Preliminary results

30 September 2014

www.enterpriseinns.com


Introduction

Robert Walker




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Highlights

Simon Townsend


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Performance highlights

- Maintaining like-for-like net income growth — **FY14 up 1.4%**
- Stabilisation of earnings achieved — **Adjusted EPS 19.0p**
- Enhancing returns through re-investment of disposal proceeds — **Capex £66m Disposals £73m**
- Investment increasingly focused on growth driving initiatives — **Up from 32% to 41%**
- Measures to further support Publican profitability — **Business failures down 16%**
- Successful refinancing on improved terms — **Extended maturity and lower cost**

Definitions disclosed in appendix 8



Financial review

Neil Smith


Financial highlights

Year ending 30 September	2014	2013	Year-on-year change
Like-for-like net income	1.4%	(2.8)%	4.2 ppt
EBITDA[1]	£302m	£313m	(3.5)%
Profit before tax[1]	£121m	£121m	-
Adjusted earnings per share[1]	19.0p	19.0p	-
Free cash flow pre-investment	£111m	£109m	1.8%
Group net debt	£2,404m	£2,521m	(4.6)%

[1] Excludes exceptional items.
Definitions disclosed in appendix 8

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Income statement

£m	Year ending 30 September 2014			Year ending 30 September 2013		
	Pre excep	Excep	Total	Pre excep	Excep	Total
EBITDA	**302**	(13)	289	313	(2)	311
Depreciation	**(16)**	-	(16)	(15)	-	(15)
Operating profit	**286**	(13)	273	298	(2)	296
Property related	**-**	(70)	(70)	-	(158)	(158)
Interest	**(165)**	(2)	(167)	(177)	(4)	(181)
Gain on purchase of own debt	**-**	-	-	-	1	1
Profit before Tax	**121**	**(85)**	**36**	**121**	**(163)**	**(42)**
Taxation	**(26)**	20	(6)	(26)	64	38
Profit after Tax	**95**	(65)	30	95	(99)	(4)
Adjusted EPS (p)	19.0			19.0		
Weighted average no. of shares (m)	500.5			499.5		

Reconciliation of EBITDA and like-for-like net income

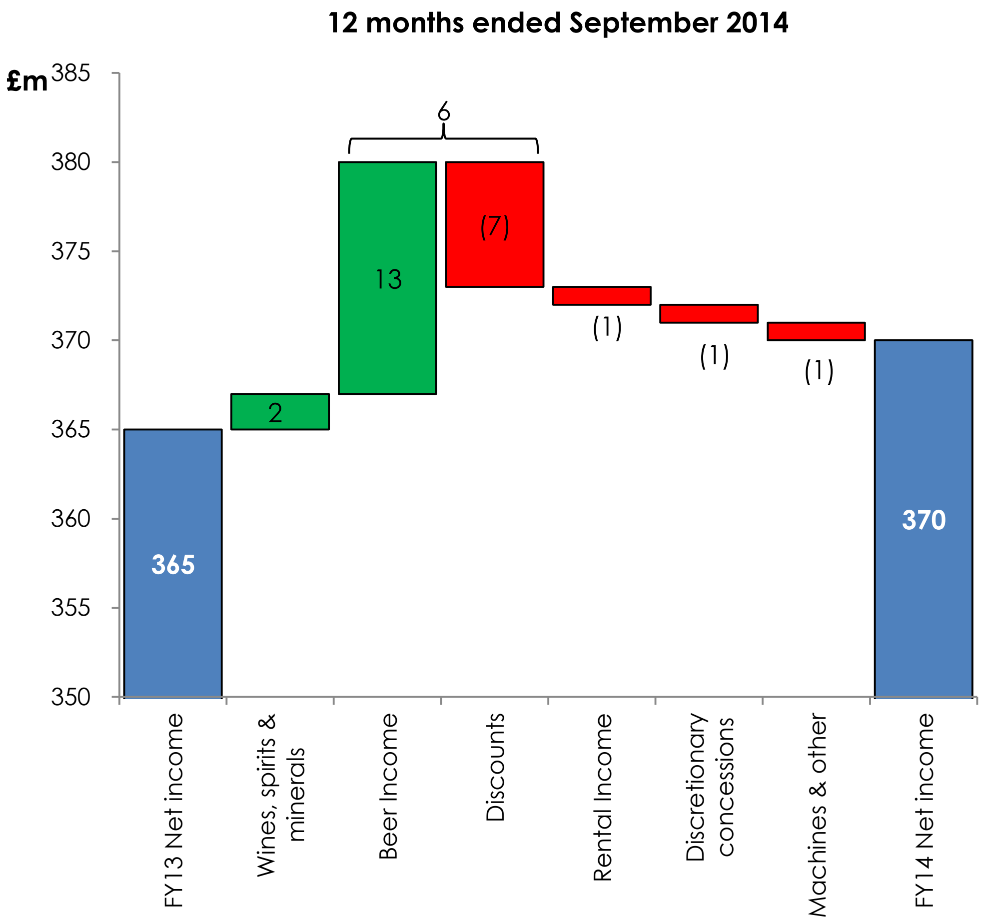
Year ending 30 September

£m	2014	Move-ment	2013	Change %
Like-for-like net income[1]	**370**	**5**	**365**	**1.4**
FY14 disposals	3	(3)	6	
FY13 disposals	-	(8)	8	
Unallocated costs	(6)	-	(6)	
Net income	**367**	**(6)**	**373**	
Property costs	(29)	(1)	(28)	
Administrative expenses	(36)	(4)	(32)	
EBITDA	**302**	**(11)**	**313**	**(3.5)**

- Total estate like-for-like growth of 1.4%
- Translates to EBITDA reduction of 3.5% due largely to asset disposals, with average pub numbers down 4.9% from 5,698 to 5,421
- Administrative costs higher due to increased employee costs and one off prior year benefits

