Summary of questions from investors and answers from Wetherspoon from the Interim Results Investor Roadshow, March 2021

The following questions were raised by analysts and investors after the release of the company's half-year results on 19 March 2021. 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.

Reopening plans, sales

1. **Can you please talk about reopening plans and the various sales scenarios.**
   Provided pubs open on 21 June with no or minimal restrictions, in line with government indications, we estimate sales at around -20% in the initial weeks, rising to approximately the levels of financial year 2019, before the pandemic, at the start of FY22 i.e. from 26 July 2021

2. **Wetherspoon was fairly confident in January that pubs would reopen towards the end of March – what changed?**
   The government has taken, in our opinion, an ultra-cautious approach. Beer gardens are opening around 2 weeks after our estimates, with a slow reopening of other facilities thereafter.

3. **Do we think that the operation of pubs with external areas will be cash-flow-neutral from April?**
   No, but it should be slightly less cash-flow negative on a 'beer gardens only' basis. We anticipate becoming cash-flow positive from 21 June (please see answer to question 1 above).

4. **What difference does it make to pubs to have people standing up (i.e. vertical drinking)?**
   It makes quite a difference. Pub culture is different from restaurant culture where people remain seated. Some people remain seated in pubs, but a significant minority of people like to stand up - perhaps because they've been sitting down all day in an office or at home, for example - while others like to socialise in the more fluid environment of 'vertical drinking' areas. A big advantage of pubs compared to dinner parties is that, not being seated, you can glide away from a boring conversation. Sounds a prosaic point, but it does matter…

5. **What are we being told about social distancing requirements that will be in place from mid-May?**
   Mid-May represents a half-way house between 'gardens only' and 21 June. Table service will apply, for example. The social distancing requirements that applied in the second half of last year will, broadly speaking, apply until 21 June, we understand.

6. **Can you tell us about the geographical location of pubs – i.e. how many are situated in city centres vs small towns?**
   As a rough guide we estimate that about a third of our pubs are in large city and town centres, about a third are in suburban areas and about a third are in smaller town centres.

7. **How are we expecting the city centres to recover? There are reports that these areas have been a lot quieter.**
   We estimate that major city centres, where a large percentage of the trade comes from office workers, may be quieter, possibly with some compensating trade in suburbs and smaller towns, if people are working from home. Informal discussions with a large Australian hospitality company, which has reopened after a long 'lockdown', indicate that overall trade has been in line with trade before the pandemic, with lower trade in big cities and higher trade elsewhere.

8. **Is our sales forecast for next year predicated on there being no social distancing restrictions in place?**
We think we can match 2019 sales with some elements of social distancing, provided a mass of other restrictions are eased or rescinded. However, the tendency for this government to micro-manage and to impose pettifogging and irrational restrictions, which change almost on a weekly basis, is a major threat to the hospitality industry. Indeed, the belief in its own powers of micromanagement, and the capricious rules which result, are a threat to the entire economy.

9. **Has there been any mention, via UK Hospitality, of bringing forward the deadlines?**
No.

10. **Are we looking at any type of innovation to address people's potential concerns about getting back into pubs?**
There have been no outbreaks of the virus, as defined by the health authorities, in any Wetherspoon pub, and there have been very few outbreaks in the hospitality industry, we believe. Since the first lockdown, Wetherspoon and other hospitality companies have been working hard to try and respond to the problems of the pandemic. For example, we have added 18,000 external covers, approximately equal to the seating of 90 pubs. We have greatly expanded the use of our APP with around 60% of sales being non-cash in some weeks. We've added screens, sanitiser stations and other hygiene measures. In addition, there is a plethora of other measures, big and small, to deal with some of the problems which have arisen. The main problem, however, has been frequent counterproductive changes to the rules by government, which has hobbled the hospitality industry, without giving rise to improvements in health outcomes (e.g. curfews, table service, masks to visit bathrooms, a pint only with a 'substantial meal' etc). Government hyperactivity in this area, acting under emergency powers, so therefore unrestrained by debate and common sense, is far more difficult to deal with.

11. **Is there anything the company might do differently to soak up extra demand this summer?**
We're reasonably confident that we can cope with extra demand, as we do at Easter and Christmas every year, for example, especially since we've retained almost all our staff.

12. **How do we look at next winter? Are we planning for possible further restrictions?**
Having had three national lockdowns already and additional regional lockdowns in Scotland, Wales and Northern Ireland, there's not really much planning that we could sensibly do. By now, we're aware of the implications and operating procedures that are necessary.

