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Interim results

31 March 2014

www.enterpriseinns.com

Introduction

Robert Walker

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Performance highlights

- Third consecutive quarter of like-for-like net income growth — H1 14 up 1.1%
- Stabilisation of earnings achieved — Adjusted EPS up 2.4%
- Disposal proceeds funding reinvestment programme — Capex £41m Disposals £42m
- Investment programme increasingly focused on growth driving initiatives — Up from 20% to 32%
- Further reduction in business failures — Down 16%

Definitions disclosed in appendix 7



Financial review

Neil Smith


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Financial highlights

6 months ended 31 March	2014	2013	Year-on-year change
Like-for-like net income	1.1%	(4.2)%	-
EBITDA[1]	£147m	£153m	(3.9)%
Profit before tax[1]	£55m	£55m	-
Adjusted earnings per share[1]	8.6p	8.4p	2.4%
Free cash flow pre-investment	£42m	£34m	23.5%
Group net debt	£2,477m	£2,678m	(7.5)%

[1] Excludes exceptional items.
Definitions disclosed in appendix 7

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Income statement

£m	6 months to 31 March 2014			6 months to 31 March 2013			Year to 30 Sept 2013
	Pre excep	Excep	Total	Pre excep	Excep	Total	Total
EBITDA	**147**	(2)	145	153	(1)	152	311
Depreciation	**(8)**	-	(8)	(8)	-	(8)	(15)
Operating profit	**139**	(2)	137	145	(1)	144	296
Property related	**-**	(6)	(6)	-	(26)	(26)	(158)
Interest	**(84)**	-	(84)	(90)	-	(90)	(181)
Gain on purchase of own debt	**-**	-	-	-	1	1	1
Profit before Tax	**55**	**(8)**	**47**	**55**	**(26)**	**29**	**(42)**
Taxation	**(12)**	2	(10)	(13)	9	(4)	38
Profit after Tax	**43**	(6)	37	42	(17)	25	(4)

Reconciliation of EBITDA and like-for-like net income

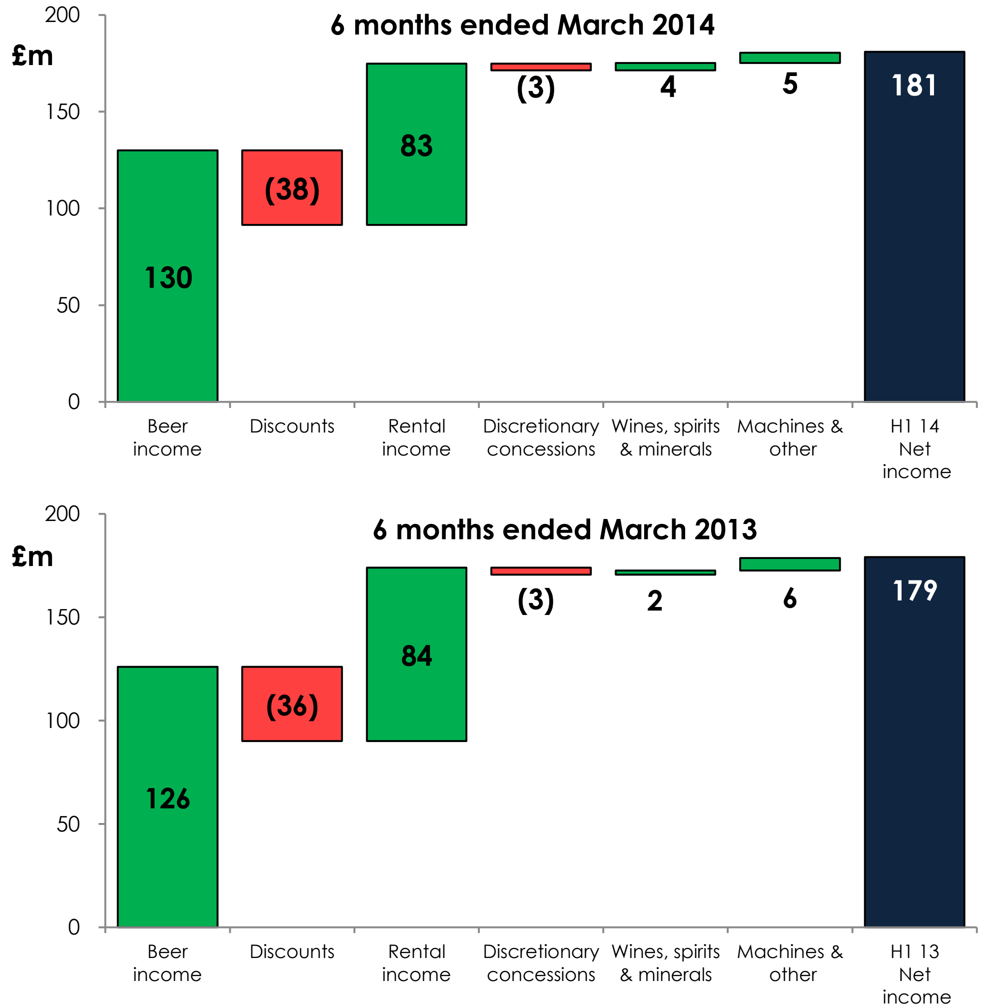
6 months ended 31 March

£m	2014	Move-ment	2013	Change %
Like-for-like net income[1]	**181**	**2**	**179**	**1.1**
Disposals	-	(6)	6	
Unallocated costs	(3)	(1)	(2)	
Property costs	(14)	-	(14)	
Administrative expenses	(17)	(1)	(16)	
EBITDA	**147**	**(6)**	**153**	**(3.9)**