[1] Relates to 5,348 total trading pub estate at 30 September 2014

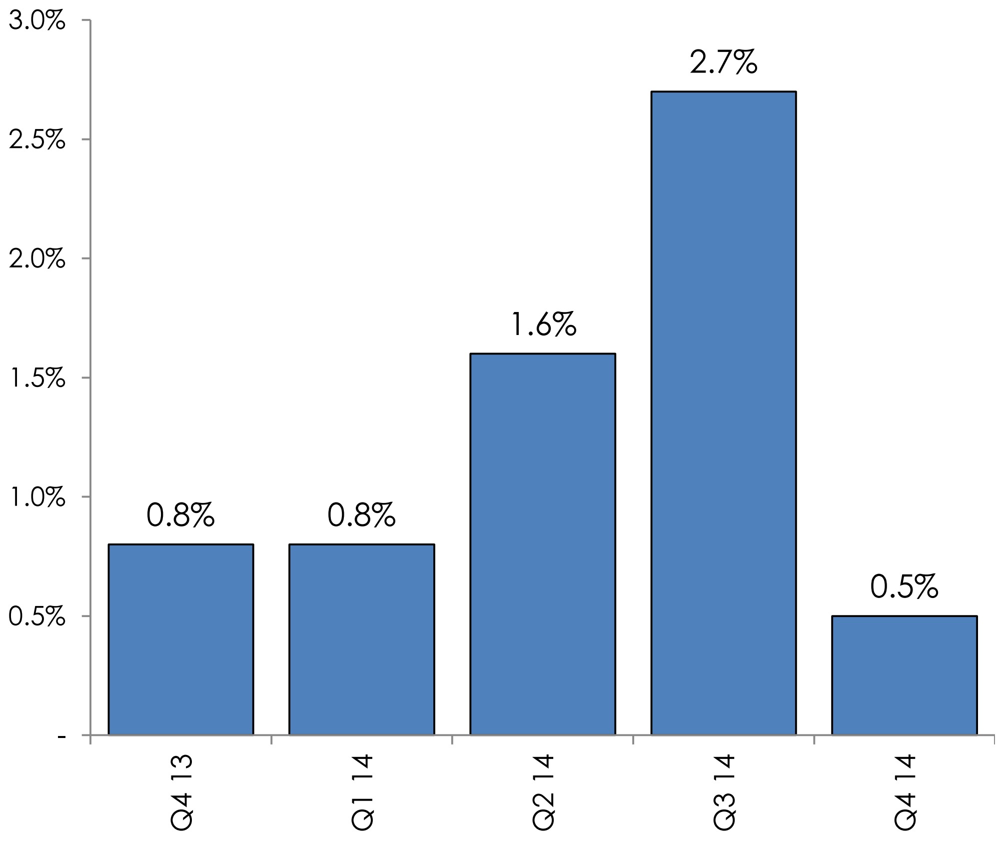
Improved like-for-like net income – up 1.4%



- Sales led improved performance with growing income from beer, aided by discounts driving volume
- Wine, spirits and minerals income normalised in the current year following distribution issues in prior year

Full detailed analysis included as Appendix 2

Like-for-like net income growth from total estate



- Performance sustained over five consecutive quarters
- Q3 benefited from FIFA World Cup and a late Easter holiday period
- First seven weeks of FY15 remain in growth

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All geographies report improving trend

Year ending 30 September 2014

Location	No. of trading pubs	Net income FY14 £m	Net income %	Net income FY13 £m	FY14 Year-on-year change %	FY13 Year-on-year change %*
North	1,594	102	*27*	102	-	(3.2)
Midlands	1,724	110	*30*	110	-	(3.9)
South	2,030	158	*43*	153	3.3	(1.7)
Total	**5,348**	**370**	*100*	**365**	**1.4**	**(2.8)**

- Strong performance in South of country aided by London
- 43% of income derived from South sector
- Stability of income in Midlands & North
- Highest earning 90% (4,813) pubs reported growth of 3.1%

*The FY13 income change comparative has been restated to reflect like-for-like performance for the 5,348 pubs trading as at 30 September 2014

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Exceptional items primarily property related

Year ending 30 September £m	2014	2013
Property related:		
Profit on sale of pubs	12	21
Valuation change on sold pubs	(13)	(57)
Write down on sold pubs	(1)	(36)
Valuation change on future sales	(20)	(24)
Valuation change on pubs retained in fixed assets	(42)	(84)
Goodwill	(7)	(14)
Total property exceptionals	**(70)**	**(158)**
Pension	(10)	-
Other	(3)	(1)
Interest	(2)	(4)
Exceptional items pre taxation	**(85)**	**(163)**
Taxation	20	64
Total exceptional items	**(65)**	**(99)**

- Net charge to income from property related items reduced as scale of disposal programme declines and valuations stabilise
- Buy-out of pension obligations crystallises all future liabilities – payable over four years

Strong operational cash generation

12 months ended 30 September		
£m	2014	2013
Operating profit	273	296
Depreciation & amortisation	16	15
Deferred pension settlement	10	-
Movement in working capital	-	7
Operating cash inflow	299	318
Interest	(167)	(182)
Tax	(21)	(27)
Free cash flow pre-investment	**111**	**109**

- Strong operational cash generation
- Debt reduction leads to lower interest cash outflow

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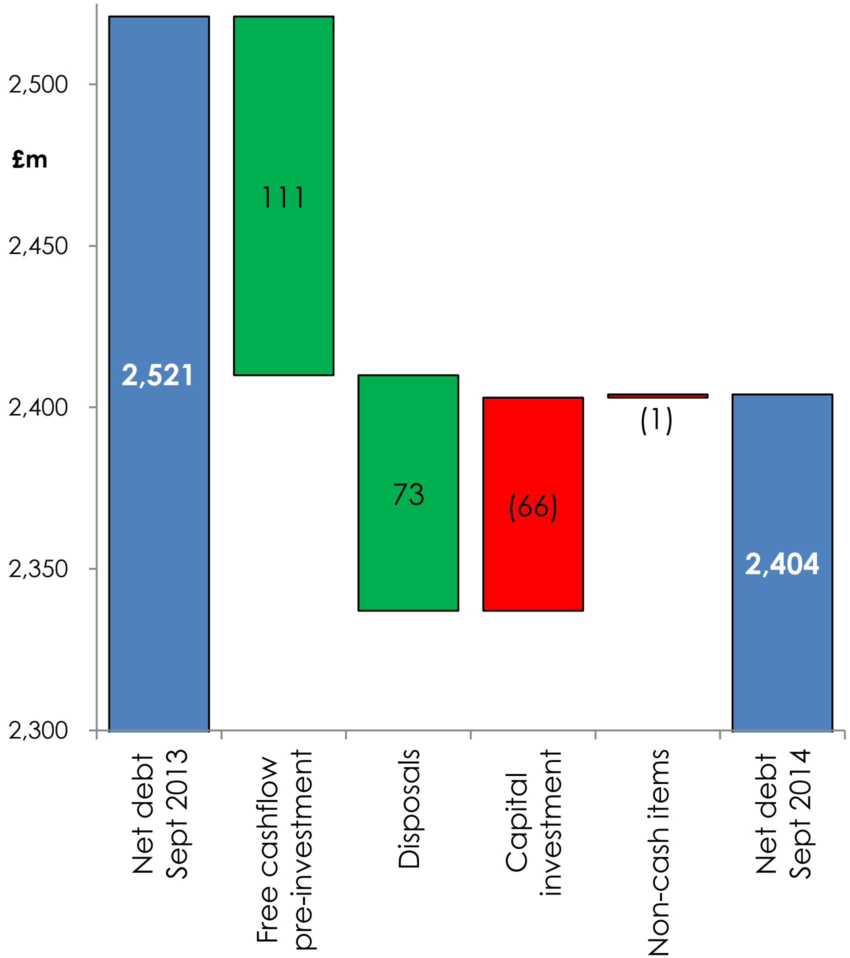
Cash generation has reduced net debt by £117m during the year



