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7 July 2011

## **Punch Taverns plc**

### **Proposed Demerger of Punch Taverns plc's Spirit Business**

#### **Highlights**

- On 22 March 2011, Punch Taverns plc ("Punch" or the "Company") confirmed the intention to separate the Group into two businesses through the demerger of the Spirit Business ("Spirit") from the rest of the Group (the "Demerger")
- Today, Punch is pleased to announce the full terms and conditions of the Demerger which represents the final phase of the Demerger process
- The Demerger is conditional, *inter alia*, upon the approval of Punch Shareholders at a general meeting of the Company
- A prospectus relating to the Admission of Spirit Ordinary Shares dated 7 July 2011 (the "Prospectus") and an explanatory circular setting out the terms and conditions of the Demerger and convening a general meeting on 26 July 2011 will be published and posted to Punch Shareholders today
- The Demerger is expected to become effective on 1 August 2011 and will create two leading listed pub companies which will have premium listings on the Official List and be traded on the London Stock Exchange
- As at 30 June 2011, the Group held total unrestricted liquid resources of £235 million, of which £30 million will be used for transaction costs, £92 million allocated to Punch and £113 million allocated to Spirit

#### **Spirit**

- Spirit is a leading pub company positioned to exploit the growing eating-out market, with a view to becoming one of the UK's best managed pub businesses
- Spirit, as at 1 July 2011, comprised 803 managed pubs and 549 leased pubs
- Walker Boyd will be Chairman of Spirit with Ian Dyson as Chief Executive, Mike Tye as Deputy Chief Executive and Russell Margerrison as Interim Finance Director
- Spirit intends to adopt a progressive dividend policy with a payout ratio of 33 per cent. of net income over the medium term

#### **Punch**

- Punch is positioned to drive long term value by downsizing to an estate of around 3,000 high quality pubs, with the aim of being one of the UK's highest quality and most trusted leased operators
- Punch, as at 1 July 2011, comprised 5,080 pubs, of which 2,954 pubs are in the core division and 2,126 are in the non-core division
- Stephen Billingham will become Chairman of Punch in September, with Roger Whiteside as Chief Executive and Steve Dando as Finance Director

Ian Dyson, Chief Executive Officer of Punch, commented:

"We are pleased to announce the formal intention to demerge Spirit. This will create the foundation for both Spirit and Punch to execute their plans to deliver long term sustainable value for all of our stakeholders and builds on the significant progress that both businesses have made over the last year."

There will be an analyst and investor meeting today at 09.00 a.m. (London time) at City Presentation Centre, 4 Chiswell Street, London, EC1Y 4UP. A live webcast and slide presentation of this event will be available on our website, [www.punchtaverns.com](http://www.punchtaverns.com) and subsequently available on demand. We recommend you register at 08.45 a.m.

## **ENQUIRIES**

### **Punch Taverns plc**

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## **Forward Looking Statements**

Some of the information in this announcement may contain projections or other forward-looking statements regarding future events or the future financial performance of Punch and Spirit. You can identify forward looking statements by terms such as "expect", "believe", "anticipate", "estimate", "intend", "will", "could", "may" or "might" or the negative of such terms or other similar expressions. Punch and Spirit wish to caution you that these statements are only predictions and that actual events or results may differ materially. Punch and Spirit do not intend to update these statements to

reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. Many factors could cause the actual results to differ materially from those contained in projections or forward-looking statements of Punch and Spirit, including, among others, general economic conditions, the competitive environment, market change in the industry that Punch and Spirit operate in, as well as many other risks specifically related to Punch and Spirit and their operations.

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7 July 2011

## **Punch Taverns plc**

### **Proposed Demerger of Punch Taverns plc's Spirit Business**

#### **1. Introduction**

The Punch Board today announces its formal intention to separate the Group into two businesses, with the Spirit business to be separated from the rest of the Group. It is proposed that this separation will be effected by way of a demerger of Spirit (comprising 803 managed pubs and 549 leased pubs as at 1 July 2011), into a new company called Spirit Pub Company plc. The Demerger is conditional, inter alia, upon the approval of Punch Shareholders at a Punch general meeting.

If the Demerger proceeds, Punch Shareholders who are registered on the Punch Share Register at the Demerger Record Time will receive:

#### **one Spirit Ordinary Share for each Punch Ordinary Share**

then held by them. Punch Shareholders will continue to own their existing Punch Ordinary Shares.

