Langton Capital Limited

2 Nov 2016

JD WETHERSPOON (JDW): 878p
Q1 Trading Update: 13wks to 23 Oct 2016:

Group says 'the company has made a reasonable start in the current year…'

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 for the 13wks to 23 Oct 2016:

JD Wetherspoon has this morning updated on trading for the period comprising the 13wks to 23 Oct 2016 and our comments thereon are set out below:

Headline Numbers:

- JD Wetherspoon updates on trading saying that LfL sales in the 13wks to 23 Oct rose by 3.5%

- Total sales rose by 2.3%, the lower number impacted by the number of pub disposals during the period

- JDW says 'the level of like-for-like sales reduced to 2.3% in the last 5 weeks of the period.' This is against tough comps last year as Oct 2015 featured the Rugby World Cup

- JDW reports its operating margin, excluding property gains, was 8.6%, compared with 5.8% in the same 13 weeks last year.

- JDW says 'the margin was unusually high during the period and was unusually low for the same three months last year.' It says 'the Company currently anticipates an operating margin of around 7% for the current financial year.'

- Recent sales 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

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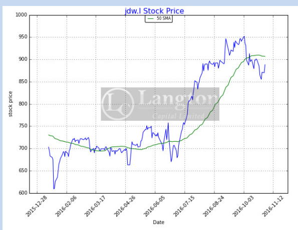

Market Cap: £992m
12m range 609p 952p

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Q1 2011/12	+1.1
H1	+2.1
Q3	+2.0
Full year 2011/12	+3.2
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
Q1	+6.3
Q2 (12w)	+2.8
H1	+4.5
13wks to 26 April 15	+1.7
11wks to 12 July 15	+2.9
Full year 2014/15	+3.3
Q1	+2.4
Q2	+3.3
H1 2015/16	+2.9
13w to 24 April 16	+3.8
FY15/16 to date	+3.2
11w to 10 July 16	+4.0
Full year 2015/16	+3.4
Since year end	+4.1
Q1 2016/17	+3.5
Last 5wks	+2.3

Source: Company Reports

Balance Sheet, Debt & Outlook:

- JDW reports it has opened one new pub since the start of the financial year and has sold nine. JDW states ‘we intend to open about 15 pubs in the current financial year.’
- JDW says ‘the Company remains in a sound financial position.’ It gives information on debt saying ‘the Company understands that debt always involves risk: the greater the debt, the greater the risk.’
- It says keeping this in balance can be tricky.
- JDW says ‘as well as expanding rapidly by opening new pubs, Wetherspoon has bought back approximately half of its shares in this millennium, at a cost of £400m and has spent approximately £140m on freehold reversions’
- The company reports ‘weighing the level of debt and risk is a difficult job.’ It says ‘insofar as it is possible to generalise, the board believes that debt levels of between 0 and 2 times EBITDA are a sensible long-term benchmark.’
- This hasn’t been achieved by the group in recent years & seems a little inconsistent with sharply higher capex levels and with share buybacks

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Langton View: JD Wetherspoon has reported somewhat slower LfL sales growth but higher margins – and this should come as a relief to some.

However, LfL sales slowed in the last 5wks of the quarter and the group expects margins of only around 7% for the year as a whole.

Chairman Tim Martin reports 'the Company's sales growth has been strong in the last few months, but has slowed in recent weeks.'

He says 'the Company anticipates higher costs in the remainder of the current year, for instance in the areas of wages, business rates and repairs. The Company also intends to increase the level of capital investment in existing pubs from £34m in 2015/6 to around £60m in the current year.'

Mr Martin concludes 'the Company has made a reasonable start in the current year, but any forecasts for the full year are inevitably tentative, with nine months still to go - and the outlook for the current financial year is unchanged. We will provide updates as we progress through the year.'

Overall it would appear that trading is in line with expectations. Mr Martin suggests that a hard Brexit could lead to less Swedish cider being sold. Margins will decline for the remainder of the year, though only to expected levels.

The group's shares are trading at around 18x earnings which, even after the recent pull-back, seems relatively fully-priced

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