out of the money securitisations.

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12 March 2013

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Following its update on Q2 trading this morning, Punch Taverns hosted an extremely short listen-only conference call for analysts and our comments are set out below:

- Trading:
  1. Says 'investment in our pubs is transforming their performance'
  2. H2 will benefit from investment and increase in food sales
  3. Lettings have picked up and fully-let pub numbers (94%) are now within the group's target range
- Debt & restructuring:
  1. Have been engaged 'with a large number of stake holders'
  2. A 'large number have been engaged constructively'
  3. Various alternatives have considered and ruled out
  4. A consensual restructuring should be achievable in H1 2013
- Other Balance Sheet:
  1. 164 pubs sold in H1, ahead of expectations (21 core pubs were sold) & it should realize £105m in full year

Langcap Comment: Today's conference call was both listen only and very short. It added little to the 7am statement but the group did reiterate that it hoped/expected to achieve a consensual restructuring of its debt in the first half of this calendar year.

Making such a statement implies a degree of co-operation from other stakeholders and no more details are available at present.

Regarding trading, it is heartening to hear that investments made in H1 should impact H2 trading but the group (ultimately) needs to return to growth.

Punch's shares remain an extremely risky investment but, should it succeed in restructuring its debt, they may offer considerable upside.

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12 March 2013

Punch Taverns has this morning updated on trading for the second quarter of its current financial year being the 12w to 2 March 2013 and our comments are set out below:

- Punch Taverns has this morning updated on trading for second quarter of its current FY being the 12w period to 2 March saying that profit performance remains 'in line with management expectations'
- The group says it has seen 'improving like-for-like trends in net income'
- The core estate is now 94% let (March 2012: 91%) and some £55m of disposals have taken place in H1 'above book value and slightly ahead of expectations'
- The disposal multiple comprised 18x EBITDA
- LfL trading is down by 3.5% in Q1 (down 5.2% in Q1) with the improvement being registered despite bad weather in January
- The group comments that 'the second half of the year will benefit from the recent improvements we have made in the areas of letting (and) investment'
- It says 'we remain on track to meet our full year profit expectations' and recent trends in EBITDA have been as follows:

Period	***LfL EBITDA/pub % (Total estate)***	***LfL EBITDA/pub % (Core estate)***	***LfL EBITDA/pub % (Non-core estate)***
FY 07/08	-3.4		
H1 2008/09	-11.3		
H2 2008/09			
Full year 2008/09	-11.0		
H1 FY 2009/10	-11.0		
Full year 2009/10	c-11		
H1 2010/11	-7.0		
FY 2010/11	-5.2	-2.1	-13.0
H1 (28w) 2011/12		-2.1	
FY 2011/12		-3.7	
First 16w 2012/13		-5.0	
Second 12w of 12/13		-3.5	

Source: Punch Taverns

- Comps will be tough in March (good weather last year) but the group has made progress in lettings and has invested in some 270 units at an average spend of £100k per pub
- Food is now expected to make up some 25% of lessees' revenues, up by 2.4 percentage points on the same period last year
- Re its proposed debt restructuring, the group says 'we have made positive progress in engaging with the many stakeholders who will need to approve the restructuring proposals' (made on 7 Feb)
- The group will update further via a conference call at 9am

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Langcap Comment: Punch is trading in line with its management's expectations and is now registering better (at least less bad) LfL EBITDA numbers. Notably, these are only for the core estate and non-core units will be performing less well still but it does represent a move in the right direction.

Comps will be tough this month but easier thereafter. Summer 2012 was notable for its absence and Punch's lessees should perform reasonably well against last year.

The debt restructuring remains fraught with problems, but this is not new news and the group does appear to be saying that it is engaging with stakeholders, presumably including the senior note holders.

The group recently announced that it had no intention of paying a dividend for the forseeable future and that cash within PLC would be used to de-lever Punch B. This may go some way to allaying fears that senior note holders were going to be undermined in some way.

The group is forecast to earn around 5.3p in the current year and is on a PER of 2x. This, however, is relatively meaningless (in the short term at least) because of the scale of the group's debts.

Any move to re-schedule payments along the lines proposed early last month would be very welcome news but may require concessions to be made to bondholders. In the meantime, the group's equity represents a small cash pile in PLC (perhaps 8p - 10p), a 50% share in Matthew Clark and what may be arguably thought of as options on two large, but very out of the money securitisations.

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7 February 2013

Following the announcement that it was to restructure its securitisations, Punch Taverns hosted a conference call for analysts at which the main points to emerge are set out below:

- **Trading:**
- The group expects to return to c2% LfL growth after the rental re-basins has run its course (from c2016 but via growth in 2014 and 2015)
- Spending £40m per annum on 400 pubs will make a real difference to those units
- The average value of the group's pubs is now over £700k
- **Debt restructuring:**
- Group reaffirmed that all stakeholders needed to be involved.
- The group accepts that the status quo was not acceptable and options included:
    1. Covenant re-sets – but these would not have been sufficient on their own
    2. Accelerated asset disposal – would have been value destructive
    3. Separating Punch A and B would have led to a loss of synergies
    4. A pre-pack administration was 'not feasible in practice'
    5. Defaults would have led to yearly costs of £15m to £35m per annum in addition to administration costs etc.
- Conclusion was that separate proposals were needed for both securitisations
- Punch A: No amortisation for 5 years & provides time to de-lever
- Punch B: Junior debt redeemed at a discount & remaining debt 're-profiled' – 75% of excess cash will be used to prepay senior notes
- Group will now 'engage with other stakeholders' and there 'is no 'do nothing' option'
- This 'is the preferred solution' and the proposal is the only proposal being put to stakeholders'

Langcap Comment: Whilst Punch does not yet have the agreement of all stakeholders it has the agreement of most of them.