- Strong free cashflow of £111m
- Enhancing returns by reinvesting disposal proceeds
- 230 pubs disposed in period with average net proceeds of £317k
- 41% of capital investment focused on growth driving initiatives up from 32%
- Return on investment (ROI) hurdle rate of 15%, with actual returns of 19%

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Balance sheet

Net asset value stable at £1.4bn

£m	As at 30 Sept 2014	As at 30 Sept 2013
Goodwill & investments	338	345
Pubs & other assets	3,874	3,997
Net debt	(2,404)	(2,521)
Net other liabilities	(168)	(155)
Deferred tax	(237)	(264)
Net assets	1,403	1,402

- Assets – predominantly pub estate which is subject to annual valuation
- Liabilities – primarily net debt
- Net asset value of £2.80

Annual revaluation

Closing pub estate

	No. of pubs	Avg. value £k/pub	Total value £m
£1m+	957	1,279	1,224
£750k to £1m	1,238	859	1,063
£500k to £750k	1,839	622	1,143
£250k to £500k	887	406	360
< £250k	107	178	19
Pub estate	**5,028**	**758**	**3,809**
Pubs held for sale	118	254	30
Operating leases	260	38	10
Total pub estate*	5,406	712	3,849
Other assets			25
Total pubs & other assets			3,874

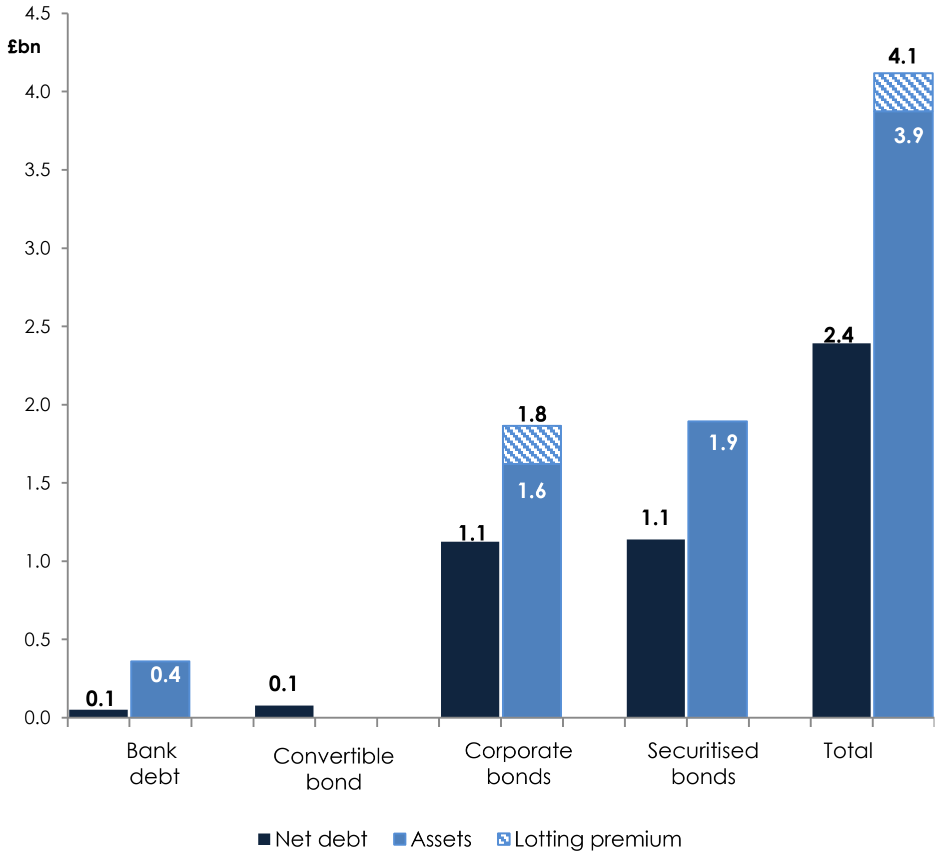
Pub estate valuation

£m	2014	2013
Pub estate - pre revaluation	3,884	4,062
Revaluation charged to income statement	(42)	(84)
Revaluation in reserves	(33)	(55)
Total revaluation reduction	(75)	(139)
Pub estate - post revaluation	3,809	3,923
Revaluation reduction	**(1.9)%**	**(3.4)%**

* Trading pubs of 5,348 and non viable closed pubs of 58

Loan-to-value at 58%

(62% excluding lotting premium)