Following the Demerger, it is expected that the Spirit Ordinary Shares will have a premium listing on the Official List and be admitted to trading on the London Stock Exchange. The Punch Ordinary Shares will retain their premium listing on the Official List and will continue to be traded on the London Stock Exchange. The Demerger is expected to become effective on 1 August 2011. It is expected that Admission of, and that dealings on the London Stock Exchange in, the Spirit Ordinary Shares will commence at 8.00 a.m. on 1 August 2011.

As a result of the size of the Demerger, and the various legal actions which are being effected in connection with the Demerger, certain resolutions need to be approved by the Punch Shareholders pursuant to the Listing Rules and Companies Act at the Punch General Meeting.

#### **2. Background to and reasons for the Demerger**

On 22 March 2011, the Company announced the outcome of its strategic review. As part of the strategic review, an analysis was undertaken of Punch's strategy and operations as well as its capital structure, with a view to developing a plan which creates sustainable growth in shareholder value and represents the best way forward for all stakeholders.

In summary, as previously announced, the strategic review concluded that:

- the Group's current strategy is not sustainable and structural change is required to drive value;
- the managed pub business requires investment and development to accelerate its operational excellence programme, take advantage of the growth potential of the eating-out market and grow its estate;
- the leased pub business needs to be repositioned to realise the long-term value within its estate by reorganising into two divisions, a core division and a non-core division, and downsizing to an estate of around 3,000 high quality pubs;

- there are limited synergies between the managed and leased pub businesses and, therefore, limited incremental operational costs associated with separating them; and
- Punch's current structure and financial position is a barrier to realising value in the business.

In light of the factors identified above, the Punch Board concluded that Punch's current structure needs to be simplified to better align stakeholders' interests and to provide a stronger foundation from which the managed and the leased pub businesses can each move forward independently to execute the different plans required to drive value over time.

The Punch Board believes that this process of simplification will be best achieved through the Demerger of Spirit from the rest of the Group. The benefits of the Demerger include, *inter alia*:

- enabling the different businesses to focus on the plans required in each to maximise value for shareholders and other stakeholders;
- enhancing the visibility and transparency of both the Punch and the Spirit businesses;
- providing choice and liquidity for all investors to choose to invest, or not, in the managed pub or leased pub businesses; and
- providing certainty and clear accountability, together with targeted incentive arrangements, for management and employees.

### **3. Spirit**

Upon Demerger, Spirit will be one of the largest managed pub operators in the UK. Spirit is divided into two main divisions: a managed pub business (which owns 803 pubs as at 1 July 2011) and a leased pub business (which owns 549 pubs as at 1 July 2011). Spirit's objective is to maximise long-term value for its shareholders through continued focus on operational excellence and a careful investment strategy in order to develop a high quality managed pub portfolio with a view to delivering sustainable growth. In recent years, the management team in the managed pub business has made substantial progress in repositioning the business through the improvement of operating disciplines, the upgrading of talent, the revitalisation and development of brands and investment in the estate. The Spirit Board intends to continue with this repositioning and to invest in new brands and refurbishments across the managed estate. In addition, the Spirit Board expects, over the next few years, to convert up to 100 pubs from the leased estate into managed pubs. Spirit's leased pub business will be operated as a separate division with a view to improving its profitability. It is intended that, over time, those leased pubs which the Spirit Board believes are not suitable for conversion to managed pubs will be sold, with the timing of such disposals balanced against other factors, such as the value which can be obtained by Spirit. The current intention is that Spirit will, over time, become a solely managed pub business.

Following the Demerger, Punch will continue to provide certain management and administration services to Spirit's leased pub business, as it does currently, for a period of up to nine months and certain limited communication services (namely email and telephony forwarding) to Spirit's managed pub business for a period of up to nine months as well as assistance in the preparation of the solus statutory accounts for Spirit's subsidiary companies.

In the 52 weeks ended 21 August 2010, Spirit generated total revenue of £724 million, EBITDA (excluding non-underlying items) of £131 million, operating profit (excluding non-underlying items) of £98 million and profit before tax (excluding non-underlying items) of £41 million. At this date, the nominal value of Spirit's net debt amounted to £828.6 million (being £866.5 million gross nominal debt less £37.9 million cash) and gross assets of £2,354 million. In the 28 weeks ended 5 March 2011, Spirit generated total revenue of £378 million, EBITDA (excluding non-underlying items) of £67 million, operating profit (excluding non-underlying items) of £49 million and profit before tax (excluding non-underlying items) of £20 million. As at this date, the nominal value of Spirit's net debt amounted to £794.9 million (being £843.5 million gross nominal debt less £48.6 million cash) and gross assets of £2,375 million.