- Total estate like-for-like growth of 1.1%
- Translates to EBITDA reduction of 3.9% due to asset disposals, with pub numbers down 261 (4.5%)
- Other costs broadly in line

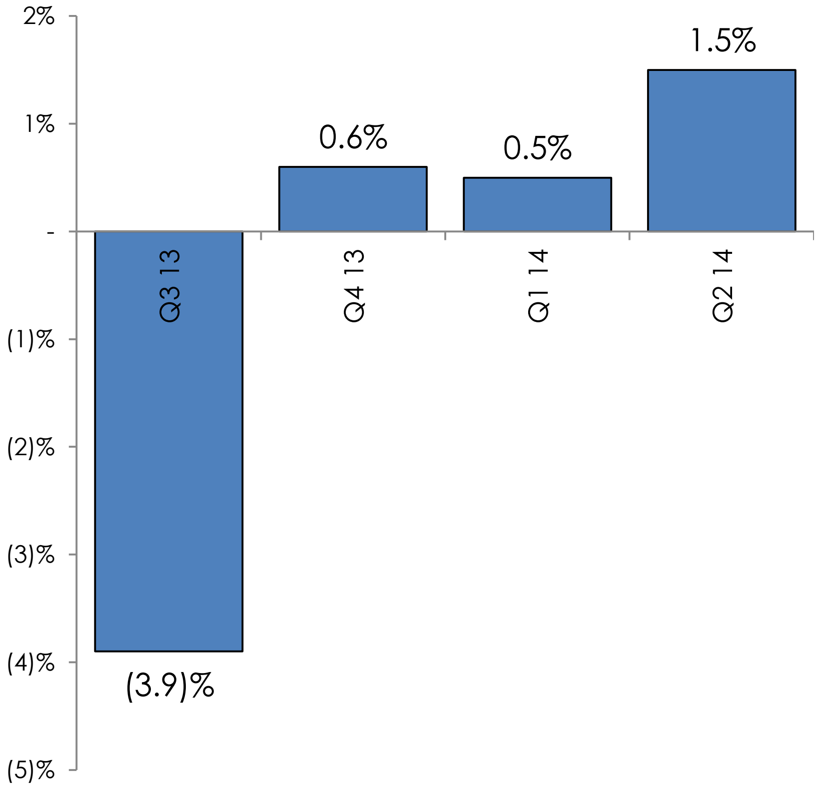
[1] Relates to 5,459 total trading pub estate at 31 March 2014

Improved like-for-like net income – up 1.1%



- Growing income from beer with discounts driving volume
- Rental declines primarily arise from business failure, which are slowing
- Wine, spirits and minerals income normalised in the current year following distribution issues in prior year

Third consecutive quarter of like-for-like net income growth from total estate



- Performance sustained over three consecutive quarters
- First time since 2008

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All geographies report improving trend

6 months ended 31 March						Year to 30 Sept 2013
		Net income				
Location	No. of pubs	FY14 £m	%	FY13 £m	Year-on-year change %	Year-on-year change %*
North	1,630	50	*28*	50	-	(3.2)
Midlands	1,765	54	*30*	54	-	(3.4)
South	2,064	77	*42*	75	2.7	(1.9)
Total	**5,459**	**181**	*100*	**179**	**1.1**	**(2.8)**

- Strong performance in South of country aided by London
- 42% of income derived from South
- Stability of income in Midlands & North

*The FY13 income change comparative has been restated to reflect like-for-like performance for the 5,459 pubs trading as at 31 March 2014

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Exceptional items primarily property related

6 months ended 31 March £m	2014	2013
Property related:		
Profit on sale of pubs	7	10
Valuation change on sold pubs	(3)	(8)
Valuation change on future sales	(6)	(23)
Goodwill	(4)	(5)
	(6)	(26)
Other	(2)	-
Taxation	2	9
Total	(6)	(17)

- Net charge to income from property related items reduced as scale of disposal programme declines
- No significant other exceptional items

Strong operational cash generation

6 months ended 31 March			Year to 30 Sept
£m	2014	2013	2013
Operating profit	137	144	296
Depreciation & amortisation	8	8	15
Movement in working capital	(8)	(12)	7
Operating cash inflow	137	140	318
Interest	(84)	(92)	(182)
Tax	(11)	(14)	(27)
Free cash flow pre-investment	42	34	109

- Strong operational cash generation supplemented by improved working capital and lower interest and tax outflows
- Future tax cash outflows from HMRC settlements:
  - £6m April 2014 re: Gaming VAT
  - £9m over next 2 years re: 2004/05 Loan note

