RNS Number : 1369W
Shepherd Neame Limited
21 April 2021

# SHEPHERD NEAME

# INTERIM RESULTS FOR THE 26 WEEKS TO 26 DECEMBER 2020

Shepherd Neame, Britain's Oldest Brewer and owner and operator of 316 high quality pubs in Kent and the South East, today announces results for the 26 weeks ended 26 December 2020.

**Financial performance to 26 December 2020**

· The period under review included strong trading during the summer months, followed by ever changing levels of restriction and finally enforced closure again from November. The disruption had a significant impact on the financial results

· Turnover was £55.3m (H1 2020[1]: £79.0m)

· Underlying operating loss[2] of (£3.6m) (H1 2020: £8.0m profit)

· Statutory loss before tax was (£7.2m) (H1 2020: £5.4m profit)

· Underlying basic loss per share[3] of (32.6p) (H1 2020: earnings of 33.1p)

**Financing and Financial Support**

· Bottled beer volume growth of +25.7% and tight cost control have restricted underlying monthly cash burn to c.£1.5m to £2m while pub estate was closed

· Net debt as at 27 March 2021 was £96.5m (27 June 2020: £84.4m) giving headroom of £36.0m

· New waivers agreed with lenders on 20 April 2021. Normal covenant tests relaxed through to September 2022, replaced with minimum liquidity covenant. Ample liquidity for foreseeable future

**Reopening our pubs**

· Over 200 pubs gardens reopened on 12 April 2021. All pubs will be open on 17 May 2021. Initial trade levels are encouraging

· Targeted investment programme to optimise gardens and outside space and to maintain high standards of signage and decoration

· Strong marketing and social media push to drive footfall

Jonathan Neame, CEO of Shepherd Neame, said:

***"We are delighted and excited to have opened over 200 pub gardens on 12 April and look forward to reopening the rest of our pubs in May with increasing confidence. There is significant pent up demand in the economy and the desire to go out for a drink or a meal is as strong as ever. Initial trade has been most encouraging.***

***There are still many challenges to face and a long road to full recovery, but the balance sheet remains strong and we have ample liquidity.***

***The relationship with our licensees is excellent and our reputation for beer and pubs is strong. We look forward with confidence to returning Shepherd Neame back to growth."***

21 April 2021

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## CHAIRMAN'S STATEMENT

In reporting figures which are the most difficult in the Company's history, we nonetheless see bright sparks which give us plenty of optimism. The summer showed that people long to get back to pubs. We expect strong demand from our customers as we reopen. On 12 April we opened over 200 pubs out of 316 in our estate for outside trade and early demand has been encouraging. We are fortunate that such a high percentage of our estate has outside space to take advantage of the initial stage of opening. Our relations with licensees are good. We are raring to go.

In the last year the management team has had to adapt constantly to changes in circumstances. There has been a twin focus on getting through short-term adversity and recovering to flourish in the long-term.

This winter has been particularly tough on all our team members. We have done what we can to help them through this period with support for wellbeing and mental health. The Board is most grateful for, and impressed by, the resilience of our people. The spirit of Shepherd Neame is alive and well and will drive us to a new and successful chapter in our long history.

We remain grateful for the support of our customers, the hard work and determination of all our licensees, and the patience of shareholders who have given support and encouragement in spite of the immediate impact of COVID-19 and lockdown on their dividend and on the value of their shareholdings. We will strive to see that the Company rewards the faith of all its stakeholders.

### BOARD OF DIRECTORS

Kevin Georgel was appointed to the Board at the Annual General Meeting in December, following the retirement of Miles Templeman. Miles had been chairman since 2005 and we have been grateful for his calm and wise leadership and counsel over the years, not least during the current crisis. Kevin, as chief executive of St Austell Brewery Company, is a leading figure in the industry and we are already grateful for the contribution he is making to the Board.

Glenda Flanagan has been appointed Company Secretary, ahead of Robin Duncan retiring in June 2021, and we are currently recruiting a new Head of People.