#### **4. Punch**

Punch is a leading operator of leased pubs in the United Kingdom. As at 1 July 2011, the Punch estate comprised 5,080 pubs located across the United Kingdom. In addition, Punch has a 50 per cent. shareholding in Matthew Clark (Holdings) Limited, the holding company of the Matthew Clark business, a leading drinks wholesaler and distributor. Punch's long-term aim is to become one of the UK's highest quality and most trusted leased pub operators. As part of this aim, the Punch Board has reorganised its estate into two separate divisions, a core division which consists, as at 1 July 2011, of 2,954 pubs and a non-core division of 2,126 pubs.

The strategy for the core division is to drive sustainable long term growth through the continuation of the Pathway to Partnership programme. This programme has been successful in improving the performance of the business over the last two years, as demonstrated by the return to average net income growth in the financial year to date and the improvement in like-for-like EBITDA trends. The strategy for the non-core division is to maximise short term returns with a focus on cash flow and costs. The intention is to sell these pubs over a five year period at a rate of around 500 per annum, which is consistent with the Group's rate of disposal over the previous three years.

In the 52 weeks ended 21 August 2010, Punch generated total revenue of £559 million, EBITDA (excluding non-underlying items) of £291 million, and operating profit (excluding non-underlying items) of £272 million. As at this date, the nominal value of Punch's net debt amounted to £2,314.7 million (being £2,593.3 million gross nominal debt less £278.6 million cash). In the 28 weeks ended 5 March 2011, Punch generated total revenue of £277 million, EBITDA (excluding non-underlying items) of £139 million, operating profit (excluding non-underlying items) of £130 million. As at this date, the nominal value of Punch's net debt amounted to £2,283.9 million (being £2,537.1 million gross nominal debt less £253.2 million cash).

#### **5. Allocation of cash**

As part of the Demerger, after the payment of certain costs relating to the Demerger, the cash and bonds held by Punch as at 30 June 2011 have been allocated between Spirit and Punch. The purpose of this allocation is to provide each business with the appropriate financial resources and flexibility to deliver its strategic objectives and growth as well as to support their respective working capital requirements.

As at 30 June 2011, the Punch Group had total financial resources of £346 million, comprising £111 million of restricted cash held within the three securitisations and £235 million of unrestricted liquid resources comprising (i) £190 million of unrestricted cash held by the Punch Group outside of the securitisations and (ii) £45 million of bonds (at market value) held by each of the Punch Group and the Spirit Group. An amount of £30 million was deducted from the total amount of cash held by the Punch Group as at this date, being the amount which the Punch Board estimates will be required to account for the Demerger related costs such as reorganisation costs and transaction costs. The remaining amount of the financial resources was then allocated between the Punch Group and the Spirit Group as follows:

- £181 million of financial resources were allocated to Punch to ensure that it has sufficient resources to continue to support the Punch Securitisations for the foreseeable future. This balance comprises £89 million of restricted cash held in the Punch Securitisations and £92 million of unrestricted liquid resources comprising £83 million of cash which is unrestricted and £9 million of bonds (at market value) held by members of Punch outside of the Punch Securitisations; and
- the remainder of the financial resources were allocated to the Spirit Group to ensure that the Spirit Business has sufficient cash to continue to implement its strategy of investing in its estate and redeveloping its brands. This balance amounts to £135 million and comprises £22 million of restricted cash held by the Spirit Group within the Spirit Debenture and £113 million of unrestricted liquid resources comprising £77 million of unrestricted cash and £36 million of bonds (at market value) held by the Spirit Group held outside of the Spirit Debenture.

## 6. Board structures and corporate governance

On 29 June 2011, the Board of Punch announced that, having served as Chairman since January 2007, Peter Cawdron is to step down from the role. The Group also announced that Stephen Billingham will join as the new non-executive Chairman. Peter will step down as Chairman and Stephen Billingham will join the Punch Board and become Chairman in September.

Following the Demerger, Ian Dyson will be Chief Executive Officer of Spirit and Mark Pain will be a Non-executive Director of Spirit. However, for a transitional period, they will also be Non-executive Directors of Punch in order to ensure a smooth and effective separation for both Spirit and Punch.

