13 July 2016

JD WETHERSPOON (JDW): 742.5p
Q4 Update – Conference Call

Says no sign of a downturn at the moment but 'group has prospered in previous recessions…'

Year to end-July	PBT (£m)	EPS* (p)	PER (x)	DPS (p)	Yield (%)
2015 (A)	78.3	47.0	15.8	12.2	1.6
2016 (E)	70.0	44.0	16.9	12.2	1.6
2017 (E)	76.0	48.5	15.3	12.4	1.7

**Normalised, Source:* Company & Broker Estimates

Q4 Update – Conference Call:

Following its Q4 update this morning, JD Wetherspoon hosted a conference call for analysts and our comments thereon are set out below:

Trading:

- JD Wetherspoon says it anticipates a 'modestly improved' outlook for the full year.
- Margins. Q4 was >8%? Margin was better. Sales have been a little better & that has fed through to margin.
- What about the margin going forward? Declined to comment. Margin is 'an output'. Group focuses on sales etc. Going for the same margin next year would not be unreasonable.
- Wages? NLW will by +5% next year. The NMW (in October) 'has already been taken care of'.
- Believe wages should go up by 2.5% to 4% over the next year. All other costs should be in line with inflation.
- LfL sales have continued to be slightly better than expected. This can't be projected into the whole of next year.
- Football has had no impact.
- What magnitude of sales & EBIT will be lost as a result of disposals? It shouldn't impact LfL sales. Shouldn't impact EBIT much either.
- Won't split LfLs into volume & price. It is 'quite sensitive information'.
- Food as a proportion of sales? Around 36%.

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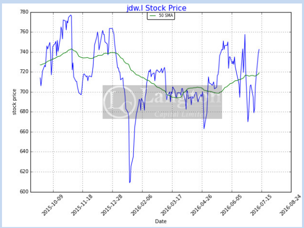

Market Cap: £844m
12m range 609p 777p

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- Forward-buying for inputs? Most bar products are on long-term deals. Broadly CPI-based. Food is impacted by commodity prices. US$ could impact it. Says around half of food is fixed for between 1yr and 4yrs. Group will 'have to navigate its way' through any Sterling weakness.
- Brexit slowdown? Tim's warning is cautionary – but the group is not seeing problems at the moment. Group however doesn't think it can see another 3% LfL year when inflation is <1%. All group can do is to 'take it as it goes'
- But you are suggesting analysts should increase their numbers? Yes, basically. It has been a 'fairly strong final quarter'.
- What levers can you pull if trading slows down? Group has levers but will try to manage it for the long term. Group has prospered in previous recessions.
- JDW's Brexit stance may have helped trade? It could be that 'all publicity is good publicity'.

Balance Sheet, Debt & Outlook:

- How many units do you expect to sell next year? This year, around 80 have been put on the market & around half have been sold or disposed.
- Over the 'near term' the group expects 'something like the same again'.
- New openings should be around 15 per year for the next few years.
- Why is debt up by more than expected? Freehold reversions and share buy-backs.
- Buy-backs? This year has seen a material pickup. Group is unwilling to be bound by statements today re FY17.

Langton View: JD Wetherspoon has reassured that current trading is between OK and good. There may be some modest upgrades.

It says that it cannot see this persisting but maintains that it is well-positioned overall.

If the company is right in saying that 'irresponsible doom-mongering…may lead to some kind of slowdown' then it is arguably likely that small ticket spending could hold up better than spending on large ticket items.

JDW's shares have bounced from the 613p at which the group bought back £4m of its shares in January and it now trades at around 17x earnings. True, FY16 will be historic in a couple of weeks and shares trade at around 15x or so FY17. Overall, this seems like fair value.

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