**AUDIT AND ACCOUNTING STANDARDS**

As indicated in our last Annual Report, we are making the transition from FRS 102 accounting standards to IFRS standards. We had intended to move to IFRS with these interim figures; in order to contain costs at a critical time, we decided to postpone this change until the year-end when the full year set of accounts will be prepared under IFRS. We remain committed to strong standards of governance of which the move to IFRS is an example.

We continually review aspects of our activities in which we could do better and have commenced a tender process for our audit which will be concluded by the year end.

**DIVIDEND**

Given the impact of the series of lockdowns on the business, we are not in a position to declare an interim or final dividend at the AGM in 2021. We remain acutely conscious of the importance that shareholders place on the dividend. We want to emphasise that we are intent on resuming distributions as soon as it is prudent to do so and that our planning for the future reflects this emphasis.

We have extended the shareholder offers that accompanied the full year results to enable shareholders to access them when pubs re-open.

**LOOKING FORWARD**

Our immediate focus is to welcome back our customers as restrictions are lifted and to resume the delivery of best in class hospitality. We are ready. We have a high quality estate of managed and leased pubs and well-loved beer brands. Our management team and our people, our greatest asset, will be even more determined to delight our customers on their return. Given the strength of the Company's management, assets and people throughout the organisation and the prospects for recovery and growth in its heartland, the Board is confident in the future.

**RICHARD OLDFIELD**
**Chairman**

## CHIEF EXECUTIVE'S REVIEW

**OVERVIEW**

At the time that we announced our full year results in early November 2020, we had just returned to lockdown after a good recovery over the summer months. Little did we know then that we would still be in lockdown through to April.

The resilience of the business is derived from our high quality freehold asset base and the three divisions of the business, each of which have their own financial and market characteristics. This has enabled us to maintain some revenue and cash generation even in these most trying of circumstances.

By the time we expect that pubs can re-open indoors on 17 May 2021, the majority of pubs will have been closed for a total of 297 days out of the preceding 423 days.

Inevitably this has had a severe impact on our numbers during this time.

**FINANCIAL RESULTS**

Turnover for the 26 weeks to 26 December 2020 fell to £55.3m (H1 2020: £79.0m), a decrease of 30.0%.

We recorded an underlying operating loss of (£3.6m) (H1 2020: profit £8.0m). Underlying basic loss per share was (32.6p) (H1 2020: earnings of 33.1p).

Statutory loss before tax was (£7.2m) (H1 2020: profit £5.4m).

No interim dividend will be paid (H1 2020: nil). Net assets per share[4] were £12.59 (at 28 December 2019: £14.07).

**FINANCING AND FINANCIAL SUPPORT**

The recovery plans we prepared for coming out of the first lockdown were inevitably undermined by the various different restrictions imposed on the business during the autumn 2020 and the subsequent lockdowns 2 and 3.

During the summer, we traded well and were cash positive, and so were able to pay down the liabilities we had deferred in agreement with HMRC. Since the further lockdowns, we have experienced an underlying monthly cash burn of between £1.5m and £2m. Net debt at the half year increased from £84.4m at 27 June 2020 to £92.4m at 26 December 2020 (H1 2020: £83.9m). Deferred liabilities decreased from £12.1m at 27 June 2020 to £4.1m at 26 December 2020. As a result total indebtedness[5] was the same at the end of December 2020, at £96.5m, as at the end of June 2020.

As at 27 March 2021, our net debt remains within our pre-COVID facility limits of £107.5m, at £96.5m, and we have not needed to use the additional £25m CLBILS (Coronavirus Large Business Interruption Loan Scheme) facility put in place in July 2020. As at 20 April 2021, we have renewed the arrangements with our banks who have agreed to relax normal covenant tests through to September 2022 to be replaced by a minimum liquidity covenant. As a result, we have sufficient liquidity to see our way out of this crisis and confidence that we can restore our financial health over the next 12 to 18 months.

We have supported our cash position by continuing with our programme of disposals of non-core assets, and have received good support from our landlords to manage our rental commitments. During the period, we have realised £1.2m from the sale of three pubs and three land holdings (H1 2020: £1.2m three pubs and three landholdings).

