

Summary of questions from investors and answers from Wetherspoon from the Interim Results Investor Roadshow, March 2022

The following questions were raised by analysts and investors after the release of the company's half year results on 18 March 2022. The answers are a summary of those provided by the company's management. The company believes it helpful for this summary to be made available to a wider audience.

Forward-looking statements were made by the directors in good faith using information available up until the date that they provided the answers. Forward-looking statements should be regarded with caution because of inherent uncertainties in economic trends and business risks.

The company undertakes no obligation to revise or update any forward-looking statement, regardless of whether those statements are affected as a result of new information, future events or otherwise, save as required by law and regulations.

1) [Can you talk us through the sales journey over the last couple of months?](#)

As has been widely reported, Plan B restrictions adversely affected sales. Since the restrictions were lifted, sales have improved.

2) [We see you put the price of a pint up 10p recently. Have you any other plans for price increases?](#)

We try to avoid making statements about price rises. Our general policy is to remain as competitive as possible. In the medium and longer term, at the risk of stating the obvious, some price rises are inevitable in an inflationary environment.

3) [How do you think the company might trade through the probable recession?](#)

Wetherspoon has experienced a number of recessions and downturns in the last 43 years. In general, we have traded reasonably well in these circumstances. Lockdowns and restrictions, which had never been implemented before, have been a nightmare in comparison.

4) [Are customers being a bit more cautious about spend levels?](#)

Common sense would indicate that they are, but it hasn't affected our trade so far, which has improved in recent weeks, as we've reported.

5) [Can you give us some examples of what you're working on to try and increase sales?](#)

We've always referred to the 1000 components of a BMW. We try to improve every component as time goes by.

We have, for example, been promoting coffee and breakfast sales recently, which have been affected by 'working from home', and are promoting traditional ale, often consumed by older customers, who have been cautious about visiting pubs. We have also increased rates of pay for staff and have improved benefits, including free meals on duty.

6) [Are you seeing any variation in trading in the regions? Are there differences between cities and towns?](#)

As has been widely reported, London has been slow. In contrast some big city centres, like Liverpool, Manchester and Birmingham, have been strong. There does not seem to be a pattern. Perhaps some suburbs have been slower than the market was anticipating – working from home doesn't necessarily increase suburban trade, if the suburbs are within 'striking distance' of the city centre. Lloyds bars, which have music and appeal to a younger clientele, have outperformed Wetherspoon pubs. Hotels, a small part of our business, have traded well.

- 7) It's good increase to volumes, but surely there comes a time when you might look to make more money by raising prices?

We increased sales and profits for about 40 years up to the pandemic, albeit we were sometimes advised to increase prices during this time. We don't have a 'doctrinaire' approach and have increased prices from time to time, but aim, overall, to stay competitive. More than that, it's difficult to say...

- 8) How price sensitive are customers?

Many surveys over the decades have said that price is not among the most important factors in making a decision to visit a pub. Atmosphere, cleanliness, friendly staff and so on, may be more important. Our view is that prices are, nonetheless, important, but that varies from customer to customer. 'Careful' customers are more numerous than some surveys reveal, even among the affluent...

- 9) Can you talk us through the cost inflation that the company is seeing and expects to see over the next few months?

We have fixed interest rates at a low level to 2031. For many years, almost all the new leasehold pubs we acquired have had fixed rental increases, which are well below the current level of inflation. We're protected, to some extent, by long-term supplier contracts, but, even so, are feeling the effects of inflation in respect of energy costs and food supplies especially. In combination, we hope that our total cost increases will be about 1 or 2% below the level of inflation.

- 10) How focused are the pubs on reducing energy consumption?

We have always tried to minimise energy costs, but will reinvigorate our efforts in this area in the course of the next few weeks and months.

- 11) What wage rate growth can we expect over the next 12 months?

Reflecting trends in the hospitality industry, from 2013 to 2021, average pay rates per hour at Wetherspoon increased by 5.5% per annum, compared to consumer price inflation rates which averaged 1.7% per annum¹. In 2022, labour costs have increased by 7.7%. Future pay increases will probably depend, above all, on the performance of the UK economy – an unknown at the current time.

- 12) A lot of competitors say that Brexit has reduced the supply of labour. What is your view?

The respected Worldometer website gives a UK population of 66.3 million in 2016, the year of the referendum, increasing to 68.5 million in April 2022. Immigration levels are slightly reduced from the years preceding the referendum, but not by much. Europe, the US and Australia have also reported labour shortages, perhaps due to what the Washington Post has referred to as 'the Great Reassessment', whereby people have retired, changed jobs, or reduced working hours. Having said that, as the company has stated on a number of occasions, a preferential visa system for EU countries would be helpful to the UK economy. This can be justified on the basis of 'proximity', similar to the arrangements between the UK and Ireland, and Australia and New Zealand, for example.

