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For immediate release

29 April 2020

JD Wetherspoon plc ("the company")

Further Covid-19 Update, Equity Placing

The company's immediate priority is to manage the business during the current ‘lockdown’ period. It is also starting to plan for a reopening of pubs and hotels in or around June.

The company’s long-stated “mission” is to have well trained staff, offering excellent products, at reasonable prices, in individually designed and well-maintained pubs.

Investec Bank plc (“**Investec**”) is acting as sole bookrunner in connection with the equity placing.

Current Trading

In its interim results announcement for the six months ended 26 January 2020, released on 20 March 2020, the company announced revenue of £933.0m (up 4.9%), like-for-like sales up 5.0%, profit before tax of £57.9m (up 15.2%), earnings per share (including shares held in trust) of 43.3p (up 15.8%) and free cash flow per share of 46.7p (down 31.2%).

In the six weeks to 8 March 2020, like-for-like sales increased by 3.2%.

In the week to 15 March 2020, like-for-like sales declined by 4.5%. The Prime Minister advised customers to avoid restaurants, bars, pubs and clubs on 16 March 2020.

The UK government ordered the closure of pubs on 20 March 2020, from which point the company’s sales have been zero.

Management Actions

The company has implemented an extensive set of measures to protect profit and cash. These include:

- **Operational reductions.** The company closed its pubs and hotels, putting them, in effect, into ‘hibernation’ in which ongoing costs, for example utilities, are minimised.

- **Opening programme.** This has been stopped and is not expected to restart until FY22, from which point the company intends to open approximately five pubs each year.

- **Labour costs.** Around 43,000 employees, more than 99% of the workforce, have been furloughed.

  On average, the company is paying 80% of pre-lockdown pay levels; the cost to the company of additional 'top-up' payments is approximately £0.6 million per month.

  To date, there has been no headcount reduction, although that will remain under review.

- **Suppliers**. The company paid suppliers due at the end of March 2020. The majority, comprising 83% of suppliers, have now been paid in full. Extended payment terms have been agreed with a number of larger suppliers.

- **Board salary reductions**. The board has volunteered to take the following reductions: Tim Martin – 50%; John Hutson – 50%; Ben Whitley 38%; Su Cacioppo – 42%; each of the non-executive directors – 50%.

- **Rents**. The majority of rental payments due in March, other than some concessions, have been deferred.

  The company has agreed extended payment terms with many landlords.

- **Rates**. The government has said that business rates will not be payable from April 2020 to March 2021, resulting in a cash saving of approximately £60 million for that period.

- **Repairs and maintenance.** Reduced from an annualised run rate of £83 million to £10 million during closure.

- **Overheads.** Overhead expenditure (e.g. utilities, distribution centre costs, HQ running costs, IT) has been reduced from an annualised run rate of £210 million to approximately £35 million.

- **Capital Expenditure.** Up to the point when pubs closed, £34 million had been spent in the second half year on new pubs, freehold reversions and reinvestment.

  £70 million of additional capital expenditure, planned for the rest of the second half of the financial year, has been deferred.

- **Taxation**. In general, the government and HMRC have been helpful in agreeing delays in payments of tax. Just under £20 million of PAYE and VAT payments have been deferred. It is anticipated that an additional £40 million of PAYE, VAT and (fruit/slot) machine gaming duty, due after the pub closure, will also be deferred.

- **Dividend**. As previously announced, the interim dividend has been cancelled.

The income statement costs that are payable during the closure period total about £3 million per month, the majority of which relates to loan interest and 'top-up' payments, so that employees receive 80% of their pre-closure income. All other costs are either variable, and have been reduced to nil, have been deferred until after pubs reopen, or were paid in advance of the closure period. Some costs, such as insurance, broadband and IT software, were paid before the pubs closed on 20 March 2020.

UK Government actions

Since pubs closed, HM Treasury has announced a package of temporary measures to support public services, people and businesses through the period of disruption. These include the Coronavirus Job Retention Scheme ("CJRS"), deferred VAT payments and business rate payment holidays.

The company expects to be eligible for a loan of up to £50 million under the new Coronavirus Large Business Interruption Loan Scheme ("CLBILS"), as updated by the Chancellor of the Exchequer on 16 April 2020. The company will consider making an application under this scheme in due course.

As regards the COVID Corporate Financing Facility ("CCFF"), the company has made enquiries, but does not believe it is eligible, since it is not 'investment grade'. The company is regarded as investment grade by its two 'lead banks' and by its USPP lender, and is charged investment grade rates, we understand.