13. **What are the long-term prospects for Wetherspoon growth?**
We've always said that the main limiting factor on growth relates to the levels of service and product quality we offer. If we're attractive enough to customers, the potential may be substantial. We feel there is room for approximately 100-200 new pubs and for adding 25-50% extra customer space inside about half of existing pubs (examples include new first-floor customer areas at The Five Swans in Newcastle, The Bishop Vesey in Sutton Coldfield and the Thomas Ingoldsby in Canterbury) and adding additional beer garden space outside. As we've said in the past, we've added approximately £1bn of sales since the last recession and our ambition is to increase sales by this amount, from pre-pandemic levels, over the next decade - although achievement of this goal is obviously far from certain.

14. **How much of overall sales does food make up? Are there periods of the day where you under-trade on food i.e. not at capacity?**
Food was about 36% of sales before the pandemic. Including drinks, meals probably account for around 60% of trade. Trade is concentrated in the main three mealtimes per day, so pubs are quieter in mid-morning and mid-afternoon, for example, although the full menu is available then. In general, we feel that we have, or can make, extra capacity for more trade at all times. There are some American restaurant companies which trade at much higher levels of sales per outlet than Wetherspoon. Our long-term aim is to match them, but it is a tall order.

15. **How are advance hotel bookings going?**
They are slowish, but that is not surprising, because there is general uncertainty about the lifting of restrictions.

Competitors

16. **What is going to happen with capacity and competitors after the pandemic?**
    This is a very difficult question and it's hard to know. Obviously some existing competitors have not survived, which is a shame. Contrary to what some people think, Wetherspoon often does very well when new competitors open in the vicinity, adding to the vibrancy of town centres. Where competitors have gone out of business, we expect there will eventually be new competitors who will take their place.

17. **Are we seeing any competitors snap up assets/properties?**
    We don't have more information than is available in the press. There is definitely a number of companies like Franca Manca, which runs pizza restaurants, that are planning to expand aggressively in the downturn. There is also a number of former pub company directors who have set up acquisition vehicles with a view to opening pubs.

Pricing

18. **Pricing – what is the gap between Wetherspoon and competitors? Are there opportunities for increases if trade is strong on reopening?**
    All we can really say about pricing is that we try to remain as competitive as possible. There is a considerable gap with some on-trade competitors, although there are also some on-trade competitors with low prices. The main issue for pubs and restaurants is that supermarkets pay no VAT on food sales and pubs etc pay 20%. In addition, pubs pay around 20p per pint in business rates and supermarkets pay around 2p. Supermarkets therefore get a government subsidy, which they don't need. In a sense, which makes no sense, pubs are also subsidising supermarkets and pub customers are subsidising dinner parties in Notting Hill. A level playing field accords with common sense and will probably bring in more tax revenues for the government.

19. **What are you thinking about doing with price if/when VAT goes back up?**
    We will probably revert to the prices we had before the temporary VAT reduction last summer. The hospitality industry should, though, prioritise tax equality with supermarkets rather than e.g. lower beer duty, which is also important, but which benefits supermarkets too. (please see answer to question 18 above)

20. **Do you think that now is time to really focus on profit growth and returns to rebuild the balance sheet?**
    Yes. We had a free cash flow of around £100m per annum before the pandemic and we will be careful in the allocation of our free cash flow in light of the pandemic. Any sensible company will take the tribulations of the last year into account. We have always tried to maximise sales, and therefore cash flow, balancing the long-term and the short-term. It's a tricky business – it's important to try to avoid sacrificing the future for headline-grabbing profit growth.

21. **Would we prefer to put prices up than come to the market again (another share placing)?**
    This may be what people call a 'false dichotomy'. Wetherspoon only undertook share placings as a result of the pandemic. The company actually bought back over half its shares in the preceding 16 or 17 years. We don't think, in reality, there's a choice between a share placing and a price rise. One danger, of course, is that a substantial price rise might reduce profits.

Costs / Supply

22. **Any product inflation coming through in the next few years? Supply-side pressures? FX tailwinds?**
    "If you can look into the seeds of time, and say which grain will grow and which will not, speak then to me…", as Shakespeare said. There is no indication of substantial price rises at the current time. When the UK was in the EU, there were substantial tariffs on imports from outside the EU, which were collected by the UK government and sent to the EU. There is the opportunity now for the government to end these tariffs, which apply to over 12,000 imported products (or did in 2016). Adopting a free-trade approach would reduce prices in the shops, increase the public's buying power and would generally help the economy. The worry we have is that this

government's criteria is not related to the long-term benefit to the economy, but instead relates to how an initiative such as free trade will rate in the short-term opinion polls.

