Langton Capital Limited

9 September 2011

Leisure:JD Wetherspoon (JDW): 416p
Full year to 24 July 2011; analysts meeting

Following the announcement of its full year results for the 52-week period to 24 July earlier this morning, JD Wetherspoon hosted a meeting for analysts at which we believe the main points to emerge are set out below:

- JDW is satisfied with its 2010/11 results; it breached the £1bn barrier in terms of revenues for the first time and pushed average weekly turnover per pub (inclusive of VAT) up to £31,100.
- **Trading (general)** – Gross margins were similar in H1 and H2 10/11
- Breakfast opening has now washed through, hence food sales were +7% in H1 and +1.4% in H2
- Company does not split LfL sales between price and volume
- **Trading (outlook) –** JDW expects 'more of the same'
- Company is comfortable with the trading environment but does not expect a rapid recovery
- Last 6w are only up 0.4% but the riots impacted the period & recent weeks are back to Q4 10/11 trends
- **Trading (costs) –** It is interesting to note that, whilst LfL revenues per pub rose by 2.1%, LfL profit per pub fell by 1.2%, largely due to increased costs
- The profit margin per pub fell from 21.8% to 21.1%
- Tax and duty increases were hurtful and labour and utility costs rose on increased opening hours
- Head office costs are unlikely to rise as a % of sales (and may fall)
- Margin pressures remain but a part of the drop from 10% to 9.5% was due to breakfast opening & will not be repeated
- **Balance sheet, new openings etc. –** The impairment charge is not material
- Build costs have risen but only slightly and there remain good opportunities out there
- Both expansionary & maintenance capex rose in the year; 50 units were opened (68% freehold), the largest number since 2002
- Around the same number will open in the current year (say 1/3 H1 and 2/3 H2) though maintenance capex should decline
- **Cash flow, debt & financing** – Debt rose by c£50m in 10/11 and will rise by £30m to £40m in the current year
- Debt/EBITDA was comfortable at 2.98x and the group has substantial headroom
- Buybacks are not off the agenda but will be 'selective'

Lancap view: Overall, JDW reassured its audience that it had performed relatively well and that it remains well-positioned to do so going forward. The relatively sluggish start to 11/12 was partly due to the rioting (at its peak, JDW had 120 pubs shut and one was burnt to the ground) and has picked up in recent weeks. We continue to believe that JDW's model suites it for the current environment and see its shares, which are trading at around 11x current year earnings, as offering good value.

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