Financing arrangements

As at 22 March 2020, the company had net debt, including bank borrowings and finance leases, but excluding derivatives, of £836 million, compared to £804.5 million at 26 January 2020. This resulted in leverage of approximately 3.85 net debt / EBITDA, calculated over the previous 12 months.

The board believes that no covenants are expected to be breached in the short term, with certain costs being treated as exceptional during the Covid-19 pandemic.

However, as a precaution, the board requested, and has received, signed covenant waivers for the quarters ending April and July 2020. The Bank of England has said that banks should waive covenant breaches that stem from the Covid-19 crisis and the company believes that further waivers should be forthcoming, if required.

The company has fully drawn down its revolving credit facility.

As previously stated, it is the company's intention that the maximum net-debt-to-EBITDA ratio should be around 3.5 times, other than in the short term.

The ratio has risen, as a result of the temporary closure of pubs, and the company intends to reduce the level in a timely manner.

The company has previously stated that debt levels of between 0 and 2 times EBITDA are a sensible long-term benchmark, although higher levels may be justified at times of very low interest rates.

Property

As at 26 January 2020, the company had 874 pubs capable of being open, absent current restrictions.

10 years ago, the company's freehold/leasehold split was 41.3%/58.7%. As at 26 January 2020, as a result of investment in freehold reversions (relating to pubs where the company was previously a tenant) and freehold pub openings, the split was 63.6%/36.4%.

As at 26 January 2020, the net book value of the property, plant and equipment of the company was £1.45 billion, which included £1.05 billion of freehold and long leasehold property. The properties have not been revalued since 1999.

UK taxes and regulations

In the six months ended 26 January 2020, taxes paid by the company totalled £402.7 million (including VAT, excise duty, PAYE, climate change levy etc.), equating to £462,000 tax per pub or 43.2% of the company's sales. In comparison, the company's profit after tax as a percentage of sales was 4.9%.

As a result of a reduction in profit expectations, a refund of corporation tax of approximately £10.5 million has been received.

Non-recurring items

Exceptional costs of £15.9 million were incurred in the first half. £9.5 million related to impairment of IT assets and £6.4 million to property charges. These exceptional costs gave rise to a cash inflow of £2m from property sales.

Further exceptional costs are likely to be incurred during the second half of the financial year. These are expected to comprise income statement costs as a result of the closure period and a small amount of stock write-offs.

Dividends

In the current circumstances, the board does not intend to propose a final dividend for the year ending 26 July 2020, when the full year results are announced in September 2020.

Outlook

The duration of the Covid-19 impact is uncertain at this stage, as are its consequences for the financial performance for the full year. The company does not intend to issue a trading update on the previously indicated date of 13 May 2020.

The company's current assumptions are that its pubs will remain closed until late June 2020.

During the closure period, the company have deferred or reduced as many costs as possible, until after reopening – for example, rent, utilities and repairs. The 'cash burn', or actual cash spent, during this period (excluding payments to suppliers) is estimated at £3 million per month. However, assuming the pubs were to be closed for a longer than anticipated period, the cash burn would increase to around £11 million per month, as a result of the inclusion of costs such as rent, national distribution centre overheads and IT contracts. These estimates exclude historic creditors, including suppliers and HMRC. The company estimates that it has sufficient liquidity until the end of November 2020.

Once pubs reopen, there will be a working capital inflow. Trade creditors at the balance sheet date of 26 January were £316 million, compared to £308 million at the previous year end (28 July 2019) and £321 million at the previous half year end (27 January 2019)*.

**Source: interim report 2020, page 36, note 20.*

The company is likely to make some changes to its operating model, assuming increased social distancing, and anticipates a gradual recovery in customer numbers.

Wetherspoon pubs are substantially larger than average, and most have outside facilities. The company believes these factors are likely to assist if social distancing measures apply.

The company has traded well during previous recessions, in the last 40 years. Competitive pricing may have been an important factor. Sales have increased by around £1 billion since 2008, the approximate start of the last recession.

Scenario Analysis

The principal assumption is that like-for-like sales will be minus 10% for the first month after reopening, increasing by 2% per month, and levelling out at +3%. Sales were about +5% in the 18 months before closure, therefore it is assumed that initial sales will be about 15% below pre-closure levels.

The company has a history of making a large number of small changes to its operations that, over time, has led to sales per pub per week increasing substantially, and intends to utilise a similar approach after reopening.

If correct, the above estimates would result in a total sales decline in the year ending July 2020 of 26%, incorporating the closure period.