23. **Do we think there might be some suppliers who might not make it through this period?**
We can't recall examples of failures from food and drink suppliers, but there have unfortunately been some in the building and contracting areas. As a result of a relatively lenient approach by the banks compared to previous recessions, the availability of equity capital and a generally accommodative approach by all parties, most companies have survived so far, albeit in a weakened state. The key for the future, as indicated above, is an ending of restrictions and the creation of a level playing field, avoiding frequent changes of direction.

24. **What labour inflation are you assuming over the next 3-5 years?**
Our normal assumption is that pay will rise at or above the levels of inflation, but it's very difficult to predict, since it depends on the overall state of the economy.

25. **Have you been able to reduce rent in deals with landlords, or has it just been deferrals?**
Landlords have been having a hard time themselves and have been reluctant to reduce rent (Quelle surprise!). As leases come to an end, there is an opportunity to reduce rental levels but, short of that, there is less leverage than some people imagine. Pubs and restaurants, due to a high level of capital expenditure, tend to have longer leases than shops, so probably have less opportunity for obtaining rental reductions.

26. **Can you talk us through the cost assumptions for the future years within the forecast? Why higher labour costs in FY22?**
As a company expands and its volume purchases from suppliers increase, there is a possibility, up to a point, of obtaining lower prices from suppliers, to the mutual benefit of all parties. If things go well, although it's impossible to be precise, we may be able to obtain price increases from suppliers which are less than the level of inflation - which we, in turn, have historically tried to pass on to customers. Wetherspoon has many suppliers with which it has traded for several decades, some from the first pub, which may help in this process.
There are higher labour costs in FY22 mainly because of an assumption, which we hope isn't true, that some social distancing and other costs relating to the pandemic, may linger into future financial years.

27. **Operating margins and profits have not grown in line with sales in the last few years – how should we think about that?**
It's best to take a medium or long-term view. Between 2008 (before the main impact of the last recession) and 2019 (before the impact of the pandemic), sales grew by 100%, profits by 76%, and earnings per share by 174%. Sometimes, our sales grow faster than profits, but that's not necessarily disadvantageous in the long term.

Labour / workforce

28. **Do we anticipate any staff resourcing issues upon reopening?**
When pubs reopened after the first lockdown last summer, there were no resourcing issues. We do not anticipate any this summer.

29. **How is employee engagement at the moment?**
We believe that employee engagement is good. Hardly any employees have left since the end of December, when pubs closed. It should be remembered that pub managers have worked for the company for an average of 13 years 2 months, kitchen managers for 9 years 11 months and shift managers for 7 years 7 months. Apart from that, there are 10 employees who have worked for the company for over 30 years, 326 for over 20 years, 3,049 for over 10 years and 8,827 for over five years. In addition, we have 15,032 employees who are shareholders in the company. Here is a link to an article in Wetherspoon News which gives more details on this point [Link: Employee article].

30. **How much do you pay staff at Wetherspoon compared to the minimum rates? What additional benefits do these employees receive?**
Excluding the management team, the average rate of pay is 12% higher than the minimum rate. In addition, staff are eligible for bonuses, free shares and other benefits, as outlined in the link referred to in question number 29.

31. **It looks like you're starting with about 6,000 fewer staff than pre-Covid. Do you need to have a recruitment campaign as a result?**
In the pub business there is an element of seasonality and a percentage of staff, for example students, work for temporary periods. We believe this trend is reflected in the reduction of staff numbers and a major recruitment campaign will be unnecessary. A certain amount of recruitment will take place, reflecting normal seasonal changes in employment.

32. **What has retention been like amongst pub managers and area managers?**
Retention has been very good, with few leavers in the last year.

Balance sheet / debt position / liquidity

33. **What are your thoughts on the future debt position?**
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.

34. **What was the main motivation for the recent equity raise?**
The main motivations were ensuring sufficient liquidity for any likely eventuality in the coming years, and the ability to take advantage of investment opportunities that might arise.

Taxation / Government support

35. **What impact will we see from the recent budget? (VAT, business rates, furlough, grants)**
The underlying position hasn't changed as a result of the recent budget, although there might be some swings and roundabouts.

36. **Has there been any talk about reform of the business rates system in the future?**
No one has consulted Wetherspoon about reforms.

Capital Expenditure / returns

37. **What are we forecasting in terms of capital expenditure for the rest of this year and next year?**
We anticipate 'reinvestment' in existing pubs of £60m in FY22. This compares to an anticipated depreciation charge of £82m. Our approach to investment and new pubs is based on 'flexible response', depending on financial conditions. Our most recent internal projections are for capital expenditure in this area of £60m in FY22, but that may vary. As we recently said in a press release [Link: Development article], the company has a significant number of major projects which could be developed in approximately the next 12-24 months.