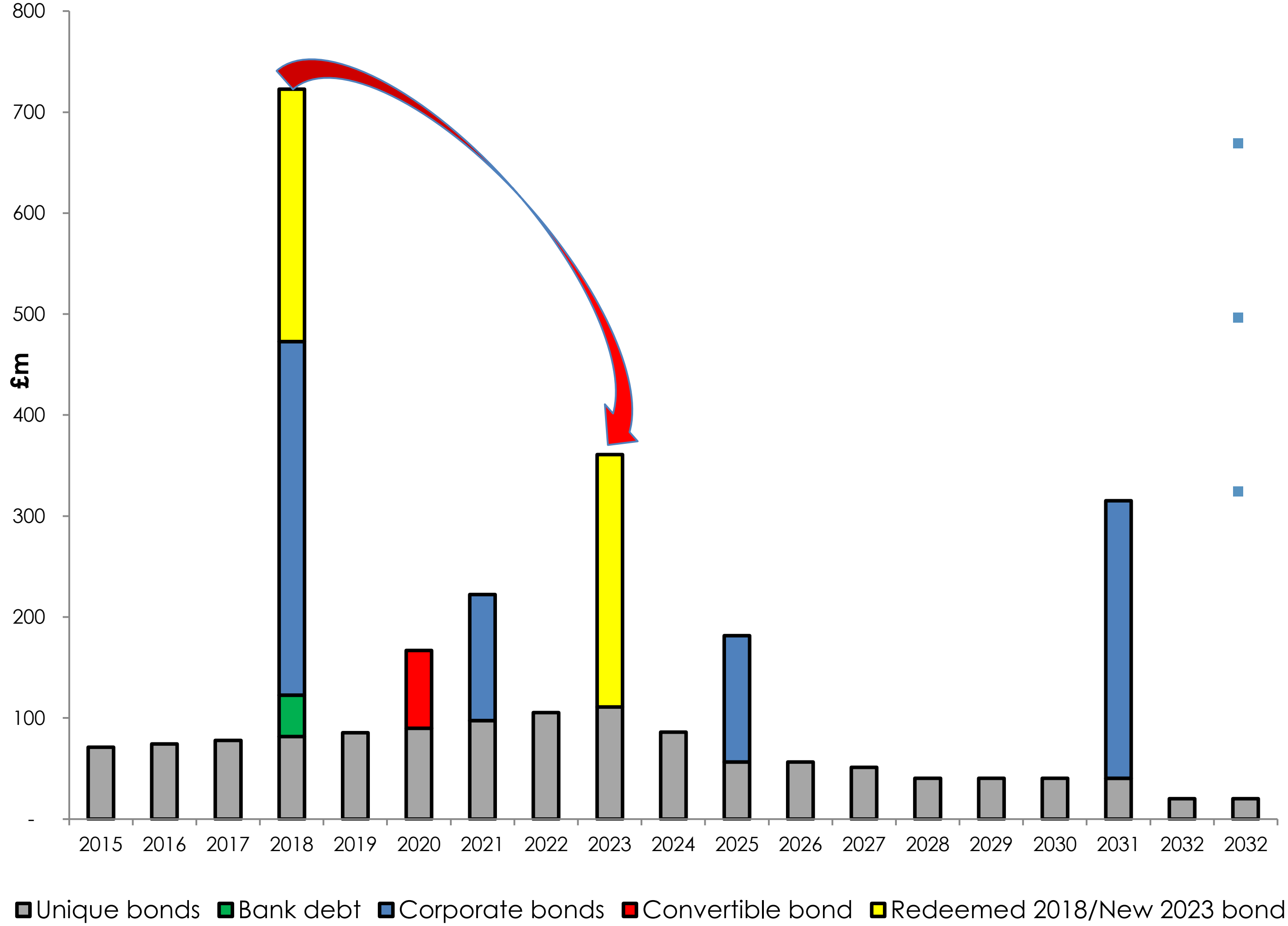


- £60m corporate debenture repaid in period
- £78m securitised bonds repaid in period (£68m amortisation, £10m purchase)
- Partial refinancing of 2018 corporate bond on 7th October 2014
- New £138m non-amortising revolving bank facility available until September 2018

See appendix 3 for full analysis of Group net debt

October debt refinancing

Active management of £600m corporate bond due December 2018



- £249.5m of 2018 bonds redeemed at 108.75%
- New £249.5m 2023 bond issued at 6.0%
- New £138m bank facility

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2015 Technical guidance

- Targeting to maintain like-for-like net income growth
- Full year finance charges of £158 - 160m
- Cash outflow of £28m in Q1 due to 2018 bond re-tender; 2023 new issue and new bank facility – exceptional charge in FY15
- Full year effective tax rate c. 20.5%
- Disposals of c. £60m
- Capital investment of c. £70m

Business Review

Simon Townsend

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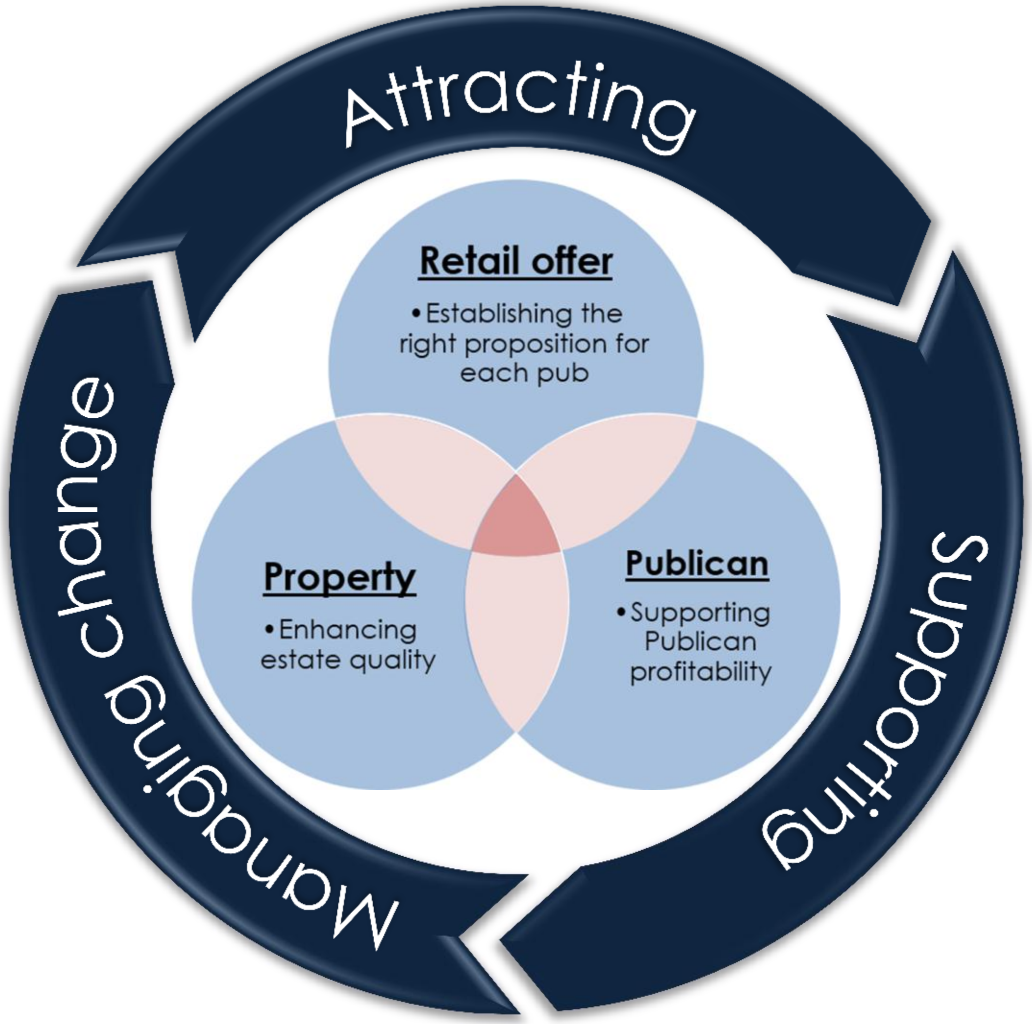
Market context and dynamics