- 13) Repairs expenditure looks like it is in line with the pre-pandemic period? Can you talk us through what's happening there?

Repairs in the first half were approximately the same as repairs in the first half of FY20. There is a temptation to reduce expenditure on repairs in downturns, but we try to avoid this, since it stores up trouble and reduces

¹ source: <https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/d7g7/mm23>

standards for customers. As a result, repairs expenditure is approximately the same at Wetherspoon, even if there is a sales decline.

14) [Have there been any specific issues in the supply chain?](#)

There were some 'supply chain' issues in the autumn, perhaps less in impact than some press reports suggested. There have been some relatively minor supply issues since then, for example relating to tomatoes and salt. The main issue has switched from 'deliveries' to inflation, as has been widely reported. Most products can be supplied, albeit at an increased price.

15) [What would you need to do to achieve the pre-pandemic operating margin as and when sales return to pre-pandemic levels?](#)

Unsurprisingly, given the inflationary cost increases affecting all businesses, a return to a reasonable level of sales growth will be necessary in order to match pre-pandemic profits.

16) [What are your thoughts about delivery/takeaway?](#)

The old adage is that pub profitability depends on 'bums on seats'. Delivery has been very successful for some companies, especially those that specialise in certain categories of products, for example, pizzas or burgers. For Wetherspoon, where food sales invariably involve the purchase of drinks as well, it's doubtful if deliveries could be successful, bearing in mind our relatively low prices. Having said that, we keep an open mind in areas of innovation such as this.

17) [Would you consider leasehold pubs again?](#)

If the freehold is not available, we would consider leases for exceptional sites.

18) [Can you talk us through the difference between the 1.61% and 4.28% interest rates you quote in the statement?](#)

We entered into a number of swaps which fixed the LIBOR element of our interest charge at between 1.1% and 1.6% until 2031. In addition, lenders add their own margin. This explains the difference between the two numbers to which you refer.

19) [You've no earnings and higher debt – how do you feel about this?](#)

No one in the pub, restaurant, airline or tourist industry could possibly feel good about the last couple of years. Having been a profitable company, Wetherspoon has lost around £0.25bn since the start of the pandemic. We've tried to set ourselves up for the future by continuing to invest in areas of good potential, although the overall level of investment is lower today. We're cautiously optimistic for the future, provided there are no further restrictions.

20) [What are your current thoughts on capital expenditure & expansion over the next few years?](#)

On the basis that the economy returns to something like normal, Wetherspoon anticipates investing approximately £75million per annum in opening new pubs and enlarging existing ones in the next decade. This excludes capital expenditure on 'reinvestment', sometimes called 'maintenance capex', which we anticipate being approximately 3% of sales in the future.

21) [Can you talk us through the reduced working capital? How should we think about working capital moving forward?](#)

Working capital has reduced as a result of sales being lower than pre-pandemic levels, and as a result of repayments to suppliers which, very helpfully, assisted with extended terms during the pandemic. If sales increase, as anticipated, it is likely that working capital will revert to approximately pre-pandemic levels.

22) [Are you happy with debt levels? What are the current thoughts about debt reduction?](#)

The pandemic will inevitably mean greater anxiety and caution regarding debt, which we will take into account in our capital expenditure plans. It is difficult to be precise, because the exact level of debt will depend on an assessment of the risks, opportunities and the returns on capital in future years.

23) [Will you be closing or selling pubs over the next few years?](#)

We have sold a number of pubs in recent years, mostly where we have another pub in close proximity. There may be a dozen or so similar examples, in the course of the next few years.

24) [With hindsight, did you need to raise the money from the share placings?](#)

Good question. At the half year end, we had liquidity of £159m, so it's possible to argue that we raised too much money. However, given the level of uncertainty, an element of caution was probably correct. Had we raised no money, sleepless nights would have been inevitable for the company, lenders and for shareholders...

25) [When might you pay a dividend again?](#)

Our best estimate is that profits would need to return to about pre-pandemic levels.

26) [What have sector peers done with their prices?](#)

It has been widely reported that prices in the industry generally have risen in recent months, which accords with our anecdotal evidence and experience.

27) [Has there been a reduction in the number of competitor pubs?](#)

There have been many reports of pub and restaurant closures, although in some instances a new operator has taken over closed premises.

28) [What is the off-trade doing with prices?](#)

Supermarkets pay no VAT in respect of food sales, whereas pubs pay 20%. This amounts to a tax subsidy for supermarkets, allowing them to reduce drinks' prices, putting pressure on the entire pub and restaurant industry. It is a principle of taxation that it should be fair and equitable. Encouraging pubs and restaurants, key components of beleaguered high streets, which produce higher taxes than supermarkets anyway, is essential for optimal UK economic performance. We are right on this point, and MPs and Treasury officials are intelligent, so they will get there in the end...