13 November 2019

J D WETHERSPOON PLC

Q1 TRADING UPDATE

J D Wetherspoon plc (‘Wetherspoon’ or ‘the Company’) presents below its Q1 trading update for the 13-week period up to 27 October 2019.

Current trading

For the 13 weeks to 27 October 2019, like-for-like sales increased by 5.3% and total sales by 5.6%.

Property

The Company has opened one new pub since the start of the financial year and has disposed of four. We intend to open between 10 and 15 pubs in the current financial year.

In the current financial year to date, the Company has spent £43.3m on buying the freeholds of pubs of which it was previously the tenant and has bought back £6.4m of the Company’s shares.

Corporate governance (and guaranteed eventual destruction)

Commenting on corporate governance issues, the Chairman of Wetherspoon, Tim Martin, said:

“While acknowledging the need for a sensible system of corporate governance (CG), I have, for many years, expressed the urgent need for modification of the CG code, summarised in our 2019 annual report (Appendix 1).

“There can be little doubt that the current system has directly led to the failure or chronic underperformance of many businesses, including banks, supermarkets, and pubs.

“It has also led to the creation of long and almost unreadable annual reports, full of jargon, clichés and platitudes - which confuse more than they enlighten.

“I believe by vesting so much power in non-executive directors (NEDs), the system is also disenfranchising executives and the workforce - the people who have real expertise and are the cornerstone of business success.

“Another tectonic fault is that the institutions and advisers which oversee the code, as described below, do not themselves adhere to the rules they impose on others.

“The vast gap between the technocrats who make the rules and commercial reality is illustrated by the 2016 CG code, which refers to shareholders 64 times, employees three times and customers not at all.

"In contrast, commercial reality, which should be reflected in the code, is encapsulated in Sam Walton’s Walmart mantra - “Who’s number one? THE CUSTOMER!”

"A core problem is that CG institutionalises short-termism, inexperience and navel-gazing.

“‘Independent’ non-executive directors (NEDS), who work part time, are limited by the code to nine years’ service and stay, on average, for just over four years

“It is also common practise for there to be only two executive directors, the most senior of whom, the CEO, averages only about five years’ - managements and workers are thus absurdly underrepresented.

“A cursory glance at the board compositions of major UK PLCs underlines the issues.

“Tesco, for example, which has 450,000 employees and is the UK’s largest supermarket group, has only two executive directors, with total service of about nine years and 11 NEDs with total service of 38 years. The overall average, including NEDs and executives, is only 3.7 years.

“This sort of corporate structure is mirrored in banks, retailers and pubs - where long-term performance, over recent decades, has usually veered between poor and catastrophic.

“Adherence to a tick-box culture means, for example, that there are no NEDS on the boards of major UK banks (HSBC/RBS/Barclays/Lloyds) who have any personal experience of the last banking crisis at their company - when it is clear that inexperienced boards were a major factor in that crisis.

“In contrast, non-compliant companies like Wetherspoon (average tenure 15 years), Fullers’ (10 years), Dart Group (12 years) and Berkshire Hathaway (19 years) have often fared far better, with experienced boards, long-term shareholders and a long-term view.

“Compliance with CG guidelines increases the risk of failure - companies like Northern Rock, HBOS, Carillion, Thomas Cook and Mothercare were compliant with the code, but had shockingly low levels of experience (around 4 years per director) and executive representation.

“Stefano Bonini and others (Harvard Law School Forum, June 2017) highlighted this problem and correctly said that “long–tenured directors … decrease the likelihood of corporate scandals ... (and) ... accumulate information and knowledge.”

“A Noddy-in-Toyland aspect of the current farce, as indicated above, is that the ‘comply or explain’ principle, which underlies the code, is not observed, in practise, by many ‘enforcers’ – ie institutions or their corporate advisers.

“‘Comply or explain’ means that advisers and investors have an obligation to weigh up explanations for non-observance of the guidelines.

“However, in reality, many never do - including, it seems, governance advisers such as PIRC.

“For example, Wetherspoon’s largest institutional shareholder, Columbia Threadneedle (CT), without any advance notice to the Company, did not support the re-election of two of our long-serving directors at last year’s AGM - in spite of our repeated explanations in annual reports.

“As a result, three of our four NEDs felt compelled to offer their resignations - inevitably destabilising the company in the process.

“Yet CT’s owner is Ameriprise (a US company), two of whose independent NEDs have themselves exceeded the nine-year rule.

“The Ameriprise chairman also breaches the nine-year rule - and combines the roles of chairman and CEO, a further breach of UK guidelines.

“In this context, the fact that CT is a US company is irrelevant. It has decided that one rule applies to itself, but that another should apply to Wetherspoon.