38. **Do we have an absolute return benchmark?**
Our aim for returns on capital has been based on 'pub EBITDA' returns of 20% on freehold pubs and 30% on leasehold pubs, since the inception of the company. Pub EBITDA excludes depreciation, interest, head office costs and taxation, so overall returns are significantly lower than pub EBITDA returns.

39. **Property opportunities - could we expand the pub estate markedly? Where are we seeing the opportunities at the moment?**
Since the last recession, as indicated above, we've increased sales by around £1bn, much of it relating to new properties. We hope to at least match this performance in the future, although that will clearly be a significant challenge, with more emphasis on expanding successful existing pubs into first floor areas, car parks and so on. Please see reply to question 13 above.

40. Would we be interested in expanding the number of pubs in central London?
We're having a look, but property prices still seem relatively high and are perhaps not yet reflecting the increase in working from home, which may reduce central London sales, as we think has happened in central Sydney, Australia, for example.

41. How do we think about assigning target sales to potential new sites?
In general, we approve new sites if we can achieve the 20% and 30% pub EBITDA targets, referred to in question 38 above. In assessing future sales levels, we look at local residential populations, the numbers of 'shoppers' using shops in the vicinity and we take into account other facilities, such as railway stations, car parks, tourist attractions and so on. We also try to 'sense-check' our projections against our existing pubs in similar locations.

42. What's our attitude towards LH and FH pub openings over the next few years – has this changed?
Wetherspoon has achieved good returns in respect of both tenures. Our strong preference has been for freeholds, but we will look for leaseholds in certain circumstances e.g. railway stations, airports and shopping centres.

43. You own 64.5% freehold now. Where do we see this percentage settling?
It all depends on price. We hope to be in the market to buy freehold reversions at a reasonable price. If future expansion is outside major city centres, the freehold percentage may increase, but some pubs may never be available as a freehold.

44. What do we think we might do with the first bit of FCF we get when we reopen – is it return to shareholders or investment in the estate?
The answer partly depends on the economic climate and the opportunities for new investment. 'Flexible response' is the short answer.

45. Any M&A that you're considering? Or will growth come through site-by-site acquisitions?
Site by site has always been our modus operandi.

46. Talk about existing estate expansion – does this mean that these pubs are at capacity? How do we measure the prospects for such development?
As indicated above, in a sense, no pub ever reaches capacity. Some of our busiest pubs have continued to increase sales for many years. Sometimes customers vary their times of attendance, for example, visiting on a Monday afternoon rather than a Saturday evening, in order to avoid capacity problems. Having said that, as indicated above, we feel that adding physical capacity to successful existing pubs will play a bigger part in our growth plans in the future.

47. Are there white spaces around the UK where there are no Wetherspoon pubs around? What is our view on the maximum number of pubs in the UK?
Yes, there are desirable locations in which we are not represented. As indicated above, we estimate that the scope for the future is between 100-200 new pubs.

48. Are we seeing any opportunities at airports?
There are opportunities, but these sorts of sites tend to be expensive and the pandemic has cast doubt on future returns, so the jury is out.

49. Are we able to open more than 10-15 pubs a year? Could it be more like 30-40?
We've opened 100 a year in the past and opened 30-40 following the last recession. However, we are now represented in a higher percentage of the desirable areas, so a higher percentage of growth is likely to be from the enlargement of existing pubs.

Other

50. ESG – can you summarise what you are doing as a company.

The initiatives we have taken in respect of employee engagement and conditions have been briefly summarised in the response to question 29 above and in the link to the article in Wetherspoon News.

As regards environmental matters, it is the company's aim to increasingly minimise our environmental impact, through reduced energy consumption, emissions, effluents and waste. We are working on a 'net-zero' carbon reduction plan and will publish more details of this in due course.

As regards corporate governance, we have written extensively about this in our annual reports. 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 non-compliance. Wetherspoon has always explained its approach and 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.

51. Are we thinking about adding delivery as an option?

The old adage for pubs is 'bums on seats'. We keep an open mind, but feel it will be more advantageous to concentrate on on-trade sales than deliveries, although we know that some restaurant companies, in particular, have made a great success from home deliveries.

52. How do we feel fruit machine income might recover over the next year?

Fruit/slot machine sales have decreased from around 7% of overall sales 25 years ago to 3% in 2019, as food sales, in particular, have increased. Fruit machine sales are quite sensitive to government legislation, for example the size of the jackpot, and also to the impact of new games created by machine suppliers. The reality may be a continued slow decline of fruit machine sales relative to overall sales.