Improving outlook

- Macro indicators are better, but with regional variances
- Consumer confidence is recovering, but subdued
- Leisure spend rising again – hunt for quality and value
    - Pubs growing share of eating out, premium, local craft beer
- Regulatory environment becoming clear

Growing our like-for-like income

Planning and executing the best plan for every asset



- Only quality assets
- Flexible agreements
- Investment capability
- 100 days programme
- SCORFA benefits
- Enterprise team
- Publican satisfaction

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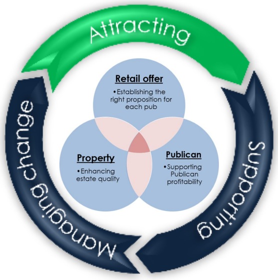
Constantly improving estate quality

Enhancing returns by reinvesting disposal proceeds



Analysis of FY14 capital investment		
	£m	%
Growth:		
Core leased and tenanted	24	36
New business	1	2
Commercial property	2	3
Total growth	27	41
Letting	11	17
Maintenance	23	35
Fixtures and fittings	3	4
Investment in properties	**64**	**97**
Central capital	2	3
Total	**66**	**100**

- Rigorous discipline in deployment of capital
- 41% of investment focused on growth, up from 32%, delivering 19% ROI
- Investment opportunities will exceed divestment proceeds in FY15
- 70 growth schemes > £100k, 188 schemes £50-100k, 600 schemes £20-50k
- £1.8m Publican investment in top 25 growth schemes
- Robust management of property condition
- Enhanced property team capability

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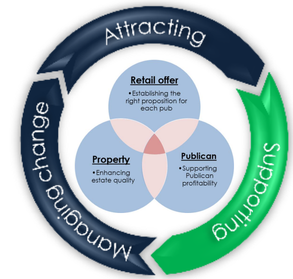
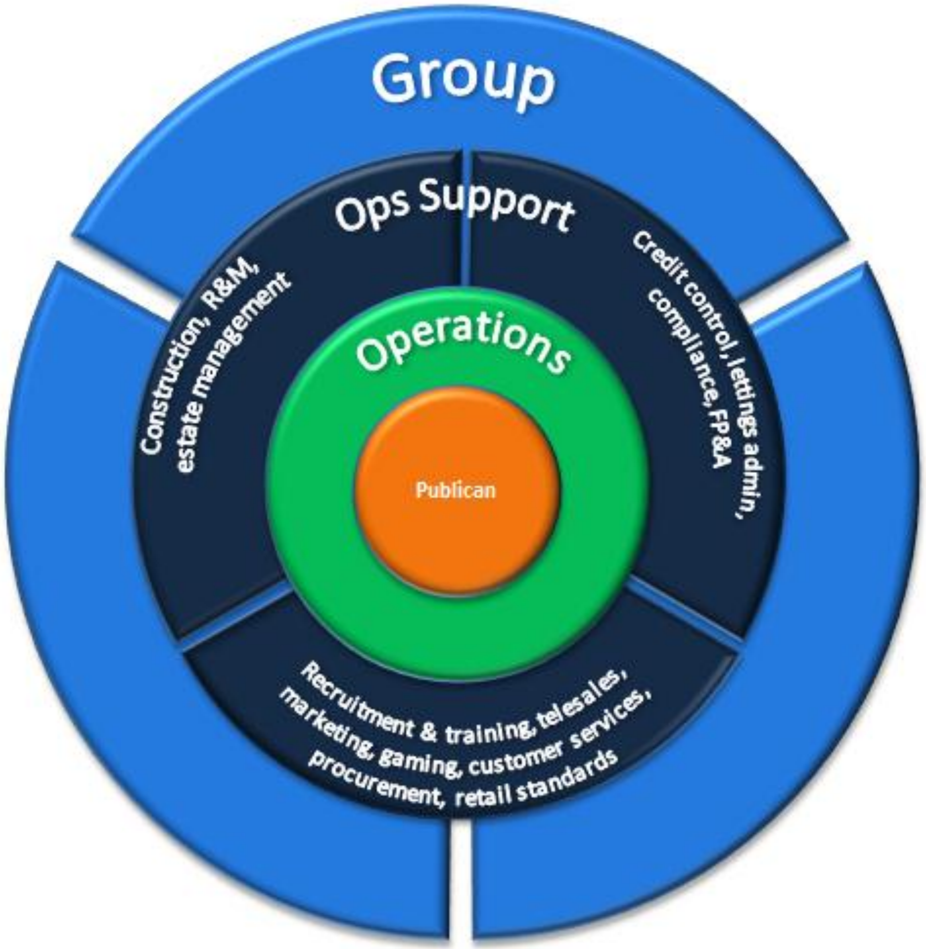
Growing publican sales and profits

Investment in people and resources





- RM role is integral to success
- Increased investment in:
  - Learning and development
  - IT and infrastructure
  - Commercial and retail capability
  - Publican satisfaction



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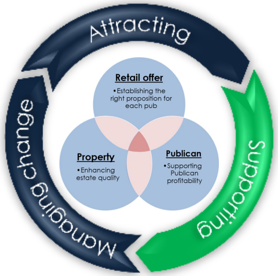
Supporting Publican profitability

Driving sales and margins, reducing overhead costs



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Publican

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

Training
- Over 2,100 delegates
- e-Learning 950 delegates
- 100 day programme

Wilma – Winning in a local market area
Food Retail Education and Development – Fred
Wow – Ways of Winning