“In addition, US shareholder, Blackrock did not support Wetherspoon’s long serving NEDs last year, but they also have directors who exceed the 9-year rule on their board.

“Not all institutions behave like CT and Blackrock. Two of our largest shareholders strongly support Wetherspoon’s approach as illustrated in letters written to the company (appendix 2). Common sense does exist, in small pockets, in the City.

“Indeed, in thousands of meetings with shareholders in the last 27 years, I and my colleagues have almost never been asked about corporate governance - although the guidelines are clearly the predominating factors in PLC board composition - and at AGMs.

“The tick-box malaise, to which only strong-willed contrarians - and those with no financial interest in the perpetuation of the current system - are immune, is particularly rife at CG advisers.

“For example, the CG adviser PIRC recommends its clients to vote against my own re-election as chairman of Wetherspoon on the basis, inter alia, that I have been chairman for more than nine years (a milestone I hit in 1992).

“Amazingly, while advising Wetherspoon that it should have four or five ‘independent’ NEDS, the hypocritical PIRC has, itself, just one on its own board - someone whose only apparent employment experience has been at a local authority.

“However, PIRC’s own website misleadingly says that it adopted, in 1988, “a private company structure with…executive directors and a board of non-executives drawn from the founding pension funds and public figures” – a structure that clearly no longer applies today.

“Furthermore, the founder of PIRC, Alan MacDougall who still sits on his own board after 33 years (but seems to believe I shouldn’t be on mine), has no relevant PLC experience having, according to his LinkedIn profile, a “BA Sociaology (sic) 2:2 - Social policy and Soviet Studies” and work experience at the National Union of Mineworkers and the Greater London Council.

“MacDougall has questionable personable judgement, referring to himself on his Twitter account as a “governance expert” and an “ex-Eurocommunist”. In my opinion, many people equate communism with fascism, since millions of Europeans perished or were imprisoned under its yoke.

“It is perhaps a concern that PIRC has a low rating of 2.6 on the employment website Glassdoor, and appears to rely on inexperienced and temporary workers to analyse complex company reports for corporate governance purposes.

“In summary, my view is the UK CG system is up the spout - and is itself a threat to listed companies - and therefore to the UK economy.

“By institutionalising inexperience, the code guarantees the eventual destruction of the culture or ‘DNA’ of successful companies - and culture has ‘strategy’ (with which the code is obsessed) for breakfast, as respected management philosopher Peter Drucker has said.

“Board structures should probably more closely resemble the successful Fullers - a chairman with 41 years’ experience at the company, combined with directors with extensive executive experience and long-term loyalty.

“In addition, genuine observance of ‘comply or explain’, rather than current lip service, should be mandatory. One-size-fits-all does not work in the real world.

“Board composition à la Fullers can’t guarantee future corporate success - but rigid compliance with current CG guidelines will almost certainly guarantee eventual mediocrity or failure.

“City regulators and lawmakers should make haste. Even Wetherspoon, a medium-sized company, has 42,000 employees, 13,000 of whom are shareholders, and it contributes about one pound in every thousand of UK taxes (£764 million in 2019) - it’s not in anyone’s interest to kill a golden goose.

“But, perhaps above all, no sensible business, looking to the long term and genuinely apprised of the reality of the CG system, would float on the London stock market today - who wants to guarantee eventual destruction, after all?”

Outlook

Tim Martin said:

“The Company is frequently asked for comments by shareholders, customers and the press for comments on Brexit. I strongly believe that the UK economy will be better off on the basis of ‘no-deal’ rather than the deal proposed by the government. I’ve dealt with this point in some detail in the latest edition of Wetherspoon News (appendix 3).

“We continue to anticipate a trading outcome for this financial year in line with our previous expectations.”

Appendix 1 - Corporate Governance, Extract from JD Wetherspoon 2019 annual report

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The underlying ethos of corporate governance is to comply with the guidelines or to explain why you do not.

The original creators of the rules must have realised that business success takes many forms, so a rigid structure, applicable to all companies cannot be devised – hence the requirement to explain noncompliance.

Wetherspoon has always explained its approach. For example, in 2016, our approach to corporate governance was summed up in the annual report as follows:

“...I have said that many aspects of current corporate governance advice, as laid out in the Combined Code, are deeply flawed…”

I then went on to say:

“I believe that the following propositions represent the views of sensible shareholders: The Code itself is faulty, since it places excessive emphasis on meetings between directors and shareholders and places almost no emphasis on directors taking account of the views of customers and employees which are far more important, in practice, to the future well-being of any company.

For example, in the UK Corporate Governance Code (September 2014), there are 64 references to shareholders, but only three to employees and none to customers – this emphasis is clearly mistaken.

