22 January 2020

J D WETHERSPOON PLC

Q2 Quarterly Business Update

J D Wetherspoon plc ('J D Wetherspoon' or 'the Company') announces its Q2 business update. The Company's interim results for the six months ending 26 January 2020 are expected to be announced on 20 March 2020.

Current trading

For the first 12 weeks of the second quarter (to 19 January 2020), like-for-like sales increased by 4.7% and total sales by 4.2%. In the year to date (25 weeks to 19 January 2020), like-for-like sales increased by 5.0% and total sales by 4.9%.

Property and buybacks

Since the start of the financial year, the Company has opened 1 new pub and sold 5 and intends to open a further 10 to 15. It is expected that around £80m will be spent this year on new pubs and pub extensions.

The Company has spent £57m in the year to date buying the freehold reversions of 18 pubs of which it was previously the tenant. Full-year reversion expenditure is expected to be around £85m (2019: £77m).

A total of £320m has been spent on reversions since 2014.

In addition, the company has spent £516m on buying and cancelling 53% of its own shares since the buyback program started in 2003.

The number of shares in issue has been reduced from 221,512,519 to 104,678,395.

Financial position

The Company remains in a sound financial position. Net debt (pre IFRS16) at the end of this financial year is currently expected to be between £780m and £820m, slightly higher than previously anticipated, due to higher than anticipated capital expenditure.

Expenditure on reversions and buybacks, referred to above, approximately equals company debt - if the company had not bought shares or reversions it would be more or less debt-free, having financed dividends, the repayment of 2003 borrowings of approximately £300m and the opening of a net 239 pubs, from free cash flow.

Corporate Governance

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

"In an important high court case involving Wetherspoon, the judge said that he would assume written statements by witnesses were true, unless contradicted by barristers in cross-examination.

"This sensible principle of justice is also implicit in the 'comply or explain' provisions of corporate governance guidelines (the 'code').

"Comply or explain must mean that the code envisaged flexibility and did not advocate a 'one-type-suits-all' approach.

"If shareholders say nothing in response to company explanations, which have been made in order to comply with the code, it is reasonable to assume their assent.

“However, in reality, detailed explanations are ignored by many fund managers and their corporate governance advisers - comply or explain has been corrupted to mean ‘comply or be humiliated in public and voted off the board’ - a risk which most NEDs are understandably reluctant to take.

“A likely reason for ignoring explanations, in defiance of the code, is that it’s simpler and cheaper to apply arbitrary standards such as the ‘nine-year rule’- rather than engaging with companies and considering their explanations.

“Corporate governance adviser PIRC, for example, advertises for temporary staff for the company results’ “season”, and it appears to demand a blanket nine-year rule, almost irrespective of explanations.

“In effect, PIRC purports to impose its own version of the code on companies, with no qualifications, or remit, for that approach.

“In a further illustration of how the code operates in practise, Wetherspoon’s largest shareholder, Columbia Threadneedle (CT), withdrew support for two of our long-serving NEDs for non-compliance with the ‘nine-year rule’, with no advance warning or discussion, shortly before our 2018 AGM.

“CT unilaterally took this action, in spite of detailed explanations in the preceding years in our annual reports.

“CT and fellow shareholder Blackrock’s OWN boards however, very sensibly, do not observe the nine-year rule - both laud ‘independent’ NEDs with longer tenure than nine years.

“In other words, one rule for CT and Blackrock - and another for UK PLC.

“These issues were reviewed in some detail in our November 2019 trading statement (appendix 1). It would be beneficial if all shareholders could read this appendix. It is not boilerplate and the future of companies like Wetherspoon, and many others, is seriously undermined by the operation of the current code.

“As in previous years, there has been no objection or critique whatsoever, in writing or in person, from any shareholder, individual or organisation, of the points raised in our November review.

“It is an unfortunate reflection on complacency in the City and among unaccountable ‘rule-makers’ that institutions like Columbia Threadneedle, Blackrock - and corporate governance adviser PIRC - have not felt the need to issue a proper or detailed response to the serious issues raised by Wetherspoon.

“The main consequence of the current governance system is short-termist and inexperienced boards, which have minimal representation from executives and the workforce - the people who are best placed to understand and run the business.

“These factors are obviously damaging for customers, employees and the economy - as well as for shareholders.

“The UK, of course, needs a sensible system of corporate governance. However, the current system is remote, counterproductive and inflexible, which are also the characteristics of many major shareholding institutions and their advisers.”

Brexit

Commenting on Brexit, Tim Martin, said:

“It is disappointing to note that pro-remain organisations like the CBI and the Food and Drink Federation are, even at this late stage, doubling down on ‘project fear’ stories.

“A dramatic headline on the BBC’s main news website (“Brexit: Price rises warning after chancellor vows EU rules divergence”, 18 January) predicted dire consequences in the event of ‘divergence’ from the EU.

“The article contained a jobs warning from the CBI, which previously promoted the disastrous exchange rate mechanism and the euro, and a food prices warning from the Food and Drink Federation (FDF).

“The CBI’s warnings about job losses and recession in the event of a leave vote in 2016 have proved to be mythical - over a million jobs have been created.

“The FDF’s warnings about food price rises are absurd- the EU is a highly protectionist organisation which imposes tariffs and quotas on about 13,000 non-EU imports including many food and drink products such as bananas, rice, oranges, coffee and wine.

“Elimination of tariffs will obviously reduce prices.

“It is high time these organisations took a wise-up pill and supported the democratic decisions of the UK.”

Outlook

Tim Martin said:

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

Appendix 1 - Corporate Governance (and guaranteed eventual destruction), Extract from JD Wetherspoon Q1 trading update, 13 November 2019

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.

“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. 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?”

Enquiries:

John Hutson	Chief Executive Officer	01923 477777
Ben Whitley	Finance Director	01923 477777
Eddie Gershon	Company Spokesman	07956 392234

Notes to editors

1. J D Wetherspoon owns and operates pubs throughout the UK. 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 interim results statement on 20 March 2020.