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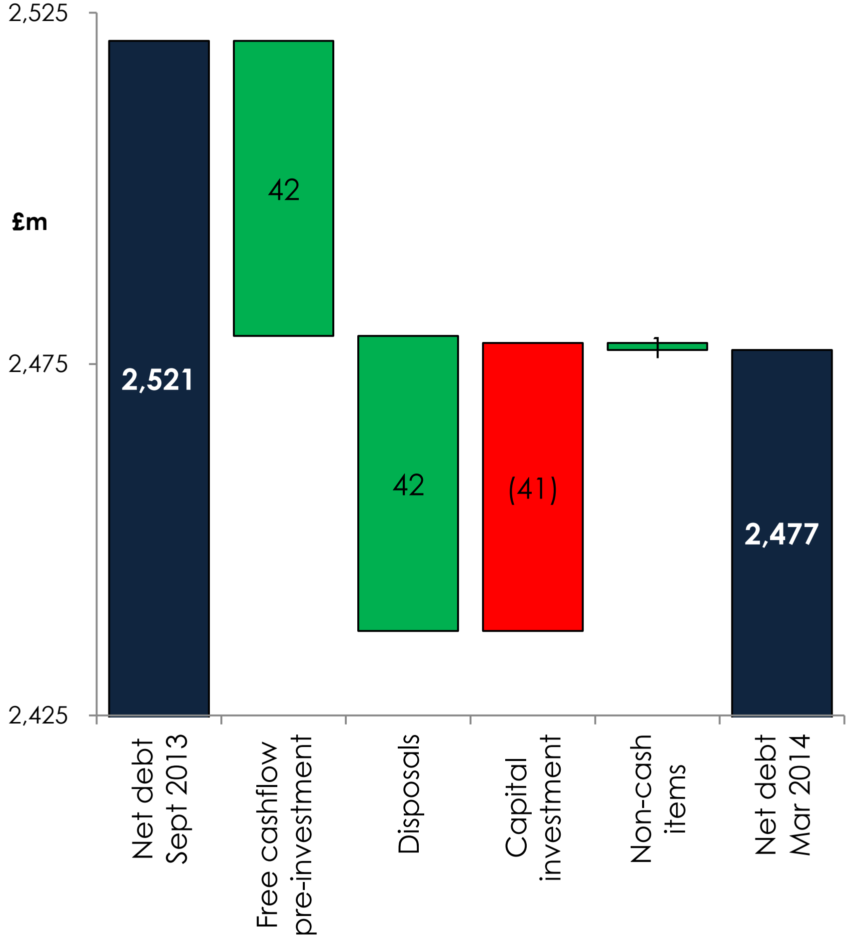
Cash generation has reduced net debt by £44m since year end



- Disposals funding capital investment
- 129 pubs disposed in period with average net proceeds of £325k
- Net debt reduced by £201m over the last 12 months
- 32% of capital investment focused on growth driving initiatives – from 20%
- Return on investment hurdle rate of 15%

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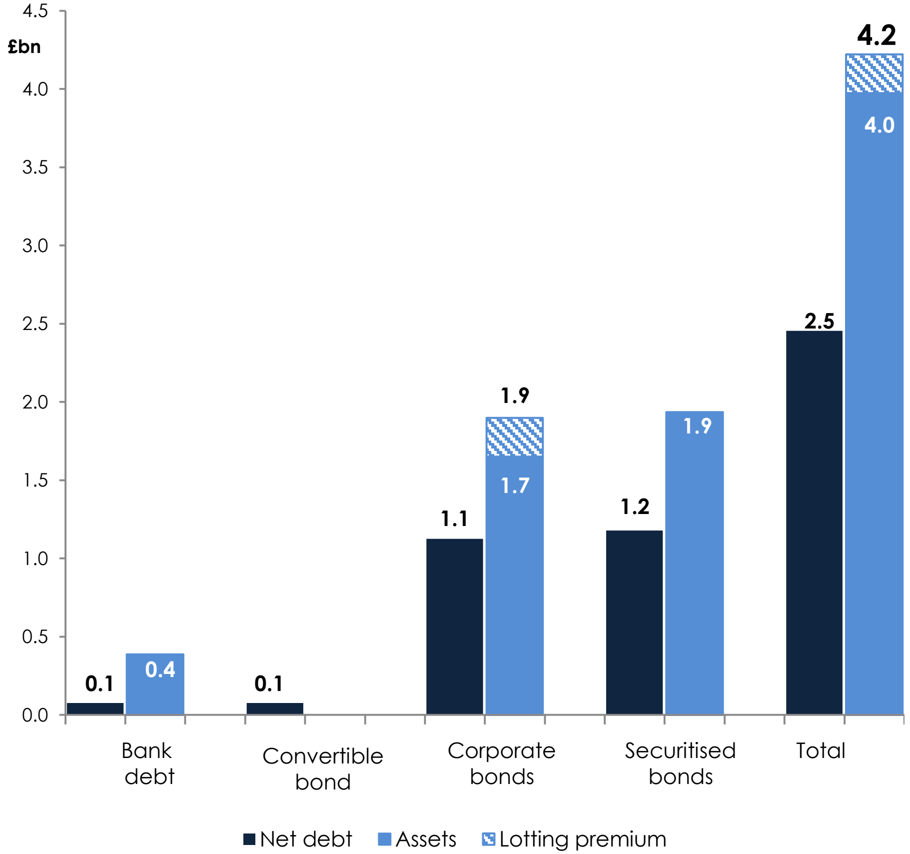
Loan-to-value stable at 59%

