Langton Capital Limited

13 September 2013

Leisure:JD Wetherspoon (JDW): 728p
FY Results – Analysts' Meeting

Following the announcement of its preliminary full year results (52 weeks) to 28 July 2013 this morning, JD Wetherspoon hosted a meeting for analysts and our comments and further details are set out below:

- **General Trading Historic:**
  1. LfL sales have been strong over the year (see p7) but LfL profit per pub was also up – for the first time since FY07
  2. Food now accounts for 32.9% of sales and, including drink sold with food, JDW is a 2/3 eating out company
  3. JDW is the country's 'most visited eating or drinking out brand'
- **General Trading Outlook:**
  1. Margins will 'move around' from Q to Q but, if growth persists at 2.4% or thereabouts, margins can be held at 8.6%
  2. The group will serve food till 11pm from the autumn; like breakfasts, this may impact margins negatively and LfLs positively in the short term
  3. Longer term, it positions JDW more definitively against casual dining restaurants
  4. Comps are tougher but c2.5% to 3.0% LfL should be achievable
- **Costs and Margins:**
  1. Bar costs rose by c3%, food costs by c4%
  2. Going forward, group sees costs at c1% above inflation, largely due to tax increases
- **Capex & Other Balance Sheet:**
  1. Maintenance capex will continue at elevated levels, for example c£5m will be spent on loos in the current year
  2. The group believes that the property market, at the moment, is 'relatively advantageous'
- **Debt & Cash Flow:**
  1. Free cash flow was down by 26% to 51.8p per share but this was due to the non-repetition of one-offs from last year
  2. Group has £111m of headroom at year end and more since – it took the cash 1) for the sake of flexibility and 2) because it was there
  3. Debt is likely to rise by '£10m to £20m' in the current year – on all measures, debt/interest is comfortably covered
  4. Uses of funds remain 1) capex, 2) buybacks, 3) dividends and 4) debt reduction

Lancap view: JD Wetherspoon has reassured that it has its hand firmly on the tiller. The property market is 'relatively advantageous' but the group is not stepping up its opening schedule as it wishes to maintain a cautious approach.

LfL growth will slow but, should the group grow sales by c2.5% (as it believes it can), then margins should not fall.

By opening later into the evening, the group will push up its LfL sales but perhaps at the short term expense of margin. It will likely provide more direct competition

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Langton Capital Limited
Suite 415, No1 Alie St,
London, E1 8DE
020 7702 3389

for some of the casual diners and, longer term, there is little doubt that JDW is moving where the market is (or will be).

Around 49.5p of EPS should be delivered in the current year, suggesting that the group's shares are trading on a current year PER of around 14.7x. This is not particularly cheap either compared with the peer group or the 500p that the shares touched in March but the group is performing well and continues to anticipate and benefit from the continued evolution of the market.

An element of profit taking is perhaps likely but JDW is conservatively financed and its shares continue to offer good value over the medium and longer term.

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

mark.brumby@langtoncapital.co.uk

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