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Capital Limited

8 November 2012

Following the company's update on trading for the 13w period to 28 October 2012 this morning, JD Wetherspoon hosted a conference call for analysts at which the main points to emerge were as follows:

- Trading - Sales:
  1. The company says that 'sales momentum has continued after the end of the summer'
  2. Group declined to split sales growth between wet and food sales but accepted that food sales were a little stronger
  3. Machine sales were slightly down last year but position is 'slightly better than that' in Q1
  4. No geographic variations
  5. Sales should grow over the full year (LfL) by 2% to 3%
  6. Why the pick up? The group took advantage of the 'events' over the year and believes that it may have recruited new customers
- Trading – Costs & Margin:
  1. The group accepted that its Q1 margin was below Q4 'but was in the range of expectations'
  2. Most costs are broadly variable; most bar contracts are 5 or 7 years with RPI clauses (but also material change clauses)
  3. Marketing costs up marginally this quarter
  4. If sales growth slows, will margins fall further? This is a bit hypothetical at this stage; could go either way
  5. Margin expectation for the year? Guidance unchanged; margin for full year should be 8.6% to 9.0%
  6. No real change to trends on pricing; still 'steady as she goes'

Lancap view: JD Wetherspoon has reassured that the positive sales growth seen during the summer has been maintained into Q1 of the current year.

The group has not changed its guidance on sales growth and margins (see above) for the current year suggesting that the one may slow and the other will improve over the remainder of the year.

Overall, Q1 sales have been very strong and, though these may slow, the group has reassured that the pickup over the summer did not immediately fade and there are grounds to hope that its forecast of 2% to 3% LfL growth for the year as a whole could be somewhat conservative.

Broker estimates may not change at this stage but they remain firmly underpinned. JDW remains a class act and, though its shares have been strong in recent months, there would appear to be no compelling reason to take profits at this stage.

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8 November 2012

JD Wetherspoon has this morning updated on trading for the 13w period to 28 October 2012 and our comments and further details are set out below:

- JDW has this morning updated on trading for the 13w to 28 Oct saying that LfL sales rose by 7.1% and overall sales, including the impact of new openings, were up by 11.1%
- The group last updated at its final results on 14 September at which time it commented on trading for the first 6w of the current year (when LfL sales were +8.4%)
- Recent LfL sales trends are shown below:

Financial period	LfL sales %
Full year 2008/09	+1.2
Q1 2009/10	+0.3
H1 2009/10	+0.1
Q3 2009/10	Minus 0.8
Full year 2009/10	+0.1
Q1 2010/11	+1.6
Q2	+3.1
Q3	+2.4
FY 2010/11	+2.1
Q1 2011/12	+1.1
Q2 (first 12w of)	+3.6
H1 2011/12	+2.1
Q3	+2.0
FY 2011/12	+3.2
Q1 2012/13	+7.1

Source: JD Wetherspoon

- The group reports that its operating margin was around 8.6% (down 0.4% on the same quarter last year) 'due to increases in costs in areas such as tax, utilities, labour and bar and food supplies'
- JDW opened two new pubs in the quarter and has eight further units under development; it should open 25 in the current year
- There 'have been no significant changes in the company's overall financial position' since it last reported
- The group outlines its opinion that the main challenges facing the on-trade remain stealth taxes and off-trade pricing
- It has called for a reduction in VAT across the hospitality industry but concludes 'in spite of these challenges our sales, profit and cash flow remain resilient'
- Overall, 'the board continues to aim for a reasonable outcome in the current financial year'
-

Lancap view: JD Wetherspoon has performed very strongly here over a sustained period. The Olympics may have helped (it was up by 8.4% LfL at week six) but

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the group's impressive performance has continued throughout September and October and a LfL increase in sales of 7.1% is a most satisfactory result.

Margins are down on Q1 last year but remain above the low-point of 8.1% reached in Q3 FY11/12. Forecasts of perhaps as much as £73m look to be secure for the current 2012/13 year and there may be some upward pressure. Existing estimates give EPS of around 43p.

The group should pay 12.4p in dividend in the current year (the first dividend increase (from 12p last year) since its reinstatement in 2010) meaning that the group's shares trade on a PER of 11.9x and yield some 2.4%. JDW will update further at a conference call for analysts at 8am.

