Langton Capital Limited

11 September 2015

JD WETHERSPOON (JDW): 720p
FY Presentation – 52w to 26 July 2015:

Group continues to grow and invest despite uncertain short-term trading conditions…

Year to end-July	PBT (£m)	EPS* (p)	PER (x)	DPS (p)	Yield (%)
2014 (A)	79.4	47.4	15.2	12.04	1.7
2015 (E)	78.4	48.1	15.0	12.04	1.7
2016 (E)	80.6	50.6	14.2	12.44	1.7

**Normalised, Source:* Company & Broker Estimates, 2015 upgrades likely

FY Presentation: 52w to 26 July 2015:

JD Wetherspoon has hosted a presentation on its full year numbers for the 52w to 26 July 2015 and our additional comments thereon are set out below (see earlier email for more detail):

Trading:

- CEO John Hutson said that trade for the wider pub industry, including JDW, has slowed gradually since October 2014.
- Its activity in the breakfast trade is seen as an investment for the future, rather than a present driver of profitability.
- Its four pubs in the Republic of Ireland have been performing well, although it is still too early to value them on a cash basis (instead, management are looking at operational KPIs and sales growth). JDW is investing in infrastructure in order to continue expansion here.
- Trading for the first 6wks of the current year are +1.4% and recent trends are shown below:

Tab.1. Recent Sales Trends:

Financial Period	LfL Sales (%)
Full year 2008/09	+1.2
Full year 2009/10	+0.1
Full year 2010/11	+2.1
Q1 2011/12	+1.1
H1	+2.1
Q3	+2.0
Full year 2011/12	+3.2

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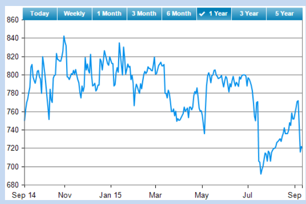

Market Cap: £856m
12m range 692p 842p

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Q1 2012/13	+7.1
H1	+6.9
Q3	+6.3
Full year 2012/13	+5.3
Q1	+3.7
Q2 (first 12w)	+6.7
H1	+5.2
Q3	+6.2
Full year 2013/14	+5.5
First 6w 2014/15	+6.3
Q1	+6.3
Q2 (12w)	+2.8
H1	+4.5
First 6wks H2	+1.6
13wks to 26 April	+1.7
39wks to 26 April	+3.6
11wks to 12 July	+2.9
Full year 2014/15	+3.3
6w 2015/16	+1.4

Source: Company Reports

More on Trading:

- Hutson believes the firm is ahead of the curve with regards to the National Living Wage increase in April 2016. Wetherspoon could pay for a substantial chunk of wage rises to 2020 out of their bonus pot for employees – though it has not confirmed that this is what it intends to do.

- However, as the pub group believes these bonuses are partly responsible for record high levels of staff retention and superior customer service, the group would rather retain its bonus structure as a point of differentiation.

- JD Wetherspoon expects 2016 LfL sales to be somewhere between 0-2%, coming from a mix of volume and price.

Balance Sheet, Debt & Other:

- The company opened 30 new pubs during the year and exited from 6, adding that returns on new pubs are the same or better than average. Some 80% of its new sites were freehold.

- Year-end debt (including bank borrowings and finance leases, but excluding derivatives) was £601.1m versus £556.6m last year, while the group's proportion of freeholds in its estate has risen to 49.1% of its 951 pubs (2014: 47% of 927).

Conclusion:

- JDW is unflustered by trickier trading conditions since October of last year and continues to invest significantly in its proposition.

- Evidence of the success of this investment can be seen by the operator's best-in-class levels of brand recognition in the UK, even if returns on capital may take a number of years to filter through – and we would expect to see this in a more heavily-freehold model.

- The group was keen to add that its 0-2% LfL sales forecast was just that – a forecast, at the mercy of the wider trading environment.

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- The market has so far reacted benignly to JDW's prelims following its share price correction earlier in the week. Many will be relieved that today's numbers contained no negative surprises and, indeed, alluded to a better FY16.

Langton View: JD Wetherspoon has flagged that, while trading has become more competitive over the past year, the group has the brand presence and financial firepower to continue profitably growing its footprint and improving its existing estate.

Staff rooms have been improved, beer gardens redone and more accommodation has been added, indicative of the fact that the group intends to continue investing for the longer term.

The group has manageable debt levels and a solid expansion plan, backed by a strong focus on cash generation. It is this dependable level of free cash flow (2015: £109.7m) which allows it to invest in its brand and properties and ensure its long-term trading prospects.

Customers (CGA brand tracker) would like a JDW to open near to them and its competitors would not – that speaks volumes.

Margins may stay under pressure as the group's investment in grabbing market share of the breakfast trade continues. The introduction of the New Living Wage may also hurt margins. However JDW is better placed for this than many of its competitors. Furthermore those consumers benefitting from a higher hourly wage might even find themselves spending a little of their additional spare cash in a Wetherspoon pub.

For those with a long-term investment horizon, we continue to be of the view that JD Wetherspoon is a good investment. It is structured to survive and prosper with little help from the economy and in five years' time it will in all likelihood be a materially larger company. Share price weakness should be viewed as a buying opportunity.

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