And it has outlined in stark terms just what might happen if its proposals are not accepted meaning that it is (perhaps) more likely that they be accepted rather than rejected.

Furthermore, the appearance of some meaningful cash on the scene should and almost certainly will make a material difference to the group's lessees.

And the latter have been battling the economy, the Exchequer, the weather and heaven knows what else for several years now and they will welcome today's announcement.

The prospect of LfL growth in EBITDA per pub is also welcome and, though there remains much to be done, shareholders and stakeholders in general will be pleased to see that moves are afoot to normalize the business.

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As regards valuation, Punch is penciled in to earn around 5p per share this year and perhaps the same again next. The group's shares therefore trade on a (best estimates) PER of perhaps two times but earnings have not been the main driver of Punch's shares in the recent past. If (and it is still quite a big 'if') this changes as a result of today's announcement, then they could still have some way to run.

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7 February 2013

Punch Taverns has this morning announced that it has outlined a restructuring solution for each of its securitisations our comments are set out below:

- Punch Taverns has this announce that 'restructuring solutions (have been) identified for each securitisation'
- Certain tranches of Punch B will be extinguished 'at a material discount to par'
- The group will 'amend financial covenants and defer amortisation in the Punch A securitisation, creating a platform for future deleveraging'
- The bottom line is that there will be a '£463m reduction in contractual debt service payments over the next five years'
- Some £393m of debt will be repaid ahead of schedule and there will be a £229m reduction in debt in Punch B immediately
- The group concludes that this 'creates a sustainable capital structure for a highly profitable pub business which delivers £225m of underlying profit and £312m of cash generation before debt service
- The deal is not yet done though Punch does say that 'these proposals already have the support of a significant group of stakeholders'
- Re operating, the proposal should allow 'a £220m investment programme focused on…core assets' and the sale of £435m of non-core assets'
- Some £40m per annum should be spent on 400 pubs per annum and 'investments are partly structured to drive increased food sales'
- To this end, the group aims to increase their lessees food sales mix from 22% to 35% over the next five years

Langcap Comment: Whilst there are no quick fixes, delaying capital repayments and investing in the group's estate would appear to represent a major move in the right direction if all stake-holders can be brought on board.

And here Punch has been able to say that five stake holders (Glenview, Octavian, Luxor, Alchemy and Avenue Capital) support the proposals. These institutions represent over 50% of Punch's equity and 25% of Punch B's debt.

Other stakeholders comprising more than 50% of Punch A have also supported the proposals suggesting that the deal should go ahead and that Punch, for the first time in many years, should be able to invest in its estate.

For some time, Punch's shares have been an option on the group successfully navigating its way through very difficult waters but today's announcement represents a significant step in that direction. Whilst traditional would-be shareholders may still be put off by the risk involved, the group's shares should react positively to today's news.

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Punch Taverns has this morning announced that CEO Roger Whiteside is to leave the company and our comments are set out below:

- Punch Taverns has this morning announced that CEO Roger Whiteside is to leave the company on 1 February in order to become CEO of baker Greggs
- Stephen Billingham (who has been with the group since 2001) has been appointed executive chairman, Neil Griffiths has been appointed COO and 'a new CEO will not be appointed at this time'
- The group comments that 'Punch's current trading performance remains in line with the Board's expectations'
- It continues, saying that 'led by FD Steve Dando, the Group is continuing its discussions with significant stakeholders and expects to make another announcement about its capital structure in due course'
- Chairman Billingham concludes by saying that he is 'confident that with the appointment of Neil Griffiths as COO and with the experienced management team in place at Punch, we will continue with the progress we are making'
- Last seen (first 16w of FY12/13), Punch's core estate was running down by 5% in terms of LfL EBITDA

Langcap Comment: Roger Whiteside is widely believed to have done a good job at Punch. His inheritance was what it was and the group has not performed strongly but there have been some signs of a steadying performance.

Hence his departure will likely not be warmly-received by shareholders and it may put off some would-be investors from taking a stake.

That said, Punch is not about earnings and growth at the moment. It is about renegotiating its capital structure and survival but even here it is not easy to see how the departure of the CEO (and his non-replacement) could be interpreted as a good thing.

Overall, Punch needs to both reorganize its finances and turn around its core estate. And that remains a challenge as the economy, though no longer technically in recession, is not easy.

Punch's shares remain an option on the group successfully navigating its way through very difficult waters and are unlikely to be considered 'investible' by most would-be holders.

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