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Following the announcement of its FY numbers this morning, JD Wetherspoon hosted a meeting for analysts at which the main points to emerge are set out below (page numbers refer to the Presentation, which will be available on the JDW website shortly):

- **Revenues:**
  1. The group returned record sales per unit (p3) and confirmed (p6) that food (+4.8%) and wet sales (+2.8%) were in growth whilst machine income fell by 2.8%
  2. Food was 31% of sales, wet sales comprised 64% and accommodation, machines and other were 5%
  3. JDW achieved a 'reasonable' sales result; costs were up but the cash flow was strong
- **Margins:**
  1. Margins, though down year on year, were 8.6% in H2 (8.1% in Q3) but 9.05 in Q4
  2. The reduction was due to duty, stealth taxes and higher levels of repairs
- **Other Trading & Dividend:**
  1. Exceptional costs of £13.5m comprised only £600k of cash payments
  2. Dividend is unchanged y-o-y but 'remains under review'
  3. Whilst the group does not major on branding, it is the #2 recognised brand in eating out (#1 is Nando's)
  4. Tax remains an issue 'and there is no evidence that anyone in government is paying any attention yet'
- **Outlook:**
  1. Current trading is very strong (up 8.4% LfL and up 12.8% in terms of total sales) but this is due to some one-offs & will not be sustained
  2. Taxes and costs will be a feature but the group sees 'opportunities for profitable investment in new openings & existing pubs'
  3. LfL sales growth of '2% to 3%' (up from 0% to 2%) should be achievable
  4. Margins may be 'between 8.6% and 9.0%' but the group is 'a bit nervous' with regard to food costs
- **Cash Flow, Debt & Balance Sheet:**
  1. Use of funds: Group continues to retain flexibility to move cash flow between debt redemption, new sites, dividends & share buy backs (p10)
  2. Don't necessarily assume buybacks going forward (but they may happen)
  3. Debt was up by less than had been flagged (c£25m up v estimates of c£50m) but c£15m of this will reverse in FY13
  4. FY13 debt should be c£20m to c£30m higher
  5. During the year the group opened 40 and closed three units; in FY13 it will open c25 and this may rise in FY14; smaller towns remain attractive

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Lancap view: JD Wetherspoon has gone some way to confirm that margins may have troughed in Q3. Of course this may change but the fact that it is guiding to 'between 8.6% and 9.0%' (they were 8.1% in Q3) does point in this direction.

Current trading is very strong. Or rather it has been very strong (due to a boost from the Olmpics & Paralympics and some help from the weather and soft, riot-impacted comps) and underlying sales growth would appear to have picked up a little to perhaps 2% to 3% on a LfL basis.

Upgrades are likely to be feeding through over the near term but forecasts of around £73m or £74m for the current year (c42p or 43p of earnings) and the share price bounce seen this morning looks firmly underpinned.

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JD Wetherspoon has this morning reported its full year numbers for the 53-wks to 29 July. Our comments and further details are set out below:

- JDW has reported 53-week numbers to 29 July this morning with the group 'pleased to report a year of further progress'. The group last updated on trading on 11 July at which it gave sales details to 8 July
- Revenues over the 53w were £1.197bn, up 9.3% excluding the impact of the 53rd week
- LfL sales wree up by 3.2% (somewhat better than might have been expected when the company updated on 11 July); in the last six weeks, sales are sharply higher at +8.4%
- PBT (before exceptional items) is £72.4m (2011: £66.8m and against estimates of nearer £67m)
- EPS is 41.3p (last year 35.3p & estimates of around 37p) and the dividend will be 12p, unchanged from last year. Recent LfL sales trends are shown below:

Financial period	LfL sales %
Full year 2008/09	+1.2
Q1 2009/10	+0.3
H1 2009/10	+0.1
Q3 2009/10	Minus 0.8
Full year 2009/10	+0.1
Q1 2010/11	+1.6
Q2	+3.1
Q3	+2.4
FY 2010/11	+2.1
Q1 2011/12	+1.1
Q2 (first 12w of)	+3.6
H1 2011/12	+2.1
Q3	+2.0
FY 2011/12	+3.2
6w to 9 Sep 12	+8.4

Source: JD Wetherspoon

- **Sales:** LfL sales are better than had been expected. The last six weeks, 'helped by a strong performance during the Olympic and Paralympic Games' is exceptionally strong
- Riot comps will have fallen out of the numbers and JDW is not traditionally hurt as much as some of its peers by poor weather but +8.4% LfL is extremely strong
- **Margins:** The operating margin was 9.0% (2011: 9.5%) suggesting that, whilst down on 2011, the low point appears to have been earlier this year
- JDW says once more that the main threats to the pub industry are stealth taxes and the widening price differential between the on and the off-trades

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- Margins will be impacted by duty increases but the group has previously suggested that these 'may have passed their low point as they were 8.1% in Q3
- **Balance sheet:** Net interest was covered by operating profits 3.1x, free cash flow was £45.2m (2011: £38.4m) and total debt at the year-end was up by £24.9m at £462.6m. A somewhat larger increase in debt had been expected
- **Outlook:** Current trading has been extremely strong but is due to a number of events such as the beneficial impact of the London Games and the absence of riots in 2012 v 2011
- Nonetheless, +8.4% is an exceptionally strong figure and the group, though saying quite reasonably that such sales levels are unsustainable, is 'aiming for a reasonable outcome in the current financial year

Lancap view: JD Wetherspoon has performed extremely strongly in the period since it last reported. Sales are better than might have been expected and the margin, hopefully, has bottomed out.