(62% excluding lotting premium)



- Capital structure manageable
- £60m corporate debenture repaid in period
- £40m securitised bonds repaid in period (£34m amortisation, £6m purchase)
- New £150m bank facility available until June 2016

See appendix 2 for full analysis of Group net debt

2014 Technical guidance

- Targeting full year like-for-like net income growth
- More challenging trading comparatives in quarter four
- Full year finance charges of £165 - 167m
- Full year effective tax rate c. 21.5% - 22.0%
- Disposals of £70m
- Capital investment of £65m

Business Review

Simon Townsend

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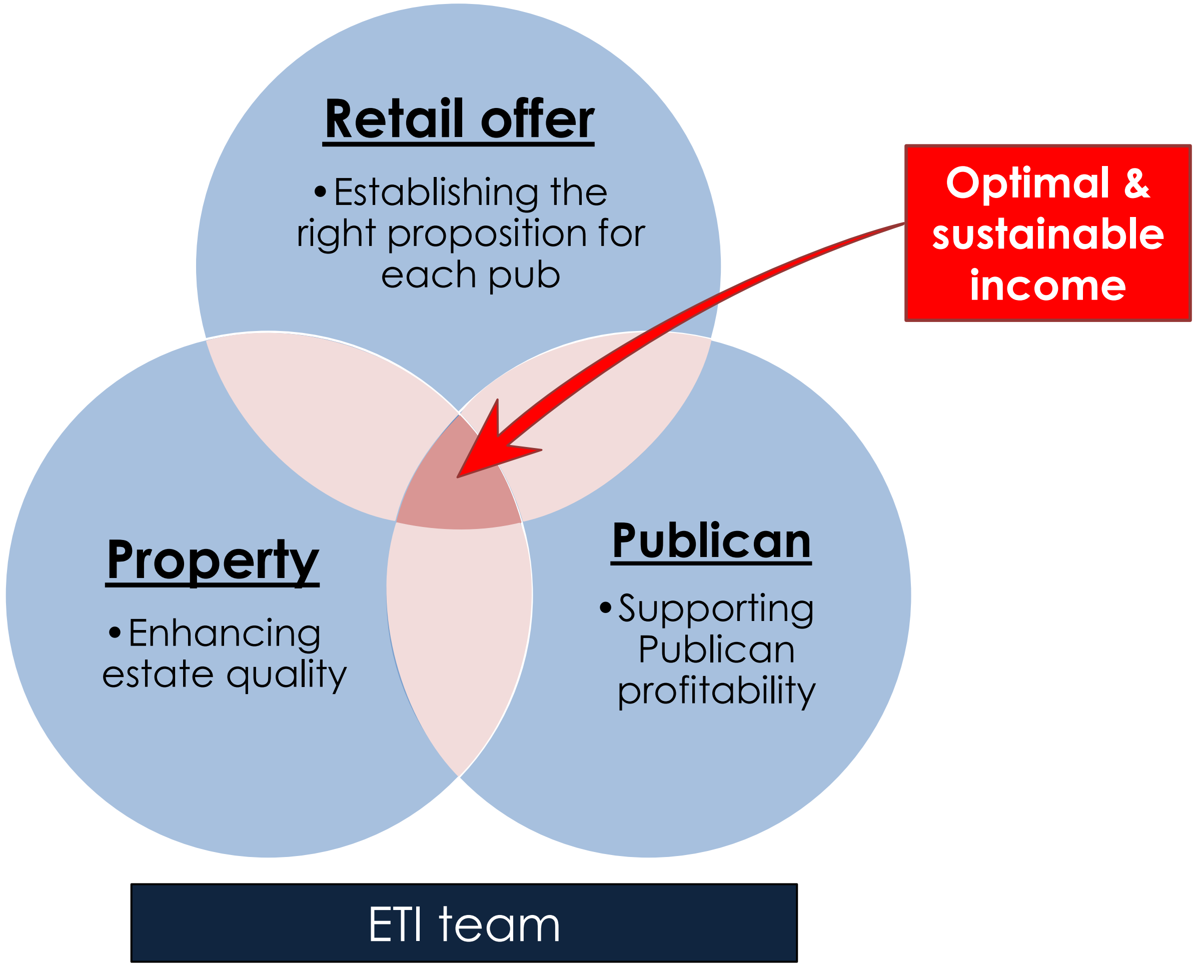
Growing our like-for-like income