- *The average institutional shareholder turns over his portfolio twice annually, so it is advisable for directors to be wary of the often perverse views of ‘Mr Market’ (in the words of Benjamin Graham), certainly in respect of very short-term shareholders.*

- *A major indictment of the governance industry is that modern annual reports are far too long and often unreadable. They are full of semiliterate business jargon, including accounting jargon, and are cluttered with badly written and incomprehensible governance reports.*

- *It would be very helpful for companies, shareholders and the public, if the limitations of corporate governance systems were explicitly recognised. Common sense, management skills and business savvy are more important to commercial success than board structures. All of the major banks and many supermarket and pub companies have suffered colossal business and financial problems, in spite of, or perhaps because of, their adherence to inadvisable governance guidelines.*

- *There should be an approximately equal balance between executives and non-executives. A majority of executives is not necessarily harmful, provided that non-executives are able to make their voices heard.*

- *It is often better if a chairman has previously been the chief executive of the company. This encourages chief executives, who may wish to become a chairman in future, to take a long-term view, avoiding problems of profit-maximisation policies in the years running up to the departure of a chief executive.*

- *A maximum tenure of nine years for nonexecutive directors is not advisable, since inexperienced boards, unfamiliar with the effects of the 'last recession' on their companies, are likely to reduce financial stability.*

- *An excessive focus on achieving financial or other targets for executives can be counter-productive. There's no evidence that the type of targets preferred by corporate governance guidelines actually works and there is considerable evidence that attempting to reach ambitious financial targets is harmful.*

- *As indicated above, it is far more important for directors to take account of the views of employees and customers than of the views of institutional shareholders. Shareholders should be listened to with respect, but caution should be exercised in implementing the views of short-term shareholders. It should also be understood that modern institutional shareholders may have a serious conflict of interest, as they are often concerned with their own quarterly portfolio performance, whereas corporate health often requires objectives which lie five, 10 or 20 years in the future."*

I also quoted Sam Walton of Walmart in the 2014 annual report. He said:

"What's really worried me over the years is not our stock price, but that we might someday fail to take care of our customers or that our managers might fail to motivate and take care of our (employees)…. Those challenges are more real than somebody's theory that we're heading down the wrong path…. As business leaders, we absolutely cannot afford to get all caught up in trying to meet the goals that some … institution … sets for us. If we do that, we take our eye off the ball…. If we fail to live up to somebody's hypothetical projection for what we should be doing, I don't care. We couldn't care less about what is forecast or what the market says we ought to do."

It is, therefore, very disappointing that one large institutional shareholder does not appear, by its actions, to support the central tenet of our stance on the issue of governance, which is that experience is extremely important and that the so-called 'nine-year rule' is perverse and counterproductive.

This shareholder failed to support the re-election of two of our non-executive directors at last year's AGM. I arranged a meeting for all of our main institutional shareholders in April 2019, to further explain our position, which the shareholder in question failed to attend. I then arranged a further meeting with the shareholder at their offices in May 2019.

Following the meeting there was no confirmation that the shareholder would support the re-election of our long-serving non-executive directors. As a result, three of our four non-executives, in the best interests of the company, offered to leave, on a rotational basis.

The company contacted all of its main shareholders to inform them of this proposal. The shareholder in question agreed. However, a number of other shareholders expressed their discontent with the proposed resignations.

The executive board and I strongly feel that these sorts of board changes disrupt and weaken the company. I wrote to the shareholder on 9 September 2019 to ask them to reconsider their position, but have not received a reply. Wetherspoon has had harmonious relationships with almost all of its shareholders over many years and has complied with the corporate governance requirement for explanation. Judging from the absence of any adverse comment, our approach has generally been accepted by investors. "

Appendix 2 - Comments from institutional shareholders in support of long serving NEDs (June/July 2019)

Shareholder 1

"I can confirm that XXX are willing to support all of the proposed resolutions as outlined in your letter dated 28th June 2019. XXX intends to vote in favour of the re-election of all of the non-executive directors and vote in favour of the remuneration report at the next AGM. "Furthermore, I would like to emphasise that XXX are fully supportive of J D Wetherspoon in its position regarding the UK Corporate Governance Code. The explanations given by the company for its non-compliance to the code are logical and rational in our opinion."

Shareholder 2

"We'd very much appreciate a brief chat on the proposals in this letter—we're happy to chat with whoever can best answer our question: We'd like to understand why the board feels there's a need for Elizabeth, Debra, or Sir Richard to be succeeded, given the shared views of Tim and ourselves that tenure itself shouldn't be a reason— despite what the UK Corporate Governance Code suggests. Does the board consider Elizabeth, Debra, and Sir Richard to no longer be the most qualified to be non-executive board members, even when taking into account the benefit of their experience with Wetherspoon, including their now very well-developed understanding of its unique approach and culture? Like Tim we believe that experience helps not hinders non-executive directors. Thank you, and we look forward to talking."