For the 26 weeks to 26 December 2020, we received a total of £5.7m in financial support from the Government, by way of Job Retention Scheme furlough payments, business grants and business rates relief.

The measures announced in the Budget in March 2021, were most welcome. Pubs will receive further business grants and furlough support through to September 2021 and an ongoing cut in business rates and VAT through to March 2022. These measures help to give us a strong platform from which to restore our balance sheet.

**OPERATIONS**

Throughout this crisis, we have focused on doing the right thing for our employees and for our licensees, and maintained tight cost control across the operations to protect the business. We have also reviewed all parts of our operation and used this time effectively to prepare the business to be stronger for the future.

We have been running at an average of 97% of our people on furlough, or flexi-furlough, with some doing one or two days per week to perform essential tasks.

We have continued to support our licensees by charging no rent during any period of enforced closure. As a consequence, almost all those licensees that were in our pubs at the start of the pandemic remain in situ and ready to re-open and rebuild their customer base, without a major financial burden overhanging them.

We are delighted to have scored so highly in the KAM Media industry benchmark survey of licensees, with improved ratings in almost every area including a high Net Promoter Score from our licensees. This is a testament

to the excellent relationships we enjoy with them.

The brewery has maintained bottling production throughout and enjoyed good sales through the grocery and export channels. Our online shop, whilst small, has also performed well. Bottled beer sales have been strong as they were through the first period of lockdown and total volume was up +25.7%. During the period, export sales were good, but these have fallen in January and February 2021, in line with all UK-EU trade since Brexit.

We have continued to maintain our pubs to meet health and safety compliance and plan to carry out a limited external decorations and signage programme as we move towards the summer. We also plan a targeted investment programme to improve the presentation of outside space at our pubs, as this has become a key feature in attracting customers.

In spite of the challenges imposed by working from home, we have continued to engage with our customers in all channels and communicate with them regularly on account matters and our plans for the future. We have secured some high profile new business over this period and will re-open with a larger on-trade account base.

We have also spent the time preparing brand plans and marketing initiatives for the future. We have launched Noughty Bear 0.5% low alcohol beer and Truly Hard Seltzer, alcoholic sparkling water, part of the Boston Beer range.

We have made good progress developing our digital and online capability, with the roll out of mobile Order and Pay in our managed pubs, the launch of an online ordering system for our trade customers and further progress in aligning all customer data.

Underpinning our strategy is a drive to do the right thing for our communities and the environment. We have made progress during this year against our objectives and will continue to develop this agenda through the remainder of the financial year.

The strength and core purpose of our business lies in the deep roots we have within our individual communities. During the year in which pub life has been largely missing, people have appreciated all the more how much pubs are at the heart of their communities.

We aim to build on these connections to strengthen the relationship we have with our customers. In this regard, we have retained a high profile throughout the pandemic and succeeded in growing our audience materially on social media networks. We have kept licensees and team members throughout the Company connected as best as possible by remaining active in our communications and providing updates and guidance.

**ACHIEVING RECOGNITION**

Even though our pubs have been closed for much of last year, our efforts have been recognised in many different spheres.

We were finalists for the second year running in the 2021 Publican Awards as Best Tenanted/Leased Pub Company. Sarah Simmonds, licensee of the Three Mariners at Oare, was shortlisted for Outstanding Industry Contribution. We also won six awards at the International Beer Awards 2020, and were named as Brewery of the Year 2021 by the Good Pub Guide.

These are all significant accolades and show that the team continues to perform exceptionally well and meet the highest standards in spite of the enormous pressures on the business.

**RESTRICTIONS AND ROADMAP TO RE-OPENING**

At the end of last summer, we were buoyed by the positive response we had received from our customers after opening on 4 July, and in particular by comments on how safe they felt in our pubs. We were disappointed, therefore, by the increasing restrictions imposed on hospitality, culminating in lockdowns 2 and 3. Powerful

arguments were made not to distinguish between Hospitality and Non-Essential Retail, but they were not accepted.