Range
- 480 brewers
- Over 1,300 cask ales

Pub club
- Over 380 participants

Enterprise PUB club at Brakes

Discretionary support
- £7m in FY14

Digital (on-line ordering)
- Launched in H2
- Over 650 users to date

Sports TV
- Over 900 benefitting from SKY/BT deals
- Saving up to £3k

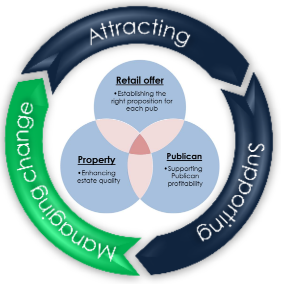
sky
BT Sport

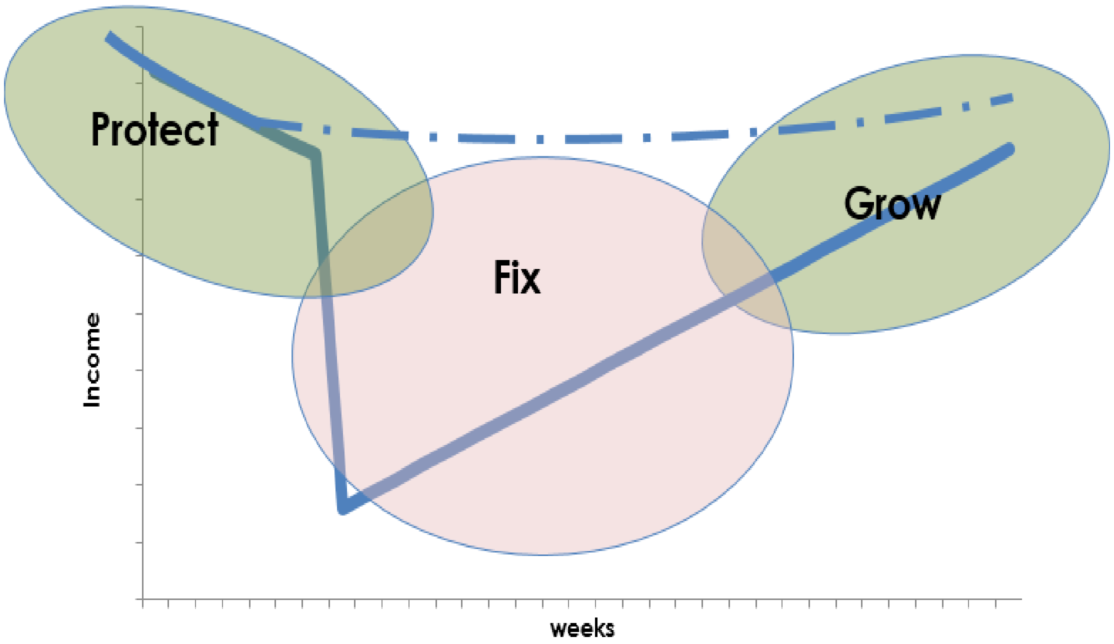
arqiva

Free Wi-Fi
- Over 2,150 installed
- Worth £500

Reducing the costs of Publican change

Early intervention and proactive management

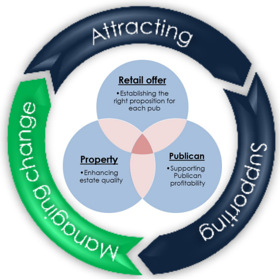


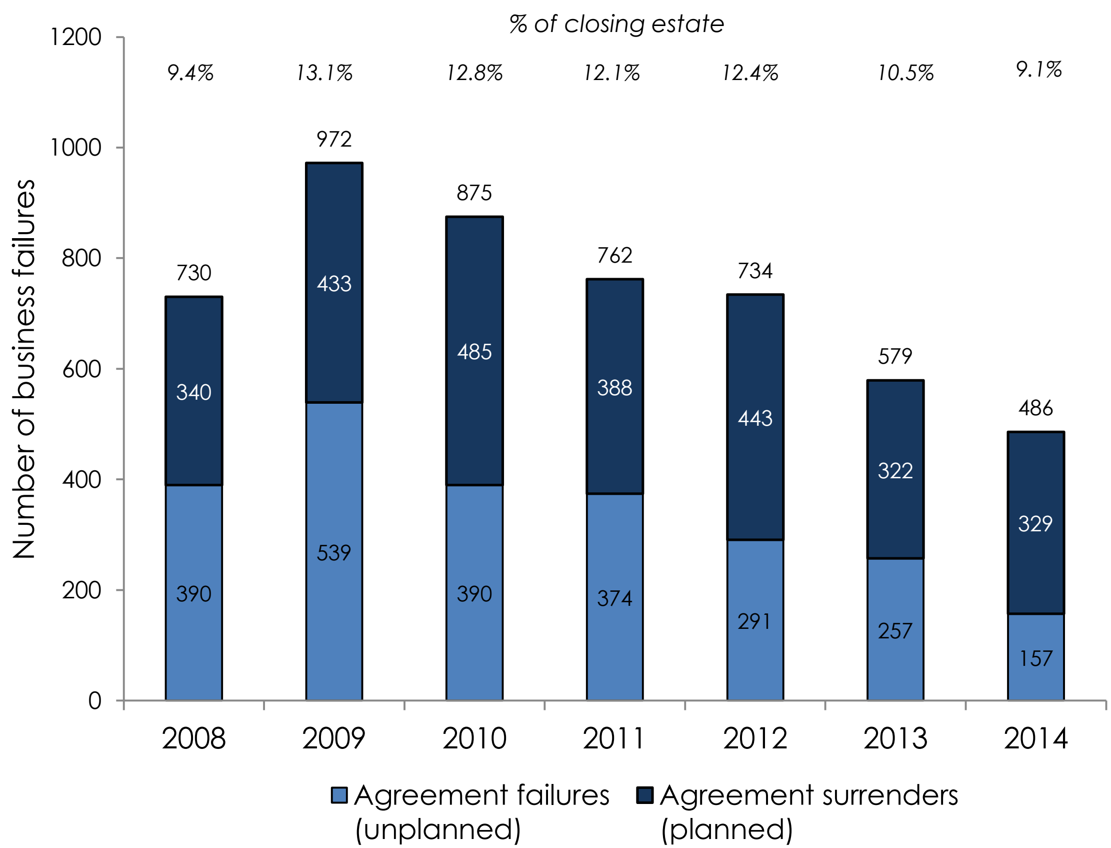


- Halt business decline
- Avoid weeks of closure
- Drive trading performance whilst non-substantive
- Re-let a performing pub on optimal terms