Directors of Spirit will be:

<b>Name</b>	<b>Position in respect of Spirit</b>
<b>Executive Directors</b>	
Ian Dyson	<i>Chief Executive Officer</i>
Mike Tye	<i>Deputy Chief Executive Officer</i>
Russell Margerrison	<i>Interim Finance Director</i>
<b>Non-executive Directors:</b>	
Walker Boyd	<i>Non-executive Chairman</i>
Mark Pain	<i>Non-executive Director</i>
Tony Rice	<i>Non-executive Director</i>
Chris Bell	<i>Non-executive Director</i>

Directors of Punch will be:

<b>Name</b>	<b>Position in respect of Punch</b>
<b>Executive Directors</b>	
Roger Whiteside	<i>Chief Executive Officer</i>
Steve Dando	<i>Finance Director</i>
<b>Non-executive Directors:</b>	
Stephen Billingham	<i>Non-executive Chairman</i>
Ian Fraser	<i>Non-executive Director</i>
Ian Dyson	<i>Non-executive Director</i>
Mark Pain	<i>Non-executive Director</i>

## 7. Dividend policies

### *Punch*

Consistent with current policy, given the continued slowdown in the market in which Punch operates and Punch's operating results and financial condition, the Punch Board currently considers it prudent to retain cash and further strengthen the Group's balance sheet before returning cash to Punch Shareholders through distributions. The Punch Board did not recommend a final dividend for the 2008, 2009 or 2010 financial years and, other than the Demerger Dividend, does not anticipate the Group paying or declaring any dividends for the foreseeable future.

## *Spirit*

The Spirit Board intend to adopt a progressive dividend policy whilst maintaining an appropriate level of dividend cover. This dividend policy will reflect the long-term earnings and cash flow potential of Spirit and retain sufficient flexibility to finance anticipated investment in the estate, fund debt amortisation and support the business generally. It is therefore the Spirit Board's intention to target an initial payout ratio of approximately 33 per cent. of net income over the medium term.

Assuming that there are sufficient distributable reserves available at the time, the Spirit Directors intend that Spirit will pay an interim dividend and a final dividend in respect of each financial year in approximate proportions of one-third and two thirds, respectively, of the total annual dividend. The first dividend paid by Spirit is intended to be the interim dividend in respect of the period ending 3 March 2012, to be announced with its interim results in April and paid in June.

## **8. Summary of how the Demerger is to be effected**

The Demerger is to be effected by Punch declaring a special dividend equal to the book value of Punch's shareholding in Spirit Pub Company (Holdco) Limited, the current holding company of the Spirit Business. This special dividend will be satisfied by the transfer by Punch to Spirit of the shares in Spirit Pub Company (Holdco) Limited. In return for this transfer, Spirit will then allot and issue Spirit Ordinary Shares to Punch Shareholders who are registered on the Punch Share Register at the Demerger Record Time on the basis of one Spirit Ordinary Share for each Punch Ordinary Share then held.

This requires, among other things, the approval by Punch Shareholders of the Demerger Resolution to be proposed at the Punch General Meeting. Save for the approvals required from the UKLA and the London Stock Exchange in connection with admission, no other approvals are required for the implementation of the Demerger. However, Punch has entered into, and will continue to enter into, dialogue with all of its key stakeholders in relation to the Demerger.

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## **Forward Looking Statements**

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## DEFINITIONS

The following definitions apply throughout this announcement unless the context otherwise requires:

"Admission"	means the admission of the Spirit Ordinary Shares to the Official List in accordance with the Listing Rules and to trading on the London Stock Exchange's market for listed securities in accordance with the Admission and Disclosure Standards;
"Admission and Disclosure Standards"	means the requirements contained in the publication "Admission and Disclosure Standards" dated March 2011 (as amended from time to time) containing, among other things, the admission requirements to be observed by companies seeking admission to trading on the London Stock Exchange's market for listed securities;
"Companies Act"	means the Companies Act 2006 (as amended);
"Demerger"	means the proposed demerger of Spirit from Punch to be effected by way of a dividend demerger on the terms and subject to the conditions set out in the Demerger Agreement;
"Demerger Agreement"	means the agreement relating to the demerger of Spirit from Punch entered into between Punch and Spirit on 7 July 2011, a summary of the principal terms of which is set out in the Prospectus;
"Demerger Dividend"	the proposed dividend to be declared by Punch in connection with the Demerger, the amount of which is to be equal to the book value of the Group's interest in Spirit Pub Company (Holdco) Limited;
"Demerger Effective Time"	means the time at which the Demerger becomes effective, expected to be 8.00 a.m. on 1 August 2011;
"Demerger Record Time"	means 7.00 a.m. on 1 August 2011;
"Demerger Resolution"	means the resolution numbered 1 as set out in the notice of the Punch General Meeting;
"Directors" or "Board"	means the directors of Punch as at the date of this announcement;
"FSA"	means the UK Financial Services Authority;
"FSMA"	means the Financial Services and Markets Act 2000 (as amended);
"Goldman Sachs International"	Goldman Sachs International of Peterborough Court, 133 Fleet Street, London EC4A 2BB;
"Group"	means Punch and its subsidiaries and subsidiary undertakings from time to time;
"Listing Rules"	means the rules and regulations of the UKLA, as amended from time to time and contained in the UKLA's publication of the same name;
"London Stock Exchange"	means London Stock Exchange plc;
"Official List"	means the official list of the UKLA;