The group's forward looking statements are laced with caution but trading has been good. And the group can only play the balls that it is bowled. Certainly risks remain but performances such as that reported this morning are likely to confirm holders in their view that JDW is a premier operator and deserving of their support.

The group's shares have suffered from a degree of profit taking over recent days and this could well be reversed. Forecasts of around £69m for the current (2012/13 year) now look off the pace and there are likely to be upgrades. The company will present to analysts at 9am this morning and forecast upgrades are more likely than not.

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JD Wetherspoon will report full year numbers for the 53-wks to 29 July tomorrow morning. Our comments and further details are set out below:

- JDW will report full year numbers tomorrow morning. The group last updated on trading on 11 July at which it gave sales details to 8 July
- New news therefore will comprise trading for the last three weeks of the FY, subsequent current trading alongside profit conversion, margin details and balance sheet information for the FY to 29 July
- Recent LfL sales trends are shown below:

Financial period	LfL sales %
Full year 2008/09	+1.2
Q1 2009/10	+0.3
H1 2009/10	+0.1
Q3 2009/10	Minus 0.8
Full year 2009/10	+0.1
Q1 2010/11	+1.6
Q2	+3.1
Q3	+2.4
FY 2010/11	+2.1
Q1 2011/12	+1.1
Q2 (first 12w of)	+3.6
H1 2011/12	+2.1
Q3	+2.0
11w to 8 July	+6.1
FY 2011/12 (LC estimate)	+2.9

Source: JD Wetherspoon

- **Sales:** The last three weeks of the FY will comprise the last three weeks of July including a period of very wet weather & the opening ceremony of the Olympics
- JDW has traditionally not suffered unduly in wet weather but the Olympics, notwithstanding the benefit to the '20-30 units' close to Olympic sites, will have kept some would-be customers at home
- Prezzo recently described this period as extremely 'atypical' – JDW said previously sport in general was helpful (tennis/football) but the Olympics were 'an unknown'
- **Margins:** Margins will be impacted by duty increases but the group has previously suggested that these 'may have passed their low point'
- **Balance sheet:** JD Wetherspoon has opened 40 units in the year to date and has closed three; it should open between 20 and 30 in FY13
- Regarding debt, this will up around £50m (on share buy backs) but should be stable next year
- **Outlook:** The group cautioned recently that 'the main challenges for the company…have been the continuing cost pressures resulting

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from government legislation' but it expected to 'achieve a reasonable outcome for the current financial year'

- By definition, shocks come as a shock but, as recently as 11 July, JDW was trading in line with expectations

Lancap view: JD Wetherspoon's shares have been strong over recent weeks but have encountered a little profit taking in the last fortnight or so.

The group, though it is often minded to complain publicly with regard to government policy re taxes, duty etc. should reassure.

Forecasts are for around £66.5m for the current year (37p of earnings) and perhaps £69m for next (c40p per share) and these should broadly remain intact. The group's shares therefore trade on a relatively undemanding 12.5x multiple of what will by tomorrow be historic numbers.

Whilst some further profit taking is not out of the question, JD Wetherspoon remains one of the UK's premier pub operators and it is very well adapted to survive and prosper in what is likely to remain a challenging environment.

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11 July 2012

Following its update on FY (first 50w) trading, JD Wetherspoon hosted a conference call for analysts at which the major points to emerge were as follows:

- LfL sales: What is the underlying picture? 1% to 2% would be a 'reasonable outcome' and the group has achieved around 2% - the events have topped this up to 6.1% in Q4
  1. 1% to 2% would still be a 'good result' going forward
  2. In the past, football has been neutral; what's changed? On at good times of day & England performed reasonably
  3. Most of the 6.1% is volume rather than price; prices went up by c10p in March so y-o-y prices are higher but promotions have brought actual prices back down
  4. Wet weather 'may have added 1% to 2% to sales' – hard to disaggregate this too much
- Pricing, Costs & Margin: Is the 8.1% of Q3 or the 8.9% of Q4 indicative of things to come? Group wouldn't be drawn.
  1. Pointed out that National Minimum Wage was only 1.8%, other costs around 2% to 3%
  2. Some food costs are falling, tend to be 12 month contracts
  3. On prices, 'the group has remained competitive'
  4. Margins going forward? Impacted by duty increases etc., this will impact gross margin
  5. Margins ex the boost from 6.1% LfL increase? Would have been lower than reported
  6. Were margins helped by shift to wet sales? Not particularly
  7. Margins negatively impacted by high repairs
- Outlook:
  1. Price rises going forward? Won't shift this just to massage margin; will price in order to ensure pubs remain busy
  2. The Late Night Levy is slipping into the future, will cost £1m to £2m
  3. Gaming duty changes will hit £1m to £2m too
  4. Olympics? Sport in general has helped; Euros & tennis good but Olympics something of an unknown; c20-30 pubs are close to events
- Balance Sheet: Cash flow? Debt will be up by around £50m, in 2012/13, it should stay broadly unchanged
  1. New pub openings should be evenly distributed through 12/13

Lancap view: JD Wetherspoon has sought to 1) reassure that underlying trading was towards the top end of its earlier +1% to +2% range of expectations but that 2) the events were probably responsible for much of the Q4 excess above this figure.

Nonetheless, investors will take their good news where they can find it and JDW has performed well. It believes that the 1% to 2% holds good for the coming year and, though the company is still clearly miffed by the various stealth taxes (late night levies, carbon taxes and the rest) that keep hitting it (and the industry) and the intransigence of the government re the beer duty accelerator, it is performing relatively well.

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Margins are up but the company would not help directly with FY13 forecasts. It would not guide on pricing other than to say this would be set to keep the group's pubs busy but it did allow that cost increases looked reasonably benign.

Overall, the group has taken sales where they have been available, debt will be up (on buybacks) this year but flat next and it remains well-positioned. On 11.5x this year's earnings, the group's shares offer good value.

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11 July 2012

JD Wetherspoon has this morning updated on trading for the first 50w of its full year (53 weeks) to 29 July saying that LfL sales increased by 6.1% over the last 11 weeks covered. Our comments and further details are set out below:

- JDW has this morning updated on trading for the 11 weeks to 8 July saying that sales during the period increased by 6.1% on a LfL basis
- This compares with the 2.1% recorded in H1 and the 2.0% in Q3 and should pull the full year up to around 2.9%
- Total sales, including the impact of new openings, were up by 11.9%with 'particularly strong trading around the fortnight of the Jubilee celebrations and during the Euro 2012 championships'
- Margins in H2 should be in the region of 8.5% (Q3 8,1%) suggesting a pickup (as had been suggested by the company) to around 8.9% in Q4
- LfL sales trends are shown below:

Financial period	LfL sales %
Full year 2008/09	+1.2
Q1 2009/10	+0.3
H1 2009/10	+0.1
Q3 2009/10	Minus 0.8
Full year 2009/10	+0.1
Q1 2010/11	+1.6
Q2	+3.1
Q3	+2.4
FY 2010/11	+2.1
Q1 2011/12	+1.1
Q2 (first 12w of)	+3.6
H1 2011/12	+2.1
Q3	+2.0
11w to 8 July	+6.1
FY 2011/12 (LC estimate)	+2.9

Source: JD Wetherspoon

- JD Wetherspoon has opened 40 units in the year to date and has closed three; it should open between 20 and 30 in FY13
- The group cautions that 'the main challenges for the company…have been the continuing cost pressures resulting from government legislation'
- The group expects to 'achieve a reasonable outcome for the current financial year'
- The group has bought back around 4m shares at a cost of £16.6m in H2 and there are no further comments on the group's cash flow or balance sheet
- JDW will host a conference call for analysts at 8am

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Lancap view: JD Wetherspoon last updated on the 13w to 22 April and today's announcement shows that sales growth has picked up and that margins in H2 as a whole, as expected, will be above those seen in Q3.

This should come as something of a relief to shareholders and suggests that forecasts, of around £66.5m for the current year (37p of earnings) and perhaps £69m for next (c40p per share) remain intact. The group's shares therefore trade on a relatively undemanding 11.4x this year's earnings (and yield around 3% and 10.5x FY13.

JD Wetherspoon's shares therefore could be said to offer fair to good value and would-be investors who did not take advantage of their dip below 400p in June to add to holdings, may wish to consider purchasing the shares.

