2 Nov 2016

JD WETHERSPOON (JDW): 878p
Q1 Trading Update: Conference Call:

Group says recent slowdown has been general, nothing it can put its finger on…

Year to end-July	PBT (£m)	EPS* (p)	PER (x)	DPS (p)	Yield (%)
2015 (A)	78.3	47.0	18.7	12.2	1.4
2016 (E)	77.0	48.4	18.1	12.2	1.4
2017 (E)	81.0	52.0	16.9	12.4	1.4

**Normalised, Source:* Company & Broker Estimates

Q1 Trading Update - Conference Call:

Following its Q1 update, JD Wetherspoon this morning hosted a conference call for analysts and our comments thereon are set out below:

Trading:

- JD Wetherspoon says that it does not expect LfL sales to remain at current levels
- LfLs. Group 'had a strong summer'. This has slowed. The slowdown has been general'. Group sees 1-2% LfLs for the year as a whole as likely.
- Regional variations? No variation in the slowdown.
- Xmas bookings? No Xmas dinner this year. Menu goes out next week.
- Group won't split LfLs between wet and food
- Won't split between price & volume
- Impact of 53rd week on margins? No real impact

Margin & costs:

- The higher margin is driven by higher-than-expected LfL sales.
- Seasonality of margin? Q1 is always stronger. It is a bit more exaggerated this year than last due to higher costs (pay) last year. More pay-rises will occur in April this financial year (April 17) compared with October last year
- Business rates? These changes occur in April 2017. Could be around 16%. That's 'quite hefty'. Around £7m p.a..

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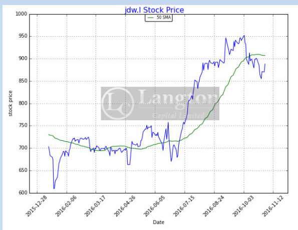

Market Cap: £992m
12m range 609p 952p

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- Group has no currency hedges. But it does have a number of long-term contracts & JDW has not yet seen costs rise. It may be able to switch products if the price of some rise & others don't. Drink can be 3-10yrs & food is a little shorter

- Tax rate should be 'slightly lower' than last year

- Interest costs? Around £30m (down slightly from last year's £31.5m)

Balance Sheet, Debt & Outlook:

- JDW is 'going into this year with a degree of optimism'. It should benefit from prior capex. It will have 'more cash to put into its existing estate'.

- Repairs & maintenance capex spend should be 7-8%. It will move to the top of that range. It was as low as 5.5% last year

- Do you expect any return on this capex? Yes, but it may be difficult to pinpoint. Particularly loos, carpets, staff facilities etc.

- If you sell 9 pubs this year, how many do you have left to sell? It put 80 on the market & ¾ have gone or are going. Group may grow at about a net 15 units per annum over the near term

Debt:

- When do you aim to get below 2x debt to EBITDA? No target date given – but this could be 5-10yrs.

- Debt this year will be 'similar to or a little higher than last year'.

- Does this mean buy-backs are now on hold? These are 'always opportunistic'. The group doesn't forecast when these will take place.

- Could still spend £0-60m on shares. Might, obviously, be near the £0m. Group will still go through with the Whitewash proposal (to allow further purchases if Tim Martin goes through 30% as a result of buy-backs)

- How much spent on buy-backs this year to date? Around £18m.

- Why change your leverage levels? Says 'as the company matures, it will not need to add debt to the same levels – or possibly at all'. Group says Tim is a 'young-61' but when management changes, group may run on lower leverage.

Langton View: JD Wetherspoon has painted a picture for the remainder of the year. Margins & LfL sales growth will decline from current levels and costs (rates, labour, commodities) will increase.

Much of this is an industry rather than a stock issue but it is, arguably, not entirely consistent with a PER of nearly 20x earnings.

Great company though it is, JDW's shares may at present be fully-valued.

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