On 22 February 2021, it was announced that we could open our pubs for outdoor service no earlier than 12 April and for indoor service no earlier than 17 May.

Although these dates are later than we may have wished for, this gives us welcome clarity on the roadmap out of this crisis, such that we can re-mobilise our teams with a degree of certainty.

**THE FUTURE**

We are delighted to have opened over 200 pub gardens on 12 April, two thirds of our estate, and look forward to reopening the rest of our pubs in May with great excitement and with increasing confidence.

Many customers have returned to our pubs in the first week to enjoy great hospitality in a relaxed and safe environment. Although it is early days, trade levels so far have been above expectation.

We can now move forward to focus again on our core operations. Our teams did an excellent job last summer. The experience our customers received then exceeded their expectations, and the trading levels we enjoyed exceeded ours.

There is significant pent up demand in the economy. The consumer savings ratio is at high levels, and all indications are that the demand for events, for festivals, for live sport, for going out for a meal and for socialising with friends is as strong as ever. Furthermore, with the ongoing restrictions in place on international travel, most people will choose to holiday in the UK this year. As a result, we believe that our recovery will be strong through late summer and autumn 2021.

There are still many challenges to face before the pandemic is over, and there is a long road to full financial recovery. But we can now say with a degree of certainty that that recovery will come. Further, as a consequence of the actions we have taken over the last year to protect our pubs and our people, our reputation is as strong as ever and our brand recognition is high. We have every reason to believe that we will benefit from this goodwill towards the Company and our licensees.

**JONATHAN NEAME**
**Chief Executive**

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

**26 weeks ended 26 December 2020**

| | | **Unaudited 26 weeks ended 26 December 2020** | | | Unaudited 26 weeks ended 28 December 2019 | | | Audited 52 weeks ended 27 June 2020 |
|---|---|---|---|---|---|---|---|---|
| | note | **Underlying Results £'000** | **Items excluded from underlying results £'000** | **Total Statutory £'000** | Underlying Results £'000 | Items excluded from underlying results £'000 | Total Statutory £'000 | Total Statutory £'000 |
| **Turnover** | 4 | **55,321** | **-** | **55,321** | 79,035 | - | 79,035 | 123,619 |
| Operating charges | | **(58,925)** | **(1,015)** | **(59,940)** | (71,020) | (648) | (71,668) | (131,757) |
| **Operating (loss)/profit** | 4 | **(3,604)** | **(1,015)** | **(4,619)** | 8,015 | (648) | 7,367 | (8,138) |
| Finance costs | 3,5 | **(2,212)** | **(202)** | **(2,414)** | (1,843) | - | (1,843) | (4,042) |
| Fair value movements on financial instruments charged to profit and loss | 3,5 | **-** | **(87)** | **(87)** | - | (112) | (112) | 35 |
| Net finance costs | 3,5 | **(2,212)** | **(289)** | **(2,501)** | (1,843) | (112) | (1,955) | (4,007) |
| Profit/(loss) on disposal of property | 3 | **-** | **37** | **37** | - | 280 | 280 | (6) |
| Investment property fair value movements | 3 | **-** | **(114)** | **(114)** | - | (297) | (297) | 50 |
| **(Loss)/profit before taxation** | | **(5,816)** | **(1,381)** | **(7,197)** | 6,172 | (777) | 5,395 | (12,101) |
| Taxation | 6 | **1,003** | **262** | **1,265** | (1,297) | 104 | (1,193) | 351 |
| **(Loss)/profit after taxation** | | **(4,813)** | **(1,119)** | **(5,932)** | 4,875 | (673) | 4,202 | (11,750) |

| | | | | |
|---|---|---|---|---|
| **(Loss)/earnings per 50p ordinary share** | 7 | | | |
| Basic | | **(40.2)p** | 28.5p | (79.8)p |
| Diluted | | **(40.2)p** | 28.3p | (79.8)p |
| Underlying basic | | **(32.6)p** | 33.1p | (17.8)p |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

