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HIS ROYAL HIGHNESS THE PRINCE OF WALES
SUPPLIER OF SPECIALIST ORDERS
SHEPHERD NEAME LTD
FAVERSHAM KENT



1698
300 YEARS

BRITAIN'S OLDEST BREWER



SHEPHERD NEAME LIMITED
INTERIM REPORT 2014



TURNOVER

2014

£73.5_m

2013

£72.5_m

OPERATING PROFIT BEFORE
EXCEPTIONALS

2014

£7.1_m

2013

£6.8_m

STATUTORY PROFIT BEFORE TAX

2014

£5.0_m

2013

£4.1_m

BASIC EARNINGS PER SHARE
BEFORE EXCEPTIONALS¹

2014

25.2_p

2013 as restated²

24.9_p

DIVIDEND PER SHARE

2014

5.30_p

2013

5.15_p

NET ASSETS PER SHARE³

2014

£8.72

2013 as restated⁴

£8.54

- 1 Earnings attributable to shareholders before exceptional items divided by the weighted average number of shares in issue during the period. The number of shares in issue during the period excludes those held by the Company and not allocated to employees under the Share Incentive Plan, which are treated as cancelled.
- 2 In 2013 the issued share capital of the company was 11,457,500 'A' shares of £1 and 68,000,000 'B' shares of 2 pence. Following the share capital reorganisation in June 2014 the revised share capital is 14,857,500 ordinary shares of 50p. The comparative has been restated having been previously reported at 28.9p.
- 3 Net assets at the balance sheet date divided by the number of shares in issue being 14,857,500 50p shares.
- 4 The comparative has been restated for the share capital reorganisation. The comparative previously reported was £9.89 based on 12,817,500 £1 shares.

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"WE ARE PURSUING A CONSISTENT STRATEGY TO BUILD THE QUALITY OF OUR PUB PORTFOLIO AND BRAND ASSETS."

M H TEMPLEMAN | CHAIRMAN

Results

I am pleased to report another good performance for the company for the 26 weeks to 27 December 2014.

The period is characterised by further strong trading in our managed houses, in particular the inns and hotels, and good like-for-like performance in the tenanted estate, offset by a small decline in total beer volume as the Kingfisher contract comes to an end.

These combined factors result in only modest turnover growth but a higher quality mix of pub revenues and greater share of own beer volume. The Board is focussed on investing in our pub and brand assets to drive higher returns and it is pleasing to note that operating margin before exceptional items increased by 0.3% to 9.7% during the period.

Turnover during the period increased by 1.5% to £73.5m (2013: £72.5m). Operating profit before exceptionals grew by 4.2% to £7.1m (2013: £6.8m) and statutory profit before tax is up 22.7% to £5.0m (2013: £4.1m). Basic earnings per ordinary share are up 15.6% to 26.7p (2013: 23.1p¹) and before exceptionals are up 1.2% to 25.2p, with the prior year benefiting from a lower than normal tax charge (2013: 24.9p¹).

During this period the economy has continued to recover and weather conditions have been favourable, both of which have helped sustain consumer expenditure. Trade benefited in particular from a warm September and strong Christmas trade. Those pubs which offer a great and memorable experience for the customer, with an interesting beer portfolio and a strong range of complementary products in food, wine and accommodation, have traded well in these circumstances.

Cash flow and investment

EBITDA² was £10.6m, up 4.0% (2013: £10.2m). Total cash invested in capital expenditure was £5.2m (2013: £4.6m).

This includes the acquisition of two pubs for £1.8m, which completed on 18 December 2014. The pubs are the Inn on the Pond, Nutfield, Surrey and The Ostrich, Colnbrook, near Heathrow. Both will be operated under management and will be further developed in due course. During the period we have realised proceeds of £0.7m (2013: £1.8m) from the disposal of two (2013: three) tenanted pubs and other assets. These have realised a property profit over net book value of £0.2m (2013: £0.2m). As a result of these cash movements, net debt stands at £72.2m (2013: £73.8m).

Dividend

The Board is proposing an interim dividend of 5.30p (2013: 5.15p), an increase of 2.9%. The dividend will be paid on 26 March 2015 to those shareholders on the register as at 13 March 2015.

Government and Regulation

During the period the Small Business, Enterprise and Employment Bill continued its passage through Parliament. The long running debate on the letting and operation of tied pubs by large pub companies, and the uncertainty arising from this, is now hopefully drawing to a close. Although some of the final terms of the Bill are not yet finalised, it now seems very likely that smaller companies, such as Shepherd Neame, with fewer than 500 tenanted or leased pubs will be exempt from the legislation, and so can feel sufficiently confident to continue to invest in this part of the business, as we have done in recent years. We will continue to support the existing Voluntary Code of Practice.