Planning and executing the best plan for every asset



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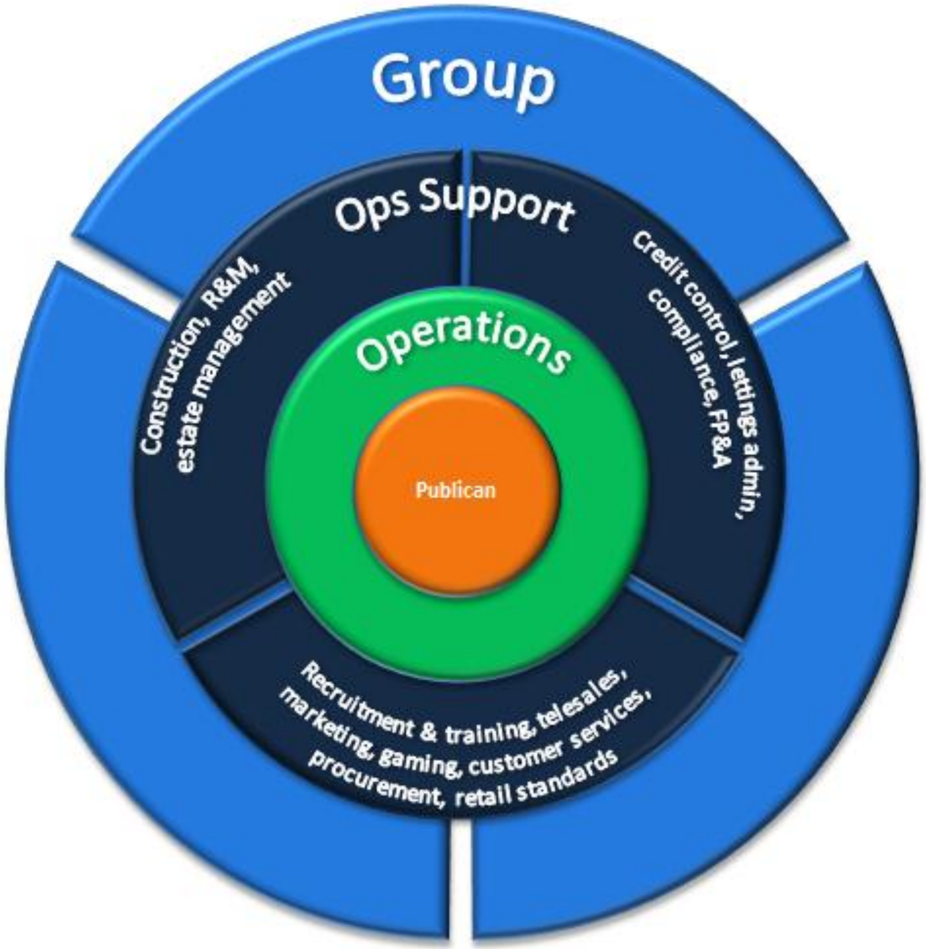
Developing our people

Publican-focused and service-orientated



- Publican satisfaction is key
- Investment in learning and development
- Team engagement measures
- Leadership firmly established

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Working with the best Publicans

Adding value throughout the Publican relationship

1. Attracting

- Only quality assets
- Flexible agreements
- Investment capability
- Enterprise offer

2. Supporting & retaining

- 100 days programme
- Experienced mentors
- SCORFA benefits
- Publican satisfaction

