Langton
Capital Limited

11 March 2016

JD WETHERSPOON (JDW): 695p
H1 numbers – 26w to 24 January 2016:

Group expects a 'reasonable outcome for the year…'

Year to end-July	PBT (£m)	EPS* (p)	PER (x)	DPS (p)	Yield (%)
2015 (A)	78.3	48.6	14.3	12.0	1.7
2016 (E)	78.3	47.0	14.8	12.2	1.8
2017 (E)	75.0	45.5	15.3	12.3	1.8

**Normalised, Source:* Company & Broker Estimates

H1 numbers – Analysts' Meeting:

Following the announcement of its H1 numbers 24 January 2016 this morning, JD Wetherspoon hosted a meeting for analysts and our comments thereon are set out below:

Trading:

- The group points out that H1 numbers include a property gain of some £3.8m. Without this, EPS is down some 16.6%
- Revenues LfL in H1 split as to wet sales +2.9%, food sales +2.9%, machine income down 2.9%, accommodation sales +7.5%
- Margins are lower 'because of slightly lower gross margin (mix changes) and additional staff costs'. Cost inflation has been benign
- Head office costs are down by some £2m on the completion of a number of IT projects and a lower level of new openings
- The group has not seen much of a difference in terms of regional performance
- Depreciation is up by 9% - this is due to the completion of a number of capital projects rather than as a change in policy
- Prices in Ireland (particularly wet prices) have been put up such that the differential with competitors is now in line with the UK

The underlying business:

- JDW frequently focuses on the issues that it believes to be core to its success.

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Market Cap: £891.5m
12m range 609p 812p

Mark.brumby@langtoncapital.co.uk
Suite 415, No1 Alie Street, London, E1 8DE
020 7702 3389

- It is justifiably proud of its brand awareness (slide 15), staff retention & pay levels (slide 13), its CAMRA placing (slide 17) and its Cask Marque, food hygiene and even its Loo of the Year prizes (slide 17)
- Longer term, issues such as these matter. They should help JDW build barriers to entry & retain customers

Balance sheet, debt:

- The group has taken advantage of property yields exceeding the cost of finance & has spent around £15.5m on freehold reversions in H1
- Debt is 3.49x EBITDA. Whilst higher than in the recent past, this is driven largely by freehold purchases
- The 'majority' of the five units opened in H1, we are going for 4, were freehold in tenure
- It makes sense to buy freeholds where possible because of 1) low interest rates and 2) the flexibility to spend more on beer gardens, accommodation and the like
- The group will open 10-15 new pubs 'for the next couple of years'
- Re the pubs for sale (c54 units), group is making 'reasonable progress'. It hopes to be out of most of them this year. The market for disposals is a little better. Depending upon how well the current units sell, JDW may sell more

Current trading, outlook etc.:

- Price increases. These only impacted last week. No feedback as yet. Amounted to around 5p at the bar 'and a little more on food'. Similarly changes to the Sunday menu will only take place this weekend.
- The group has not put prices up for a little while – but it thought that the time was right
- JDW has put in place a pay structure that virtually complies with the NLW legislation that could cause some other operators issues next month
- Comps in H2 are softer & the group hopes for a 'reasonable' outcome to the year. When pressed, it suggested that this may mean LfL sales growth of perhaps 2% to 3% with profit numbers in line with forecasts
- Accommodation. The group has c950 rooms. It would like more but additions will be opportunistic in nature
- Margin. Once again the group would not be drawn. It maintains that this is an output rather than a key metric
- Group suggests the consumer environment is not too bad. Comments contrast just a little with those from RTN earlier in the week

Langton View: JD Wetherspoon reassured that trading is in line with expectations and that it should produce a 'reasonable' result for the year. It maintains that the business is 'in good shape'.

Numbers will not be changing suggesting that JDW's shares are trading on around 15x this year's earnings with a c1.8% yield.

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This is not cheap in comparison with the ratings on which some other pub companies trade but, as we believe that JDW is a superlative operator that has created material barriers to entry, we see it as good value.

Indeed the company itself has recently once again been buying its own shares back. Its new openings programme has slowed over the medium term and such buy-backs may remain a feature going forward.

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

mark.brumby@langtoncapital.co.uk