Managing Publican change

68% of change is planned

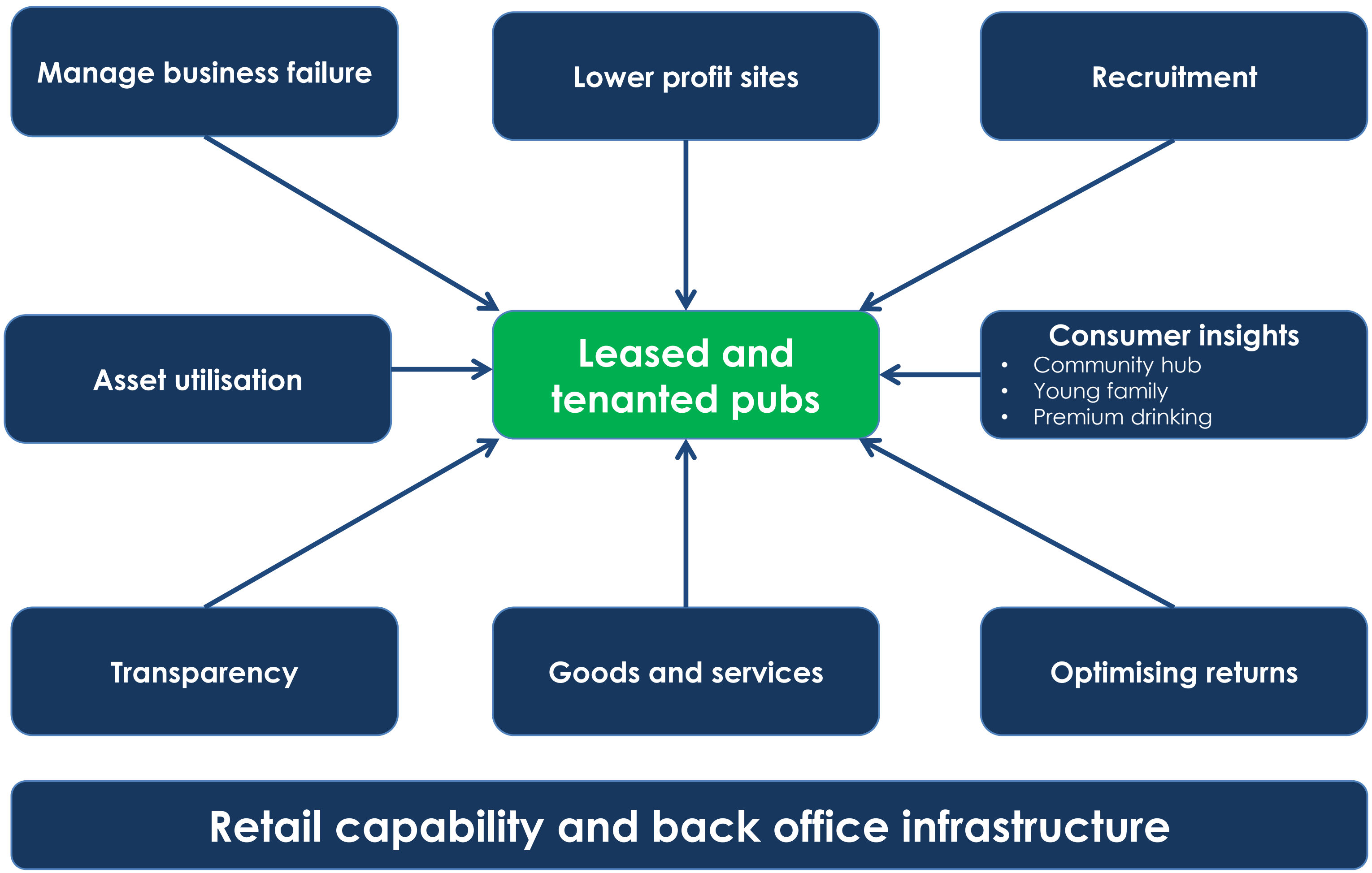




- Business failures reduced by 16%
- 58 closed houses at year end
- Costs of failure reduced
- Discretionary support at £7m
- Publican profitability indicators improved
- Average occupation 6 years

Greater control brings tangible benefits

Enhancing returns for shareholders



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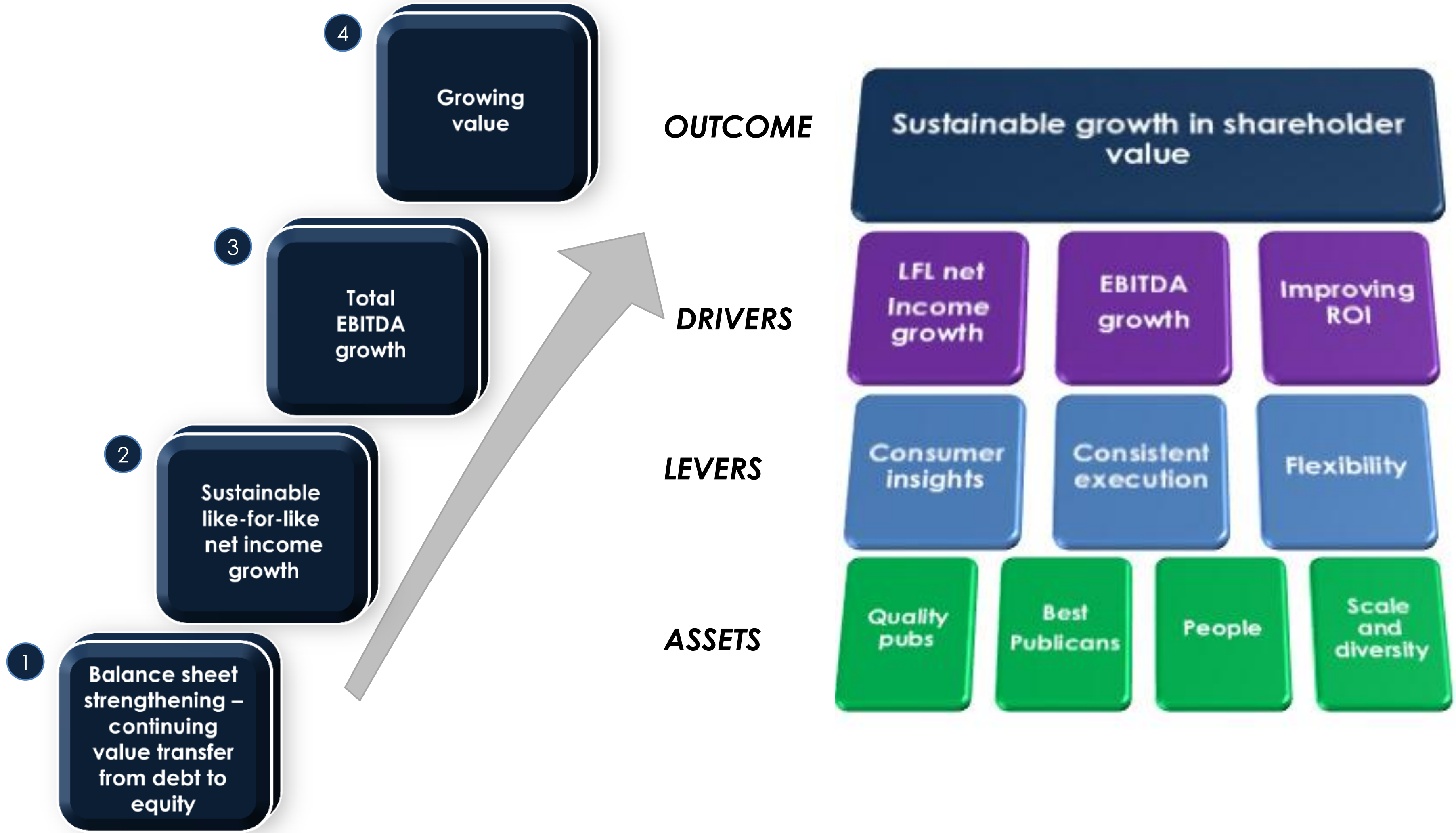
Clear strategy for creating shareholder value