Operational Review

Tenanted and Retail Pub Operations

At the half year we operated 347 pubs (2013: 348) of which 297 (2013: 301) are tenanted or leased and 50 (2013: 47) managed. In the period we have acquired two managed houses, transferred one from tenancy to management, disposed of two tenanted pubs and transferred one pub from management to tenancy.

¹ Prior year comparatives have been restated for the share capital reorganisation.

² EBITDA: Earnings before exceptional items, interest, tax, depreciation, amortisation, profit or loss on sale of fixed assets (excluding property) and free trade loan discounts.

We aim to drive footfall to our pubs and attract the best licensees through improving the quality of our pub estate, growing the mix of our retail business, maintaining strong liquor businesses and increasing our investment in food and accommodation.

In the tenanted estate like-for-like EBITDAR³ grew by 3.4% (2013: +1.5%) as our investment programme has maintained momentum. Average EBITDAR per pub has grown by 4.0% (2013: +4.4%) as the quality and profile of our estate improves.

During the period we carried out a number of notable investments in the tenanted and leased estate, including the Railway Telegraph, Forest Hill, the New Inn, Murston and the Rose Inn at Kennington, as well as many smaller developments. We have continued to increase the rate of external and internal redecoration.

Managed houses like-for-like sales grew by 6.8% (2013: +7.5%) which is another excellent performance after a number of years of strong growth. This demonstrates the benefit of sustained investment in our outlets, in particular to exploit the opportunities in the eating out and accommodation markets. Our strongest growing revenue stream was accommodation at +14.5% (2013: +8.8%), with food +7.8% (2013: +8.4%) and liquor enjoying creditable growth of +4.9% (2013: +6.8%).

A key focus for investment in recent years has been to maximise the potential of our inns and hotels. The Botany Bay Hotel was a major development in 2014 and has performed well since reopening in April 2014. Our key focus this year is the major redevelopment of the Royal Wells Hotel in Tunbridge Wells which closed in January 2015 and is scheduled to re-open in May 2015 following a £2.4m investment, our largest ever investment in a single site. We have also added four bedrooms at the Sun Inn, Faversham by converting the adjoining cottage and continued our ongoing bedroom refurbishment programme within the estate.

Brewing and Brands

Over the last two years the Beer Business has faced the challenge of substantial increases in costs to treat our trade effluent whilst focussing our plant on the production of our own beers and managing the phased exit of the Kingfisher contract. As a response to this, the Board carried out a business reorganisation, introduced a number of brand initiatives and developed our portfolio,

which are proving to be successful. As at December 2014 Kingfisher beer was brewed for the last time and this transition is now complete.

Total company beer volume for the period declined by -3.7% (2013: +4.1%). Excluding contract volumes, our core own and licensed beer portfolio grew by +1.0% against a strong comparative year (2013: +12.8%). We have continued to grow our national brand presence with a strong performance in on and off trade. Export sales however have not met our expectations in the US and Canada.

Our Whitstable Bay range has performed very strongly and we are very pleased with the response to the new addition to the range, Whitstable Bay Black Oyster Stout. Our Heritage range, including Bishops Finger, has also performed well in bottle. Asahi and Sam Adams Boston Lager have continued their strong growth trajectory. As part of the continuing modernisation of our brand portfolio we have re-launched Master Brew with a new look, celebrating its heritage as 'The Original Kentish Ale'.

Summary

We believe the business is in a strong position to benefit from further improvements in the economy. However we remain cautious about political and economic uncertainty that may arise from the General Election in May 2015. The strong trading performance and relatively favourable economic conditions in the last six months have enabled the company to drive our strategy of increasing investment in our pubs and improving services for our licensees so as to drive footfall to our pubs. At the same time we continue to improve the quality and distribution of our beer portfolio.

Taken together we are pursuing a consistent strategy to build the quality of our pub portfolio and brand assets. The evidence of the success of this long-term view is seen in the financial performance in this period.



M H Templeman Chairman
4 March 2015

³EBITDAR – Pub earnings before interest, tax, depreciation, amortisation and rent payable.

