Langton
Capital Limited

8 Sept 2016

JD WETHERSPOON (JDW): 967p
FY Results – Analysts' Meeting:

Group reports progress, margins 'shouldn't fall further' in the current financial year…

Year to end-July	PBT (£m)	EPS* (p)	PER (x)	DPS (p)	Yield (%)
2015 (A)	78.3	47.0	20.6	12.2	1.3
2016 (E)	74.0	43.8	22.1	12.2	1.3
2017 (E)	77.0	48.4	20.0	12.4	1.3

**Normalised, Source:* Company & Broker Estimates

FY Numbers to 24 July 2016 – Analysts' Meeting:

Following the release of its FY numbers for the 52wks to 24 July 2016 this morning, JD Wetherspoon hosted a meeting for analysts and our comments thereon are set out below:

Trading in the year under review:

- JD Wetherspoon reported that headline profits moved forward (on the back of property disposals) but announces that underlying EPS for the year was down by 8% at 43.8p
- Hence the group's shares, normalised for property disposal profits, are trading on around 22x historic earnings
- The group comments that it expects a 'slightly improved trading outcome' for the current year, implying that the 22x multiple will fall only modestly over the medium term
- Margins were 6.9%. They are not expected to fall further – though the group reiterates that it does not target margins as such
- Much good stuff, often overlooked by analysts, is going on beneath the surface. Staff retention is better, hygiene levels are market-leading, the group has the best airport pub in the world (at Stansted) and JDW's loos are frequently the best in the country

Current Trading

- The group has reported that LfL sales are +4.1% over the first 6wks of the current year
- It cautions that this pace is unlikely to be maintained. Total sales growth will likely be around 100bps lower due to disposals

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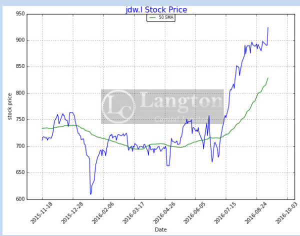

Market Cap: £1.05bn
12m range 609p 967p

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- EBITDA per pub is around the same level as 10yrs ago. JDW says this is no mean feat & adds that it hopes to move these numbers up
- Cost pressures – other than labour - are benign. F&B and utility prices should rise by between 1% and 2% this year whilst wages could rise by around double that rate
- Recent price rises look as though they are sticking, but the market is still resistant to higher prices

Balance Sheet, Debt & Outlook:

- JDW has allocated much more resource than usual this year to buying in the freeholds of the units that it previously leased
- This has improved operating profits by around £1.5m in the year to July 2016 and buy-ins look set to continue
- The group bought back more than 5m shares last year at an average price of around 691p
- Debt is up but it is manageable. More freeholds in the mix will likely mean more debt – but lower rents should be payable across the estate as a whole
- The group has disposed of 41 pubs in the year to July 2016, more than it has disposed in the previous ten years combined
- The group reports that, over the last 2-3yrs, it has identified around 80 units for sale. Some 60 of these are gone or are in the hands of solicitors
- The average cost of new-build pubs has risen but, as these are larger than average and often include hotel bedrooms, this is not a surprise
- Re share buybacks, these will likely continue but, as Chairman Tim Martin has 29.5% of the shares in issue, a whitewash (requiring an EGM) may be necessary in the near future

Langton View: JD Wetherspoon has reassured that margins should not fall further and adds that it does not believe it has many more pubs that it would like to dispose of.

We continue to believe that the company is best-in-class but, with the shares now changing hands at 22x earnings, we consider them to be something of a stretch.

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