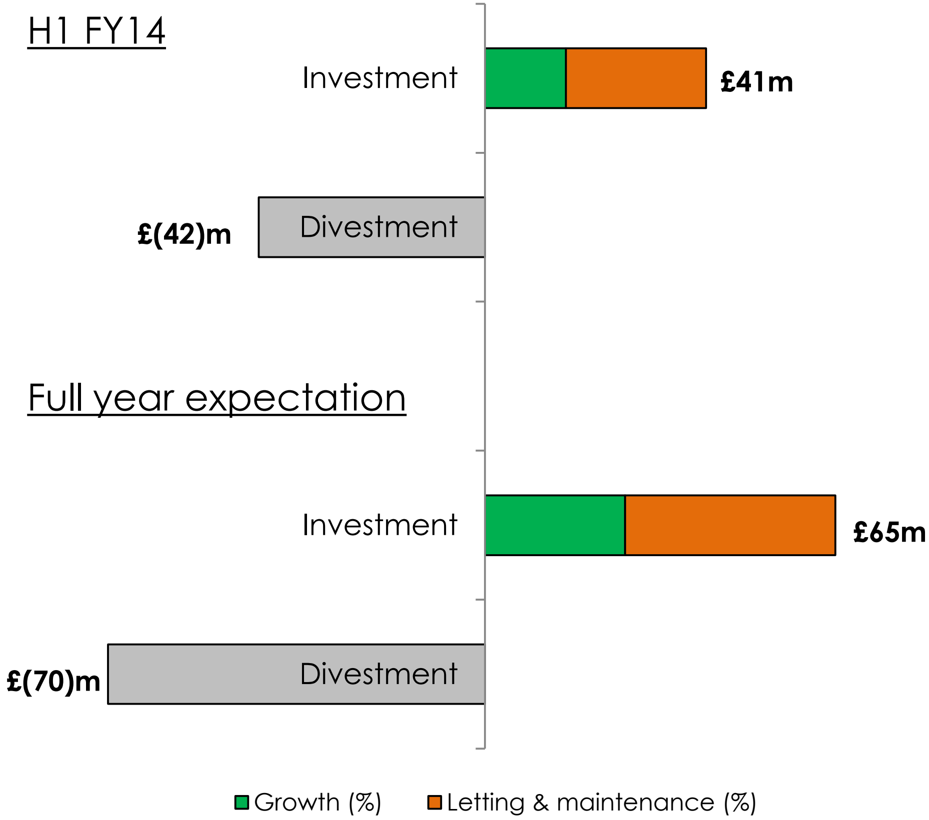
3. Managing change

- Renewal and re-grant
- Lease assignment
- Business failures
- Discretionary support

Enhancing our estate quality

Equalisation of divestment and investment activity in FY14

1. Attracting



- Securing long term future of quality pubs by recycling funds from disposal of unviable operations
- Increasing proportion of capital investment focused on growth
- Robust management of property condition
- 15 growth schemes > £100k, 21 schemes £50-100k, 326 schemes in total
- £1.5m Publican investment in top 25 growth schemes

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Supporting Publican profitability

Driving sales and margins, reducing overhead costs

2. Supporting and retaining

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Road shows
- Over 1,500 attendees
- £7k of value per pub

arqiva

Free Wi-Fi
- 2,468 signed up
- 1,302 installed
- Worth £500

Training
- 1,097 delegates
- e-Learning 476 delegates
- 100 day programme

Wilma – Winning in a local market area

Fred – Food Retail Education and Development

Wow – Ways of Winning

sky

BT Sport

Sports TV
- 720 SKY deal
- 191 BT vision deal
- Saving up to £3k

Publican

Range
- 480 brewers
- Over 1,300 cask ales

Digital (on-line ordering)
- Roll out in FY14 H2

Discretionary support
- £3m in H1 FY14

Pub club
- Over 325 participants

Enterprise PUB club at Brakes

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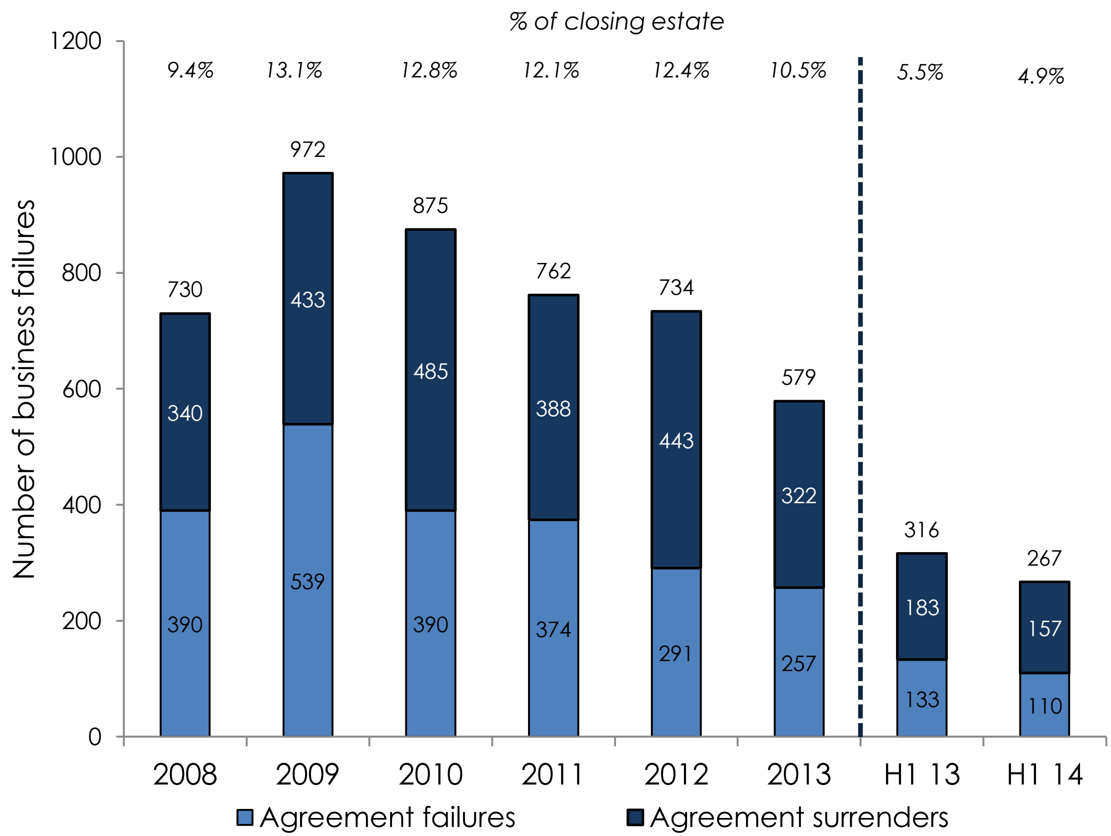
Managing Publican change