PROFIT AND LOSS ACCOUNT 26 WEEKS ENDED 27 DECEMBER 2014

	Unaudited 26 weeks ended 27 December 2014 £'000	Unaudited 26 weeks ended 28 December 2013 £'000	Audited 52 weeks ended 28 June 2014 £'000
Turnover	73,531	72,459	138,679
Operating charges before exceptional items	(66,430)	(65,647)	(125,278)
Operating profit before exceptional items	7,101	6,812	13,401
Operating exceptional items (note 3)	-	(526)	(1,279)
Operating profit	7,101	6,286	12,122
Profit on sale of property	215	183	224
Profit on ordinary activities before interest	7,316	6,469	12,346
Interest receivable and similar income	4	9	25
Interest payable and similar charges	(2,272)	(2,363)	(4,647)
Profit on ordinary activities before taxation	5,048	4,115	7,724
Taxation (note 4)	(1,121)	(705)	(1,546)
Profit after taxation	3,927	3,410	6,178
Earnings per 50p ordinary share* (note 5)			
Basic	26.7p	23.1p	41.9p
Basic before exceptional items	25.2p	24.9p	48.5p
Diluted	26.4p	22.9p	41.6p

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES 26 WEEKS ENDED 27 DECEMBER 2014

There are no recognised gains or losses other than the profit attributable to the shareholders of the Company of £3,927,000 for the 26 weeks ended 27 December 2014 (26 weeks ended 28 December 2013: £3,410,000 and 52 weeks ended 28 June 2014: £6,178,000).

*Comparatives for the 26 weeks ended 28 December 2013 have been restated for the share capital reorganisation, which is set out in the statutory accounts for the 52 weeks ended 28 June 2014.

	Unaudited 27 December 2014 £'000	Unaudited 28 December 2013 £'000	Audited 28 June 2014 £'000
Fixed assets			
Tangible fixed assets	202,503	201,400	201,591
Investments and loans	891	1,164	1,073
	203,394	202,564	202,664
Current assets			
Stock	6,234	5,796	6,417
Debtors	21,469	19,594	18,202
Cash	5,359	3,597	5,981
	33,062	28,987	30,600
Creditors: amounts falling due within one year			
Bank loans	(1,994)	-	(1,987)
Creditors	(25,782)	(23,564)	(23,477)
	(27,776)	(23,564)	(25,464)
Net current assets	5,286	5,423	5,136
Total assets less current liabilities	208,680	207,987	207,800
Creditors: amounts falling due after more than one year			
Bank loans	(75,532)	(77,383)	(75,463)
Provision for liabilities	(3,518)	(3,772)	(3,586)
Net assets	129,630	126,832	128,751
Capital and reserves			
Called up share capital	7,429	12,818	7,429
Share premium account	1,099	1,439	1,099
Revaluation reserve	12,967	13,131	13,125
Reserve for own shares held	(606)	(548)	(908)
Profit and loss account	108,741	99,992	108,006
Equity shareholders' funds	129,630	126,832	128,751

These financial statements have not been audited (see note 1).

	Unaudited 26 weeks ended 27 December 2014 £'000		Unaudited 26 weeks ended 28 December 2013 £'000		Audited 52 weeks ended 28 June 2014 £'000
Net cash inflow from operating activities (note a)	10,358		11,891		22,437
Returns on investment and servicing of finance					
Interest paid	(2,243)	(1,344)	(3,584)		
Interest received	4	9	25		
	(2,239)	(1,335)	(3,559)		
Taxation paid	(1,135)	(411)	(1,458)		
Capital expenditure and financial investment					
Purchase of tangible fixed assets	(5,157)	(4,561)	(8,819)		
Proceeds of sales of tangible fixed assets	735	1,751	2,217		
Additional loans to customers	(16)	(70)	(210)		
Customer loan redemptions	121	19	152		
	(4,317)	(2,861)	(6,660)		
Equity dividends paid	(3,074)	(2,576)	(3,236)		
Net cash (outflow)/inflow before financing	(407)	4,708	7,524		
Financing					
Purchase of own shares	(215)	-	(432)		
Reclassification to reflect maturity	-	-	(1,987)		
Movement in cash during the period	(622)	4,708	5,105		

a Reconciliation of operating profit to net cash inflow from operating activities