Steady progress on all fronts



Summary and outlook

Market dynamics improving

- Maintained progress in like-for-like performance
- Underlying operational metrics further improved
- Business model evolving
- Encouraging start to current year



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Questions & answers


Appendices

1. Operational metrics
2. Like-for-like net income analysis
3. Net debt analysis
4. Old bank facility
5. New bank facility
6. ETI corporate bonds
7. Unique securitisation
8. Definitions

Appendix 1:

Operational metrics

- 98% of agreements have had rent reviewed since 2008
- 461 rent reviews completed at an average annual increase of 0.2%
  - (2013 - 437 reduction of 0.3%)
- 69% of substantive agreements linked to RPI (2013 - 69%)
- 90% of Publicans receiving contractual BCF discount (2013 - 88%)
- Overdue balances reduced by 24% to £2.6m (2013 - £3.4m)
- Rate of business failures reduced by 16% (2013 - down 21%)
- Total discretionary support increased to £7m (2013 - £6m)

Appendix 2:

Like-for-like net income analysis

£m	Beer, cider & fabs	Contractual discounts	Net beer, cider & fabs	Rental income	Discretionary concessions	Wines, spirits& minerals	Machines & other	Total
2014								
Turnover	511	(82)	429	165	(7)	29	10	626
Cost of sales	(236)	-	(236)	-	-	(20)	-	(256)
Net income	275	(82)	193	165	(7)	9	10	370
2013								
Turnover	497	(75)	422	166	(6)	22	11	615
Cost of sales	(235)	-	(235)	-	-	(15)	-	(250)
Net income	262	(75)	187	166	(6)	7	11	365

Appendix 3:

Net debt analysis

£m	As at 30 September 2014	As at 30 September 2013
ETI bank debt	(81)	(81)
ETI cash	35	40
ETI net bank debt	(46)	(41)
Captive insurance cash	5	-
Convertible loan note	(76)	(75)
Corporate bonds	(1,125)	(1,185)
Total ETI debt	(1,242)	(1,301)
Unique securitised bonds	(1,221)	(1,300)
Unique cash	83	104
Total Unique debt	(1,138)	(1,196)
Underlying Group net debt	**(2,380)**	**(2,497)**
Fair value and other adjustments	(24)	(24)
Group net debt	**(2,404)**	**(2,521)**

Appendix 4:

Old bank facility

- This facility was replaced with a new facility effective from 7th October 2014

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 30 Sept 2014	As at 30 Sept 2013
Net debt:EBITDA less than	**6.50x**	5.89x	5.37x
Interest cover greater than	**2.00x**	2.45x	2.59x
First charge asset cover greater than	**1.33x**	8.29x	3.29x
Total property asset cover greater than	**1.50x**	19.48x	7.90x

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Appendix 5:

New bank facility

- New facility commencing on 7th October 2014 at £138m as follows:

Amount	Cost over LIBOR	Term	Status
£138m	3.00%	4 years	Fully revolving, no amortisation

Produces estimated annual saving of £1m

- Significant headroom against covenants[1]

	Covenant	As at 30 Sept 2014	As at 30 Sept 2013
Interest cover greater than	**1.50x**	1.89x	1.87x
First charge asset cover greater than	**1.33x**	8.29x	3.29x
Total property asset cover greater than	**1.50x**	19.48x	7.90x

Simplified covenant package

[1] Covenants excluding Unique; EBITDA excludes dividends from Unique

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Appendix 6:

ETI corporate bonds

- Terms of Tender Offer
  - 8.75% on £250m produces exceptional cash cost of £22m
  - Plus other fees of £4m
  - Incremental interest charge of £1m
- Terms of New 2023 Bond
  - Coupon of 6.0% produces annual interest saving of £1.25m compared to existing 2018 bonds at 6.5%

Value	Rate	Redemption	Asset Cover	Income Cover	Market Price at 30 Sept 2014
£350m	6.500%	2018	1.67x	2.0x	107.8
£125m	6.875%	2021	1.50x	1.5x	107.0
£250m	6.000%	2023	1.67x	2.0x	n/a
£125m	6.875%	2025	1.50x	1.5x	106.2
£275m	6.375%	2031	1.67x	1.5x	100.7
£1,125m					

Appendix 7:

Unique securitisation

- Purchased £10m A4s at an average purchase price of 100p
- Amortisation in the period - £46m of A3 notes and £22m of A4 notes
- Bond pricing has improved by 8% since September 2013

Value	Rate	Note	Redemption	Market price	
				Sept 2014	Sept 2013
£386m	6.542%	A3	2021	106	102
£420m	5.659%	A4	2027	102	96
£225m	7.395%	M	2024	105	95
£190m	6.464%	N	2032	96	75
£1,221m					

Appendix 8:

Definitions

- **Like-for-like net income -** represents the like-for-like gross profits, at pub level, 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