

- The group has around 1,200 leased & tenanted units. Over time, this should reduce to around 1,000.

#### Brewing & Brands:

- Beer volumes were +2.9% including the effect of selling more GNK beer into the Spirit estate

#### Cash Flow, Balance Sheet & Debt:

- Group says it is committed to retaining a 'prudent & flexible' balance sheet.
- Net debt to EBITDA has fallen from 4.3x to 3.9x.
- But, as Spirit brought with it a number of leased units, fixed cost cover may be a more appropriate measure and, here, the cover has declined from 2.9x to 2.3x.
- The group recently crystallised £120m in swap losses as a part of a £300m (£180m net) debt extension. It says that the opportunities available made it worthwhile taking this hit (which had already been provided for).

#### Strategy, Integration etc.:

- GNK maintains that it (in retail) will focus on 1) brands, 2) value, service & quality, 3) staff, 4) property and 5) its balance sheet.
- If the company (or any company) gets all of the above right, then it will prosper
- Spirit brand swaps will be the most exciting part of the group's acquisition. This is just getting underway – but early signs are positive
- The enlarged company should make around 300 conversions over 3yrs
- The beer division will focus on its key brands, IPA, Old Speckled Hen and Belhaven

#### Current Trading & Conclusion:

- The group comments that, since January, EU Referendum uncertainty seems to have hung over consumer spending
- This has not dissipated post the vote
- GNK says uncertainty will be a feature of the industry for some time but it suggests that small ticket spending should hold up and points to its own resilient performance in 2007-08.
- Trading in the first 8wks of FY17 has been good with LfL managed sales +2.8%.

#### Langton Comment: Greene King has reassured that the integration of Spirit is on track.

It furthermore suggests that small ticket sales should hold up even if the wider economy falters.

Input costs (wines, ultimately fuel etc.) will rise a little if the Brexit is carried through. Around 9% of GNK's staff are EU nationals and, whilst there is no suggestion that they would have to go home, further recruitment may not be allowed.

In common with most domestic operators, GNK has given ground recently. However, trading as they are at little more than 11x this year's EPS, we believe that GNK's shares offer good value.

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