"pounds", "pence", "pounds sterling" and "£"	means the lawful currency of the United Kingdom;
"Punch"	means Punch Taverns plc, a company incorporated in England and Wales with registered number 03752645 whose registered office is at Jubilee House, Second Avenue, Burton-upon-Trent, Staffordshire DE14 2WF;
"Punch A Securitisation"	the securitisation of the whole business of Punch Taverns Holdings Limited and certain of its subsidiaries through the issue of fixed and floating rate notes by Punch Taverns Finance plc;
"Punch B Securitisation"	the securitisation of the whole business of Punch Taverns (PMH) Limited and certain of its subsidiaries through the issue of fixed and floating rate notes by Punch Taverns Finance B Limited;
"Punch Board"	the board of directors of Punch from time to time;
"Punch General Meeting"	means the general meeting of Punch to be held on 26 July 2011 pursuant to the notice of meeting set out in the Punch Shareholder Circular and any adjournment thereof;
"Punch Ordinary Shares"	the ordinary shares of 0.04786 pence each in the capital of Punch;
"Punch Securitisations"	the Punch A Securitisation and the Punch B Securitisation;
"Punch Share Register"	means the register of members of Punch;
"Punch Shareholder Circular"	means the circular to be sent to Punch Shareholders on or around the date of this announcement in connection with the Demerger and containing, among other things, a description of the Demerger and a notice convening the Punch General Meeting;
"Punch Shareholders"	means holders of ordinary shares of 0.04786 pence each in the capital of Punch;
"Spirit"	means Spirit Pub Company plc, a public limited company incorporated in England and Wales under the Companies Act with registered number 07662835 and whose registered office is at Sunrise House, Ninth Avenue, Burton-upon-Trent, Staffordshire DE14 3JZ;
"Spirit Board"	the board of directors of Spirit from time to time;
"Spirit Business"	means the managed pub business and the leased pub business comprising, as at 1 July 2011, 803 managed pubs and 549 leased pubs which is currently carried on within Punch by Spirit Pub Company (Holdco) Limited and its subsidiaries and which is proposed to be demerged in accordance with the Demerger Agreement and will be owned by Spirit following the Demerger Effective Time;
"Spirit Debenture"	the issue by Spirit Issuer plc of an aggregate principal amount of approximately £1.25 billion fixed and floating rate secured debenture bonds due between 2021 and 2034, the proceeds of which were lent to the relevant borrowers within Spirit under the Spirit Issuer/Borrower Facility Agreement;
"Spirit Directors"	directors of Spirit at the date of this announcement whose names,

and "Spirit Director" means any one of them;

"Spirit Issuer/Borrower Facility Agreement" means an Issuer/Borrower Facility Agreement dated 25 November 2004 (as amended and restated on 7 July 2006 and as further amended on 25 August 2006 and on 8 June 2009) between, among others, Spirit Issuer plc, Spirit Pub Company (Managed) Limited (formerly Spirit Managed Pubs Limited), Spirit Pub Company (Leased) Limited (formerly Punch Taverns (Pubs) Limited), and Deutsche Trustee Company Limited as borrower group security trustee;

"Spirit Ordinary Shares" means ordinary shares of a penny each in the capital of Spirit;

"UKLA" means the FSA in its capacity as the competent authority for listing under Part VII of FSMA; and

"United Kingdom" or "UK" the United Kingdom of Great Britain and Northern Ireland.

All references to time in this document are references to the time in London, United Kingdom.