13 July 2022

J D WETHERSPOON PLC

Update Announcement

J D Wetherspoon plc (the “company”) today publishes an update announcement. The preliminary results are due to be released on 7 October 2022.

Current trading

Like-for-like sales in the first 11 weeks of quarter 4 of the current financial year were minus 0.4% (-0.4%), compared to the same, pre-pandemic, period in 2019. This was an improvement compared to the previous quarter, when sales were minus 4% (-4%).

Many people predicted a boom in pub sales when lockdowns and restrictions ended, due to pent-up demand, but recovery for many companies has been slower and more laborious than was anticipated.

Sales of spirits (plus 4.4%), cocktails (plus 18.6%), food (plus 2.1%), hotel rooms (plus 8.4%) and fruit/slot machines (plus 16.6%) were positive in the quarter, but sales of draught ales, lagers and ciders, historically the largest contributors to pub sales, were 8.0% below 2019.

Wetherspoon operates 48 pubs trading as Lloyds, which had sales of plus 6.0% in the period. These pubs play music, unlike the rest of the estate, mostly during weekend evenings.

Contrary to expectations, sales in major city centres, apart from London have been stronger than suburban locations or smaller towns. For example, sales in the latest quarter in central Cardiff were plus 14.9%, plus 13.8% in Newcastle, plus 9.5% in Nottingham, plus 8.6% in Glasgow, plus 8.5% in Bristol, plus 8.3% in Coventry, and plus 7.0% in Manchester.

Wetherspoon has invested heavily in labour, repairs and marketing, following the ending of restrictions in February in order to strengthen our position for the financial year beginning 1 August 2022. Losses for the current financial year (FY22) will therefore be higher than expected at approximately minus £30m on a post-IFRS 16 basis (approximately minus £23m on a pre-IFRS 16 basis).

Although sales now match 2019, labour costs are far higher. The company is, with minor exceptions, fully staffed. Staff retention levels have improved: pub managers have average length of service of 13 years 11 months (FY19: 12 years 2 months) and kitchen managers 10 years 5 months (FY19: 8 years 1 month), for example.

Staffing levels, morale and retention are also reflected in the key area of hygiene scores. Local authorities run a “scores on the doors” scheme, whereby environmental health officers award pubs and restaurants marks out of five. Wetherspoon currently averages 4.99 out of five, its highest ever result, and the highest level of any substantial pub or restaurant company, we believe. In Scotland, where a ‘pass or fail’ scheme is used, all Wetherspoon pubs passed.

Although repairs were reduced to minimal levels during lockdowns, there has been an element of “catch-up”, so repair costs in FY22 will be around £99m compared to £76.9m in FY19.

Marketing costs also increased substantially since changes in restrictions necessitated, for example, new menus.

Wetherspoon has invested £128m in the acquisition of freehold reversions of 48 pubs since FY19, of which it was previously the tenant, bringing the number of freehold pubs to 582, 68.3% of the estate.

In addition, the company has also "regeared" the leases of 15 pubs in this period, usually at lower rents than previously applied, with fixed, five-yearly rent reviews, which are significantly below current inflation rates. Of the company's 270 leasehold pubs, 116 now have fixed rental increases.

Wetherspoon has contracts for energy supplies until the end of FY23 at fixed prices which predate the current spike in energy costs.

As previously indicated, Wetherspoon has long-term contracts for many bar and food purchases, which will moderate the highly inflationary cost increases which have been widely reported.

As has also been previously indicated, Wetherspoon has fixed the floating rate interest cost of £770m of its bank loans, using swaps, at between 1.02% and 1.61% until November 2031.

Wetherspoon believes that its overall costs will increase by less than the current rate of inflation in FY23.

The importance of being equal

The main long-term challenge to the pub industry is the tax disparity with supermarkets, which pay zero VAT in respect of food sales, whereas pubs pay 20%.

This disparity enables supermarkets to subsidise the selling price of beer, wine and spirits, to the detriment of pubs.

Supermarkets also pay lower business rates per pint than pubs.

A direct consequence is that pubs' share of beer sales, for example, has dropped from 90% to less than 50% in recent decades.

In fact, supermarkets are far more profitable than pubs - Tesco is probably more profitable than the entire pub industry.

Even so, like Monty Python's Dennis Moore, successive governments have robbed the poor (pubs) and given to the rich (supermarkets).

A core principle of taxation is that it should be fair and equitable.

Yet most large pub companies in the UK have remained silent on this vital issue, as their most recent trading statements demonstrate.

However, surveys by Wetherspoon in the past have demonstrated great fervour for tax equality among individual tenants and free traders.

The lack of vocal support for equality is probably an example of board rooms being out of touch with those on the front line, always a bad sign for any industry.

Until there is tax equality between different types of businesses on the High Street, pubs will always be fighting with one hand tied behind their back – and will provide less in the way of jobs or taxes than they otherwise might.

Outlook

Wetherspoon chairman Tim Martin said:

"When Covid-19 struck in early 2020, most governments, with the exception of Sweden, abandoned their WHO-approved pandemic plans and copied China's approach by "locking down".

“There have been many unintended consequences. Large numbers of people, as has been widely reported, have left the workforce, mainly through early retirement.

“Many people now work from home, rather than from offices, which has had a significant impact on transport and hospitality businesses, among other examples.

“The “fear factor”, used by governments to encourage compliance with lockdowns and restrictions, has also had lingering after-effects, with many people remaining cautious about leaving their homes.

“Inflation, mainly a result of the “money printing” which was activated by governments and central banks to finance lockdowns, has proved to be far higher and more intractable than anyone anticipated.

“Wetherspoon has tried to take a long-term approach to these issues, investing heavily in the workforce, in buildings, in marketing and in contracts with landlords and suppliers, which will hopefully create a solid base for future growth. The company remains cautiously optimistic about future prospects.”

Ends.

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Notes to editors

1. J D Wetherspoon owns and operates pubs throughout the UK and Ireland. The Company aims to provide customers with good-quality food and drink, served by well-trained and friendly staff, at reasonable prices. The pubs are individually designed, and the Company aims to maintain them in excellent condition.

2. Visit our website: www.jdwetherspoon.com

3. This announcement has been prepared solely to provide additional information to the shareholders of J D Wetherspoon, to meet the requirements of the FCA’s Disclosure and Transparency Rules. It should not be relied on by any other party, for any other purposes. Forward-looking statements have been made by the directors in good faith, using information available up until the date on which they approved this statement. Forward-looking statements should be regarded with caution, because of the inherent uncertainties in economic trends and business risks.

4. This announcement contains inside information on J D Wetherspoon plc.

5. The current financial year comprises 53 trading weeks to 31 July 2022.

6. The next trading update is expected to be the Company’s final results announcement on 7 October 2022.