Critical to sustain like-for-like net income growth

3. Managing change



- Business failures reduced by 16%
- More proactive changes
- Fewer closed houses
- Costs of failure reduced
- Discretionary support stable at £3m

Reviewing the operating models

Evolution of agreements to create optionality

Leased & tenanted model remains core

Managing business risk	Mitigating political risk	Creating business opportunity
Leveraging profit potential	Income protection	Growth markets

Retail capability and back office infrastructure

What you should expect going forward

Our priorities for the foreseeable future

- Championing Publican success
- Engagement at all levels - Publicans and people
- Relentless focus on operational improvements
  - Sustainable delivery of like-for-like income growth
- Willingness to trial new ideas and invest in innovation

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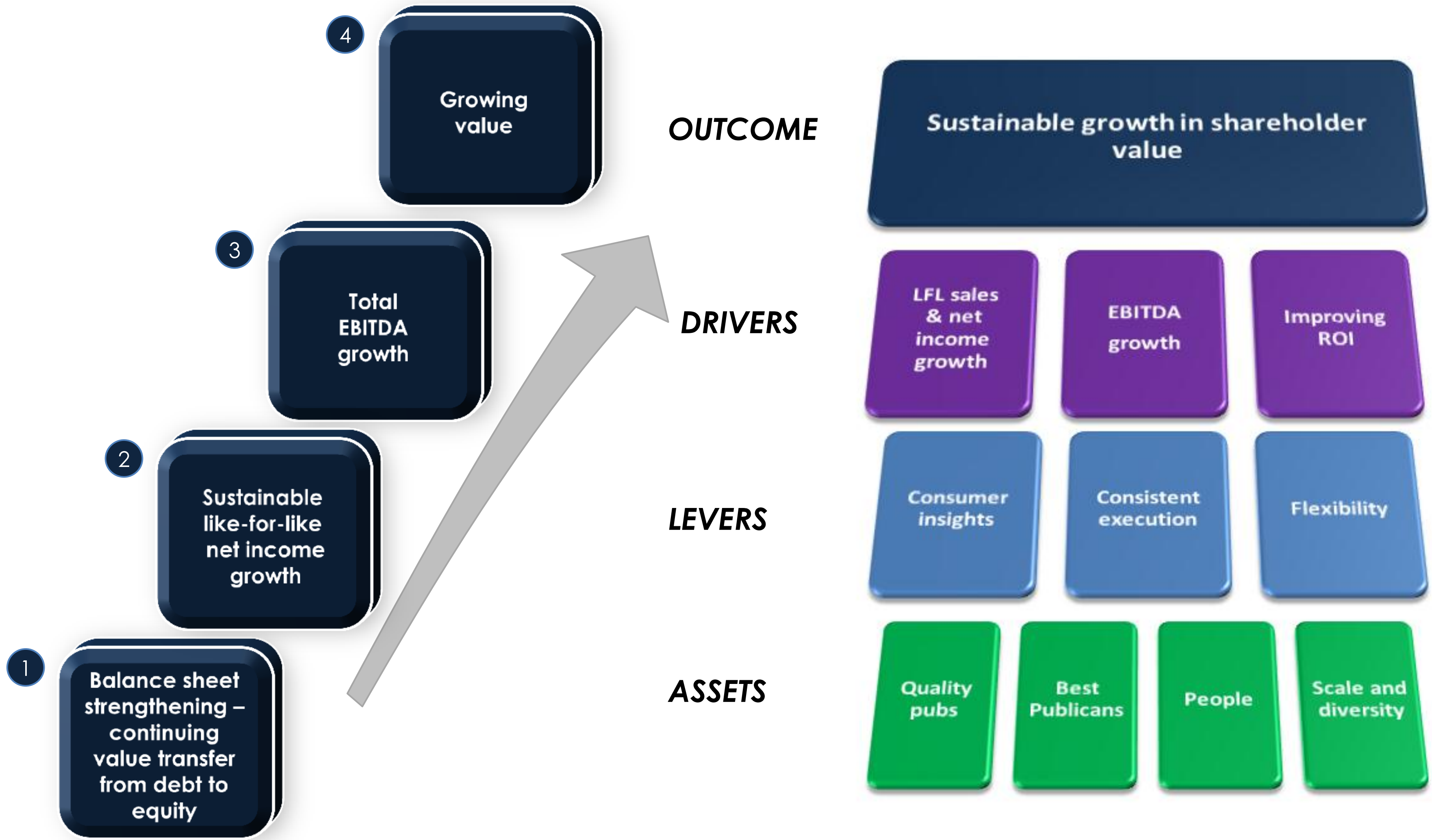
Clear strategy for creating shareholder value



Summary & outlook

- Regulatory environment still to be determined
- Solid progress in like-for-like performance
- Underlying operational metrics further improved
- Encouraging start to second half