On the basis of these estimates, with LFL sales reaching +3%, about 7 months after reopening, the financial performance for 2021 and 2022 could be as follows:

	2019	2020	2021	2022
Total sales (£m)	1,819	1,355	1,873	1,948
Total sales growth	7%	-26%	38%	4%
EBITDA (£m)	219	135	220	218
PBT (£m)[1]	103	12	94	100
FCF (£m)[2]	97	48	126	143
Net debt (£m)	737	914	762	635

The figures above are pre IFRS16 and exclude the net benefit of the Equity Placing and Subscription.

[1] Zero business rates for the first three quarters of FY21 will benefit profits.

[2] As in the 2008 to 2010 financial years, a reduction in reinvestment is anticipated, to 2% of sales, from around 4% of sales. This will increase free cash flow, but will have a negligible effect on profits.

Effect of larger sales decline

In the event of LFL sales falling by 25% (that is approximately 30% less than pre-closure levels) for the first 7 months after reopening, and then increasing by 3% per month from those low levels, the financial performance for 2021 and 2022 could be as follows:

	2019	2020	2021	2022
Total sales (£m)	1,819	1,327	1,501	1,902
Total sales growth	7%	-27%	13%	27%
EBITDA (£m)	219	126	170	254
PBT (£m)*	103	-9	47	131
FCF (£m)	97	-8	1	149
Net debt (£m)	737	955	911	752

The figures above are pre IFRS16 and exclude the net benefit of the Equity Placing and Subscription.

* If sales on reopening are -25%, the company plans to introduce a series of measures to reduce costs, including lower staff bonuses, the benefit of which would flow through into 2022. These initiatives would be temporary, but would produce unusually high profits in 2022.

General comment on low sales on reopening

The company believes it would be cash flow neutral at minus 50% like-for-like sales, and that it would generate positive cash flow at sales above those levels. The company's average weekly sales per pub are significantly larger than those of other large managed house pub companys, which creates some scope for profits at reduced sales levels.

Clearly the duration of Covid-19's impact, including on the UK hospitality sector is very uncertain at this stage as are its consequences for the company's financial performance for the current financial year and beyond. Accordingly, no assurance can be given that any particular assumptions will prove correct or predictions or modelled scenarios will result.

The outlook is taken from the company's assessment of the knowledge and information it currently has available, and reliance must not be placed on any forward-looking statements - please see the cautionary statement below.

Equity Placing

The company has taken decisive action to preserve cash and ensure sufficient liquidity.

The company has separately announced today an intention to conduct a non-pre-emptive placing of new ordinary shares of £0.02 each in the capital of the company representing up to 15% of the company's existing issued ordinary share capital (the "equity placing"). The placing is expected to raise £141m.

Directors and members of the senior management team including John Hutson, CEO, Ben Whitley, Finance Director, and Tim Martin, founder and Chairman will participate alongside the equity placing, in a separate subscription with the company (the "subscription"), and intend to contribute £300,000.00. The equity placing and subscription are not being underwritten.

The net proceeds of the equity placing will be used to strengthen the company's balance sheet, working capital and liquidity position during the period of disruption.

Based on the 'scenario planning' undertaken, the additional capital will provide sufficient liquidity to deal with very low sales after reopening, helping the company to return to growth as the market normalises.

The board has concluded that the equity placing is in the best interests of shareholders; a conclusion endorsed in the course of recent shareholder consultation.

The placing structure minimises cost and time to completion at an important time for the company.

Commenting on this announcement, Tim Martin, chairman of Wetherspoon, said:

"The Covid-19 outbreak is having a severe impact on the UK pub sector. In these challenging times I would like to thank everyone at the company, its suppliers, landlords, banks and the government for their support and commitment. We've had to take significant action to reduce costs, decisions which have not been taken lightly. We look forward to re-opening our pubs and hotels and welcoming back our teams in the near future.

As a result of the actions taken, the cooperation of many stakeholders, and the equity placing announced today, we will be well positioned to reopen our pubs and to return to growth, as the market recovers."

This announcement is released by J D Wetherspoon plc and contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) 596/2014 (MAR), and is disclosed in accordance with the company's obligations under Article 17 of MAR.

J D Wetherspoon plc

John Hutson, Chief Executive Officer

Ben Whitley, Finance Director

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Christopher Baird, David Flin, Tejas Padalkar

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. The annual report and financial statements 2019 has been published on the company's website on 13 September 2019.

4. The current financial year comprises 52 trading weeks to 26 July 2020. The Trading Update previously scheduled for 13 May 2020 will no longer be issued.

5. For the purposes of MAR and Article 2 of Commission Implementing Regulation (EU) 2016/1055, the person responsible for releasing this announcement is Ben Whitley, Finance Director.

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