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Following its update on Q3 trading, JD Wetherspoon this morning hosted a conference call for analysts at which the main points to emerge are set out below:

- Sales:
  1. Sales over the last seven weeks have been 'pleasing'; these have been helped by an early Easter
  2. How have new openings performed? They have been better than average recently & margin disappointment has not been caused by any slippage here
  3. Pickup in sales has been driven by both price and volume (food prices broadly flat, food prices up a little)
  4. The conclusion is that 2% increase in sales and 29 new pubs has not been enough to hold margins; group intends to improve on this going forward
- Costs & Margins:
  1. There has recently been more pressure on margins; the group did not feel able or willing to pass on all cost increases to customers
  2. Group does see the 8.1% as 'low' and this should trend up
  3. The group has continued to invest & did so even in the slack part (the first half) of Q3
  4. The 53rd week will not impact this but Q4 should be ahead of the 8.1% of Q4
  5. Is Q3 the seasonal low-point? No, was consistent at 9.4% last year
  6. Any promotional activity? Not really, lower margin was down to tax and inflationary pressures from costs
     1. Also 'some sharper pricing' which continues into Q4
  7. Late night levy will come in October & will provide another headwind
  8. What specifically caused the drop in Q3, how can it have fallen so much? A number of factors & could be wrong to over-analyse one quarter
  9. Costs? Wet costs rising at around 2% and food costs at 4% to 5%. Gas prices will be up by around £1m next year
- Outlook:
  1. Why are you more cautious? A number of cumulative factors are impacting the consumer & his willingness to spend
- Taxation:
  1. Group feels that it is only right to highlight this as an issue.
- Balance sheet & other issues:
  1. Group's best estimate re openings is in the region of 20-30 next year
  2. Share buybacks? These have been 'opportunistic' and it will not simply represent lower capex being spent on buybacks

Lancap view: Analysts understandably focused on JD Wetherspoon's Q3 margin specifically why it fell so much in Q3 and why the group feels that it will pick up in Q4 and there were no easy answers, no convenient sound-bites.

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The margin slippage was down to a number of factors. The group did not pass on cost increases on drink and other costs have been an issue and this will abate but perhaps not rapidly. It concludes that its new openings and 2% LfL sales growth was not enough to hold margins and that is patently the case.

The hoped-for rise in margins in Q4 has not happened yet and so is less certain than was the fall in Q3. This may concern investors. The early Easter will also have helped sales towards the end of Q3 but will have the opposite impact in Q4 and, though JDW is performing as well as could be hoped under the circumstances, today's announcement may put off some would-be buyers from buying the shares and may lead holders to consider taking profits should JDW's shares run up over the short to medium term.

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2 May 2012

JD Wetherspoon has this morning updated on trading for its Q3 to 22 April 2012. Our comments and further details are set out below:

- JDW has this morning updated on trading for its Q3 being the 13w period to 22 April saying that LfL sales during the period increased by 2% after falling by 0.7% in the 6w to 4 March
- Year to date (39w to 22 April) are up by 2% and total group sales over both periods are running some 8.4% ahead & LfL sales trends are shown below:

Financial period	LfL sales %
Full year 2008/09	+1.2
Q1 2009/10	+0.3
H1 2009/10	+0.1
Q3 2009/10	Minus 0.8
Full year 2009/10	+0.1
Q1 2010/11	+1.6
Q2	+3.1
Q3	+2.4
FY 2010/11	+2.1
Q1 2011/12	+1.1
Q2 (first 12w of)	+3.6
H1 2011/12	+2.1
6w to 4 March 2011	-0.7
Q3	+2.0

Source: JD Wetherspoon

- JDW's announcement means that sales in the last seven weeks of Q3 must have been strong with sales up around 4% or more in order to make the maths work
- Wetherspoon cautions that the operating margin in Q3 was 8.1% (2011: 9.3%) and says that, although this will rise in Q4, H2 margins will be below those of H1
- The group opened 29 new units and closed two in the year to date and expects to open around 40 in the full year with between 20 and 30 to be opened in the next FY
- The group has bought back 4m shares at a cost of £16.6m in recent weeks but 'there have been no other significant changes in the Company's overall financial position'
- H1 debt was GBP456.6m (around 3x EBITDA)
- Changes in machine taxation have cost the group £2m per annum & JDW once more calls for a reduction in VAT on hospitality services as a matter of priority
- The group will pay 'approximately half a billion pounds' in various taxes and says that the benefit of its work to create 3,000 jobs is being appropriated by the government

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- JDW says that this is ‘an unsustainable situation’ and says ‘we continue to be slightly more cautious about the potential outcome for the current financial year’

Lancap view: Having dampened expectations somewhat on 9 March, JD Wetherspoon has this morning reported reasonably good last-seven-week trading but has once again pointed to taxation as a major issue for itself and for the on-trade in general going forward.