Appendix 3 – Tim's Viewpoint, Wetherspoon News (Autumn 2019)

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People and organisations make mistakes when they act on false presumptions - Sceptics create a debate, which aids the quest for truth

Consciously or not, we humans sift through what we hear and see, daily, to try to work out what's true and what's not.

Democracies, education and a free press best facilitate this process.

Perhaps health is the area where we are most inclined to fall for quack remedies and elixirs for longer life – health and dietary myths are difficult to disprove and so last a long time, before assignment to the dustbin.

For many centuries, getting caught in the rain was felt to be the precursor to a cold; now, we know that a cold is a virus and that rain has been innocent all this time.

For most of the last 50 years, so-called experts in the medical profession and government fed the myth that dairy products were 'bad for you', giving rise to a vast margarine and skimmed milk industry.

Limit egg consumption to two a week, we were told. Eating an omelette was as risky as white water rafting, it seemed.

Except, of course, the truth slowly emerged that the demonisation of dairy had never been true, however biologically plausible the arguments – eggs have even been rehabilitated, by some iconoclasts, as 'superfoods'.

These medical myths often become fads which sweep the entire world – the Atkins, South Sea and 5-2 diets have been successful businesses for their creators, but almost certainly have zero long-term benefits.

Gary Taubes, writing in the New York Times in 2012 brilliantly undermined the probably mistaken view, still prevalent today, that salt is a serious medical hazard.

The NHS advises that salt consumption per person should be reduced to six grams per day from our current eight – which will almost certainly reduce life expectancy, many believe.

Indeed, sceptics like Taubes, who 'swim against the tide', often play a hugely important role in limiting the impact of the constant barrage of false information which fills the airwaves.

In trying to separate the wheat from the chaff for yourself, finding a 'small truth' which contradicts a widely held belief is always a good starting point.

For example, if salt is bad for you, how come the Italians, who consume far more of it than we do, live longer?

Unless there is a good explanation, salt is perhaps unfairly maligned.

One of my own 'small truths', in the early days of Wetherspoon, was that my pals and I went out mostly to talk; this was made far more difficult (and less enjoyable) by music blaring in pubs, restaurants and clubs, as it usually is still today – the music-free hunch was right and forms an important part of our business today.

The trenchant debate surrounding Brexit, thanks to our democratic freedom, has, in my view, exploded myths and increased knowledge on key subjects like trade, tariffs, government and Europe – on a vast scale.

For example, the pugnacious Jean-Marc Puissesseau, head of Calais ports, has completely undermined the false presumption that the channel ports will seize up post Brexit, without a 'deal'.

"There will be no queues," says Mr Puissesseau – "C'est la bulls…."

Irish airline Ryanair has recently exploded the fallacy that planes wouldn't fly without a deal – it's no longer an issue, they say, supported by British Airways.

Perhaps the hardest myth to disprove, in recent years, has been that UK banks would relocate en masse to the continent – which has turned out to be nonsense.

More people are employed in the City today than before the referendum – and thousands of mini initiatives have been undertaken by City of London individuals and organisations to ensure that trade continues.

But there's one enduring myth, broadly accepted by both Leavers and Remainers, which needs to be killed off now.

This is that the UK, and economies generally, are axiomatically better off, if politicians organise vast and all-encompassing trade deals.

In reality, common sense and experience indicate that vast teams of lawyers and civil servants trying to encompass every future trading eventuality in a mega document – or a deal – is a potential minefield of trouble.

Look at the problems suffered by African farmers who've been legged over in so-called 'free-trade' deals with the lawyer-dominated EU.

A whole range of mini deals is surely better. Let Mr Puissesseau and his British counterparts, facilitated by civil servants, of course, if required, sort out the channel ports.

Let Ryanair, British Airways and the relevant aviation organisations agree on a sensible modus operandi.

Let City of London banks, helped, where needed, by government officials, arrange their own cross-border affairs.

Let Wetherspoon arrange brandy from Australia and sparkling wine from England, if we feel that continental supplies are in jeopardy (we agreed with Mr Puissesseau about this, but wanted to prove that there are always non-EU alternatives).

Let the excellent Swedish company Kopparberg produce cider in Somerset, which it now does.

The idea that you need to sign a vast mega deal with the EU or the USA is beloved of lawyers and bureaucrats and is almost universally accepted – yet is a myth…. ”

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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 52 trading weeks to 26 July 2020.

6. The next trading update is expected to be the Company's trading update on 22 January 2020.