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Questions & answers


Appendices

1. Operational metrics
2. Net debt analysis
3. Bank facility
4. Corporate bonds
5. Unique securitisation
6. Management team
7. Definitions

Appendix 1:

Operational metrics

- 96% of agreements have had rent reviewed since 2008 (H1 2013, 90% since 2008)
- 202 rent reviews completed at an average annual reduction of 0.1%
  - (H1 2013 - 208 reduction of 0.3%)
- 69% of substantive agreements linked to RPI (H1 2013 - 68%)
- 88% of Publicans receiving contractual BCF discount (H1 2013 - 86%)
- Overdue balances reduced by 18% to £3.3m (H1 2013 - £4.0m)
- Bad debts broadly stable at £0.7m (H1 2013 - £0.8m), only 0.2% of turnover
- Rate of business failures reduced by 16% (H1 2013 - down17%)
- Total discretionary support unchanged at £3m (H1 2013 - £3m)

Appendix 2:

Debt structure

£m	As at 31 March 2014	As at 31 March 2013	As at 30 Sept 2013
ETI bank debt	(107)	(287)	(81)
ETI cash	31	21	40
ETI net bank debt	(76)	(266)	(41)
Convertible loan note	(76)	-	(75)
Corporate bonds	(1,125)	(1,185)	(1,185)
Total ETI debt	(1,277)	(1,451)	(1,301)
Unique securitised bonds	(1,260)	(1,311)	(1,300)
Unique cash	82	107	104
Total Unique debt	(1,178)	(1,204)	(1,196)
Underlying Group net debt	**(2,455)**	**(2,655)**	**(2,497)**
Fair value and other adjustments	(22)	(23)	(24)
Group net debt	**(2,477)**	**(2,678)**	**(2,521)**

Appendix 3:

ETI bank facility

- New facility commenced December 2013 at £150m structured as follows:

Facility	Amount	Cost over LIBOR	Term	Repayment
B	75	4.5%	15 June 2016	Quarterly amortisation from Sept 2014
C	75	4.5% - 3.5%	15 June 2016	At term
	150			

- Covenants comfortable

	Covenant	As at 31 March 2014	As at 30 Sept 2013
Net debt:EBITDA less than	**6.50x**	5.67x	5.37x
Interest cover greater than	**2.00x**	2.51x	2.59x
First charge asset cover greater than	**1.33x**	5.09x	3.29x
Total property asset cover greater than	**1.50x**	11.92x	7.90x

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Appendix 4:

Corporate bonds

- £60m debenture repaid February 2014 from cash
- £1,125m non-amortising bonds, secured by portfolio of freehold pubs
- Bond pricing has improved further since September 2013

Value	Rate	Redemption	Market price	
			Mar 2014	Sept 2013
£600m	6.500%	2018	106	103
£125m	6.875%	2021	102	99
£125m	6.875%	2025	106	95
£275m	6.375%	2031	97	86
£1,125m				

Convertible bond

- Issued September 2013 for £97m net proceeds
- Seven year unsecured with coupon rate of 3.5%
- Conversion price of £1.91 on 50.8m shares represented a 35% premium

Appendix 5:

Unique securitisation

- Purchased £6m A4s at an average purchase price of 99p
- Amortisation in first half year - £23m of A3 notes and £11m of A4 notes
- Bond pricing has improved further since September 2013

Value	Rate	Note	Redemption	Market price	
				Mar 2013	Sept 2013
£410m	6.542%	A3	2021	105	102
£435m	5.659%	A4	2027	99	96
£225m	7.395%	M	2024	97	95
£190m	6.464%	N	2032	85	75
£1,260m					

Appendix 6:

Management team

Chief Executive Officer
Simon Townsend

- **Chief Financial Officer**
  Neil Smith
- **Managing Director Property**
  James Croft
- **Commercial Director**
  Ed Cottrell
- **Managing Director Operations South**
  Nick Light
- **Managing Director Operations Midlands**
  Kim Francis
- **Managing Director Operations North**
  Ian Ronayne

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Appendix 7:

Definitions

- **Like-for-like net income -** represents the like-for-like pubs level gross profits stated before property costs and unallocated central costs
- **EBITDA before exceptional items -** represents the earnings before interest, taxation, depreciation and amortisation and excludes exceptional items
- **Adjusted earnings per share -** which the directors believe reflects the underlying performance of the Group, is based on profits after tax excluding exceptional items
- **Growth driving capital investment -** is discretionary capital cash spend on the Group's assets which is intended to generate incremental income at returns ahead of our target return on investment
- **Maintenance & letting capital investment -** is all capital cash spend that is not growth driving capital investment, typically focused on maintaining the quality of our assets and supporting the letting programme
- **Return on investment (ROI) -** is measured as the incremental income delivered as a result of the investment divided by the value of the capital investment
- **Business failures, agreement surrenders -** are those lease or tenancy agreements that do not reach their full term but are terminated by mutual agreement of ourselves and the departing Publican
- **Business failures, agreement failures -** are all other lease and tenancy agreements that do not reach their full term, that are not achieved through mutual agreement of ourselves and the departing Publican