Margins are down and will remain low in H2 and, with taxes such as those on gaming machines and the carbon levy taking much of the benefit of JDW’s increased LfL sales. Forecasts are unlikely to go up on this morning’s announcement but may remain unchanged at around £67.5m for the current year (37p) and £72.0m for 2012/13 (40.5p).

Though JDW is performing well and it is difficult to see what it could be doing differently, the group’s shares, which therefore trade on around 11x this year’s earnings, have been stuck in the 400p to 440p range for around a year and are unlikely to break out on the upside whilst costs remain an issue and margins trend downwards. With that in mind, holders may wish to take profits should JDW’s shares run up over the short to medium term and buyers may hold off for somewhat lower prices.

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9 March 2012

Following the announcement of its H1 numbers this morning, JD Wetherspoon hosted a meeting for analysts at which the main points to emerge were as follows:

- JDW began by reiterating that current trading had seen LfL sales slip by 0.7% over the last six weeks, that margins would slip in H2 and that its opening programme would be edged back both this year and for 2012/13
- The group then painted a somewhat less gloomy picture, saying that trading over the last six weeks had been adversely impacted by one week of snow and that trading in the last two weeks had been somewhat better; details as follows:
- **Historic trading:** Sales were up by 1% LfL on an underlying basis and a good Christmas led to a H1 outturn of +2.1%
  1. Head office costs have been reduced to little more than 3% of revenues
  2. Food sales lagged bar sales as meal numbers rose but spend per head declined as value-conscious consumers chose cheaper options
  3. Central London has performed better than the estate at large but there is little other regional variation
- **Current trading & outlook:** Margins will be adversely impacted in H2 by higher tax and utility costs
  1. JDW's beer festival is about to start, the European Championships should benefit sales if England has a good run, comps are soft over the summer and the Olympics and Diamond Jubilee could lead to a feel-good factor
  2. Overall, however, trading will be challenging and the slow start to H2 may lead to small downgrades
  3. Costs will impact in H2 and the group 'has some catching up to do'
- **Taxes and duty:** JDW said that it was not having a 'rant', rather that the current level of taxation was 'unsustainable'
  1. Should duty go up by another 7% this month, it will be hard to pass this on to customers
  2. The on-trade is bearing a 'huge burden' and supermarkets are being handed an unfair advantage
  3. Pubs have to charge 20% on food sold whilst supermarkets charge nothing and can thus 'use higher food margins to subsidise the sale of alcohol'
  4. Up to 45% of pub visitors may have already had a drink at home
  5. New taxes such as the carbon tax will further hit margins (or drive up selling prices)
- **Debt, cash-flow and other:** Debt is now less than 3x EBITDA bur will rise slightly as a result of capital expenditure
  1. Debt facilities run until March 2016 and interest rate swaps will reduce finance costs from 2014
  2. New openings this year have been mostly unlicensed premises (and build costs are therefore higher)
  3. JDW will open around 40 units this year (was 50) and 20-30 next year (earlier estimates around 50)

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4. No word yet as to what the company will do with the surplus cash that it will not now spend on new units

Lancap view: JD Wetherspoon was cautious overall and is clearly looking to make a point ahead of the upcoming Budget. But it 1) still believes that an underlying LfL growth rate of 1% is likely and achievable and 2) did concede that snow had impacted its trading in the last six weeks and that trading over the last two weeks or so had been somewhat better.

The company has spelled out in no uncertain terms that it is more cautious with regard to the outcome for the current year and small downgrades are likely. However, if the group opens fewer pubs for the remainder of this year and next, share buybacks or higher dividend payments may be forthcoming and, though perhaps a little more weakness could have been expected after today's announcement, we do not consider the group's shares to be expensive.

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9 March 2012

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JD Wetherspoon has this morning reported H1 numbers and has updated on current trading. Our comments and further details are set out below:

- JDW has this morning reported H1 numbers and has updated on trading saying that LfL sales since it last updated on 18 January 'have been disappointing' at minus 0.7% over the last 6 weeks
- Total sales including new openings in the H1 rose by 8.4% to GBP569.4m with LfL sales up by some 2.1%
- Sales were better in Q2 as this included easy weather comps over Christmas and the overall 'outcome for the first half…was reasonable'
- Operating profit rose by 7.2% to GBP53.1m, PBT was GBP35.8m (up 11.1%) and EPS rose by 22.4% to 20.2p
- Free cash flow rose by 53.7% to GBP34.9m and an unchanged H1 dividend of 4p is being proposed; LfL sales have been as follows:

Financial period	LfL sales %
Full year 2008/09	+1.2
Q1 2009/10	+0.3
H1 2009/10	+0.1
Q3 2009/10	Minus 0.8
Full year 2009/10	+0.1
Q1 2010/11	+1.6
Q2	+3.1
Q3	+2.4
FY 2010/11	+2.1
Q1 2011/12	+1.1
Q2 (first 12w of)	+3.6
H1 2011/12	+2.1
6w to 4 March 2011	-0.7

Source: JD Wetherspoon

- JDW points to cost pressures, particularly government-inspired costs relating to excise duty, business rates and carbon taxes as being a feature of the year
- As previously stated, the group expects H2 margins to decline somewhat and it is 'slightly more cautious about the potential outcome for the current financial year'
- The group opened 20 new units and closed two in H1 and expects to open around 40 in the full year (down from earlier estimates of 50)
- Debt is GBP456.6m (up GBP18.9m and around 3x EBITDA) and JDW points out that it paid some GBP250.1m in tax in H1, around 10x its profits after tax
- The group calls for a reduction in VAT on hospitality services as a matter of priority in order to level the playing field with supermarkets and is 'slightly more cautious' re its full year profits

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Lancap view: Having updated on trading on 18 January, JD Wetherspoon has confirmed that December trading was good but that January and February have been tougher and that currently LfL sales are back in negative territory.

The group calls for a reduction in the rate of VAT in order to allow pubs to compete more fairly with supermarkets and points out that it paid over some GBP250.1m of taxes (albeit many of them on behalf of customers and employees) in H1, up by some GBP24m on the previous H1 and equivalent to around 10x the group's after tax profits.

JDW reiterates that margins are likely to be lower in H2, the group will open around 40 new units in the year (was 50) and estimates may be shaved back somewhat. Current forecasts of around GBP68.5m for the current year (37p) and GBP73.5m for 2012/13 (40.5p) are therefore under review and the group's shares may give up a little ground in the short term.

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18 January 2012

Following its comments on trading for the first 25w of its current financial year, JD Wetherspoon hosted a conference call for analysts. Our comments and further details are set out below:

- Following its H1 update, JDW hosted a conference call for analysts at which the following points emerged.
- **Margins & Costs:** What does 'potential for further declines' mean? Was 9.3% in Q1, Q2 will be below 9.3% and it is likely to fall further compared with H1 in H2
  1. **Specifically on costs?** Duty increase in March (inflation plus 2%), minimum wage, utilities, beer costs, business rates (5% plus in April)
  2. **What sort of growth do you need to stand still on margins?** The 1% currently being experienced is not sufficient
  3. **Discounting:** January sale is broadly in line with previous years
  4. **Why are margins down?** Discounting makes little difference (see above) but we have seen full-period impacts of cost rises that came in last year.
  5. **Outlook for margins?** Looking forward there are a number of moving parts. Depends what happens to inflation over the rest of the year
  6. **Can you put prices up?** Not sufficiently to offset costs. This is a short term impact, longer term, group believes it is securing its customers
  7. **More on pricing:** Not really put them up this financial year. May put them up post budget.
  8. **Contracts:** Electricity till early 2013, food contracts are shorter term but increases were around 5% (last autumn) when contracts were signed
- **Underlying Growth?** The 1.1% is broadly indicative.
  - **New Openings:** Rising costs will make some sites uneconomic. This will not impact this year but the question is whether the company commits to 50 per annum going forward
    1. These are opening & trading well. Take a couple of years to get to full profit levels

Lancap view: Perhaps unsurprisingly the focus here was very much on margins. Investors need to know whether they are attempting to value a rising or a falling earnings stream and here the co was able to say that margins would fall in Q2 v Q1 and would then fall again in H2 v H1.

However, thereafter, JDW says that margin progression depends upon inflation and, as this is set to abate for the remainder of 2012, there is a realistic hope, indeed a likelihood that margins will improve in FY13.

We continue to believe that JDW is well-positioned to trade (relatively) well in the current environment and accept the group's point that it is building customer loyalty by not pushing up prices too aggressively. However, in the short term, the group's

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shares may remain under a little pressure whilst the market digests its comments on margins and likely near term trading.