	Unaudited 26 weeks ended 27 December 2014			Unaudited 26 weeks ended 28 December 2013	Audited 52 weeks ended 28 June 2014
	Before exceptional items £'000	Exceptional items £'000	Total £'000	£'000	£'000
Operating profit	7,101	-	7,101	6,286	12,122
Depreciation and amortisation	3,374	-	3,374	3,306	6,708
Impairment provision	-	-	-	-	45
Charge for share-based payments credited to reserves	241	-	241	196	439
Decrease/(increase) in stocks	183	-	183	(6)	(627)
(Increase)/decrease in debtors and prepayments	(3,242)	-	(3,242)	(821)	582
Increase/(decrease) in creditors and accruals	3,153	(597)	2,556	2,841	2,818
Free trade loan discounts	64	-	64	84	162
Loss on sale of assets (excluding property)	81	-	81	5	188
	3,854	(597)	3,257	5,605	10,315
Net cash inflow from operating activities	10,955	(597)	10,358	11,891	22,437

b Reconciliation of cash flows to movement in net debt

	Unaudited 26 weeks ended 27 December 2014 £'000	Unaudited 26 weeks ended 28 December 2013 £'000	Audited 52 weeks ended 28 June 2014 £'000
Opening cash and overdraft	3,994	(1,111)	(1,111)
Closing cash and overdraft	3,365	3,597	3,994
(Decrease)/increase in cash during the period	(629)	4,708	5,105
Reclassification to reflect maturity	-	-	1,987
Amortisation of loan issue costs	(69)	(81)	(148)
Movement in net debt during the period	(698)	4,627	6,944
Net debt at beginning of the period	(71,469)	(78,413)	(78,413)
Net debt at end of the period	(72,167)	(73,786)	(71,469)

c Analysis of changes in net debt

	June 2014 £'000	Cash flow £'000	Amortisation of issue costs £'000	December 2014 £'000
Cash	5,981	(622)	-	5,359
Debt due within one year	(1,987)	-	(7)	(1,994)
	3,994	(622)	(7)	3,365
Debt due after more than one year	(75,463)	-	(69)	(75,532)
Total	(71,469)	(622)	(76)	(72,167)

1 Interim statement

The financial information contained in this interim statement, which is unaudited, does not constitute statutory accounts as defined in S435 of the Companies Act 2006. Statutory accounts for the 52 weeks ended 28 June 2014, upon which the auditors issued an unqualified opinion, have been delivered to the Registrar of Companies.

2 Accounting policies

The interim accounts have been prepared on the basis of the accounting policies set out in the statutory accounts for the 52 weeks ended 28 June 2014.

3 Operating exceptional items

There were no operating exceptional items in the current period. The £526,000 expense in the 26 weeks ended 28 December 2013 related to business reorganisation charges, principally in respect of redundancy and other staff costs. The £1,279,000 expense in the 52 weeks ended 28 June 2014 also included £708,000 of share capital restructure legal and professional fees, stationery and printing costs, of which £597,000 was paid in the current period, and a net £45,000 impairment provision in respect of tangible fixed assets.

4 Taxation

	27 December 2014 £'000	28 December 2013 £'000	28 June 2014 £'000
Corporation tax	1,189	1,076	2,146
Deferred tax	(68)	(371)	(600)
	1,121	705	1,546

Taxation before exceptional items has been provided at 23% (2013: 26%) based on the estimated effective tax rate for the 52 weeks to 27 June 2015. The average statutory rate of corporation tax for the 52 weeks to 27 June 2015 is 20.75% (52 weeks to 28 June 2014: 22.50%).

5 Earnings per share

The earnings per share are calculated on profit after taxation of £3,927,000 (2013: £3,410,000) and on 14,733,000 shares (2013: 14,762,000) being the weighted average number of ordinary shares in issue during the period, adjusted for shares held in respect of employee incentive plans and options. The diluted earnings per share are calculated on the average number of shares in issue during the period adjusted by 127,000 shares (2013: 105,000).

The earnings per share before exceptional items are calculated on profit after tax and before exceptional items of £3,712,000 (2013: £3,673,000), being profit after tax of £3,927,000 (2013: £3,410,000) adjusted for operating exceptional charges after taxation of nil (2013: £408,000) and less profit on sale of property after tax of £215,000 (2013: £145,000).

6 Dividends

	27 December 2014 £'000	28 December 2013 £'000	28 June 2014 £'000
Declared and paid in the period			
50p ordinary shares			
Final dividend for 2014: 20.75p	3,074	–	–
	3,074	–	–
£1 "A" shares			
Final dividend for 2013: 20.15p	–	2,302	2,302
Interim dividend for 2014: 5.15p	–	–	590
	–	2,302	2,892
2p "B" shares			
Final dividend for 2013: 0.403p	–	274	274
Interim dividend for 2014: 0.103p	–	–	70
	–	274	344
Dividends paid	3,074	2,576	3,236

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