Subsequent Tweets:

JDW conference call: margins, margins & more margins: company tries to get its message across

JDW, margins this year, Q2 will < Q1 and H2 will be < H1

JDW: costs, what's done the damage? Duty in March (inflation +2%), min wage, utilities, beer costs, business rates (5% plus in April)

JDW conference call; the underlying 1% LfL growth in sales isn't sufficient to maintain margins; group reluctant to put prices up further

JDW call; discounting no worse than 2011 is just can't put prices up enough to offset costs; short term hit but keeps customers longer term

JDW; comments on reduced openings just political chaff? No (says co), it is really considering not opening in marginalised sites

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18 January 2012

JD Wetherspoon has this morning updated on trading for the 12 weeks to 15 Jan and therefore on the first 25w of its H1. Our comments and further details are set out below:

- JDW has this morning updated on trading for the 12w to 15 January saying that LfL sales increased by 3.6% compared with the 1.1% registered in Q1
- Sales including new openings rose by 9.9% in the first 12w of Q2 against 7.3%
- For the first 25w of the year, LfL sales are now some 2.3% ahead and total sales are up by 8.5% and recent sales trends are show below:

Financial period	LfL sales %
Full year 2008/09	+1.2
Q1 2009/10	+0.3
Total H1	+0.1
13w to 25 April 2010	Minus 0.8
Full year 2009/10	+0.1
Q1 2010/11	+1.6
Q2	+3.1
Q3	+2.4
FY 2010/11	+2.1
Q1 2011/12	+1.1
Q2 (first 12w of)	+3.6

Source: JD Wetherspoon

- JDW says 'sales were strong' in December (against snow comps) and that trading either side of December was 'approximately in line with the first quarter'
- The group expects H1 margins to be 'slightly below' that in Q1 with 'the potential for further decline in the second half' due to cost increases
- The group opened 18 new units and closed two in the first 25w and should open 50 in the full year; re debt and cash flow, 'there have been no significant changes in the company's overall financial position'
- Overall, JDW finishes on a somewhat more upbeat note saying 'our sales, profit and cash flow remain resilient'
- The group calls for a reduction in VAT on hospitality services as a matter of priority but says it is 'aiming for a reasonable outcome in the current financial year'

Lancap view: December was clearly good (it must have been up 8% or so) due to soft comps but the underlying rate of growth remains at around 1.1%. Whilst much better than registering a decline, this is substantially below the rate of inflation and, given that JDW's margins are falling and may fall further, it isn't quite enough to stand still on a per-pub bases.

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However, JDW is opening pubs and, thought the definition of 'reasonable' remains open to debate, the company has confirmed that this is indeed a tough environment but is one in which the company itself is faring relatively well.   The group is once again voicing its concerns re costs and taxation including new costs such as the carbon tax and is calling specifically for a reduction in VAT on pub sales.

We continue to believe that the company, though its comments on future margins will not be welcomed by some, is well-set-up to survive and to prosper (relatively at least) in the current environment and its units should outperform.   The group should earn in the region of £68m this year giving earnings of perhaps 37p per share.   This suggests that the group's shares are trading on a multiple of little more than 11x current year earnings, which we believe offers value.

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3 November 2011

JD Wetherspoon has this morning updated on trading for the first 13 weeks of its current financial year. Our comments and further details are set out below:

- JDW has this morning updated on trading for the 13w to 23 October saying that LfL sales increased by 1.1% and that total sales, including new openings, rose by 7.3%
- The rate of growth (+1.1%) suggests around +1.7% in the last seven weeks (including the good weather in October) as the group had been only +0.4% at week six
- The operating margin slipped by around 20bps versus the same period in 2010 to a 2011 rate of 9.3% & recent sales trends are show below:

Financial period	**LfL sales %**
Full year 2008/09	+1.2
Q1 2009/10	+0.3
Total H1	+0.1
13w to 25 April 2010	Minus 0.8
Full year 2009/10	+0.1
Q1 2010/11	+1.6
Q2	+3.1
Q3	+2.4
FY 2010/11	+2.1
First 6w of FY 11/12	+0.4
Q1 2011/12	+1.1

Source: JD Wetherspoon

- JDW says 'UK consumers' incomes remain under pressure' and costs remain an issue, particularly the 'continuing significant increases in taxation and regulation'
- The group opened eight new units in Q1 and should open 50 in the full year; re debt and cash flow, 'there have been no significant changes in the company's overall financial position'
- Overall, JDW finishes on a somewhat more upbeat note saying 'our sales, profit and cash flow have been resilient' and says it is 'aiming for a reasonable outcome in the current financial year'

Lancap view: The definition of 'reasonable' remains open to debate but JDW's comments today will both have confirmed that this is indeed a tough environment in which to operate and that the company itself is faring relatively well. The group's margin is down on 2010 and Wetherspoon is once again voicing its concerns re costs and taxation including new costs such as the carbon tax and the proposed late-night levy. Nonetheless, it is well-set-up to survive and to prosper (relatively at least) in the current environment and its units should outperform. The group should earn in the region of £70m to £71m this year giving earnings of perhaps 37.5p per share. This suggests that the group's shares are trading on a multiple of little more than 11x current year earnings, which we believe offers value.

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