**26 weeks ended 26 December 2020**

| | **Unaudited 26 weeks ended 26 December 2020** | Unaudited 26 weeks ended 28 December 2019 | Audited 52 weeks ended 27 June 2020 |
|---|---|---|---|
| | **£'000** | £'000 | £'000 |
| **(Loss)/profit after taxation** | **(5,932)** | 4,202 | (11,750) |
| Gains/(losses) arising on cash flow hedges during the period | **625** | 426 | (96) |
| Gains arising on revaluation of tangible fixed assets | **15** | - | 17 |
| Tax relating to components of other comprehensive income | **(119)** | (83) | (490) |
| **Other comprehensive gains/(losses)** | **521** | 343 | (569) |
| **Total comprehensive (loss)/income** | **(5,411)** | 4,545 | (12,319) |

# CONSOLIDATED BALANCE SHEET

**As At 26 December 2020**

| | **Unaudited 26 December 2020** | Unaudited 28 December 2019 | Audited 27 June 2020 |
|---|---|---|---|
| | **£'000** | £'000 | £'000 |
| **Fixed assets** | | | |
| Intangible fixed assets | **490** | 775 | 557 |
| Tangible fixed assets | **305,807** | 317,019 | 309,363 |
| Investments and loans | **5** | 6 | 5 |
| | **306,302** | 317,800 | 309,925 |
| **Current assets** | | | |
| Stocks | **6,145** | 8,004 | 8,230 |
| Debtors | **12,274** | 15,999 | 9,968 |
| Deferred tax asset | **1,235** | 975 | 1,354 |
| Cash at bank and in hand | **63** | 3,270 | 9,861 |
| | **19,717** | 28,248 | 29,413 |
| **Creditors: amounts falling due within one year** | | | |
| Bank loans and overdrafts | **(92,483)** | - | (94,262) |
| Creditors | **(21,703)** | (26,474) | (27,846) |
| | **(114,186)** | (26,474) | (122,108) |
| **Net current (liabilities)/assets** | **(94,469)** | 1,774 | (92,695) |
| **Total assets less current liabilities** | **211,833** | 319,574 | 217,230 |
| **Creditors: amounts falling due after more than one year** | | | |
| Bank loans | **-** | (87,211) | - |
| Derivative financial instruments | **(6,591)** | (6,739) | (7,107) |
| Deferred lease liability | **(2,766)** | (2,620) | (2,693) |
| Provisions for liabilities | **(15,460)** | (13,956) | (15,184) |
| **Net assets** | **187,016** | 209,048 | 192,246 |

| | | | |
|---|---|---|---|
| **Capital and reserves** | | | |
| Called-up share capital | **7,429** | 7,429 | 7,429 |
| Share premium account | **1,099** | 1,099 | 1,099 |
| Revaluation reserve | **69,637** | 71,394 | 70,409 |
| Own shares | **(1,031)** | (1,367) | (1,328) |
| Hedging reserve | **(4,457)** | (4,647) | (4,963) |
| Profit and loss account | **114,339** | 135,140 | 119,600 |
| **Equity shareholders' funds** | **187,016** | 209,048 | 192,246 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**26 weeks ended 26 December 2020**

| | Called-up share capital £'000 | Share premium account £'000 | Revaluation reserve £'000 | Own shares £'000 | Hedging reserve £'000 | Profit and loss account £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| **Balance at 27 June 2020** | **7,429** | **1,099** | **70,409** | **(1,328)** | **(4,963)** | **119,600** | **192,246** |
| Loss for the period | - | - | - | - | - | (5,932) | (5,932) |
| Gains arising on cash flow hedges during the period | - | - | - | - | 625 | - | 625 |
| Gains on revaluation of fixed assets | - | - | 15 | - | - | - | 15 |
| Tax relating to components of other comprehensive income | - | - | - | - | (119) | - | (119) |
| **Total comprehensive income/(loss)** | **-** | **-** | **15** | **-** | **506** | **(5,932)** | **(5,411)** |
| Revaluation reserve realised on disposal of properties | - | - | (787) | - | - | 787 | - |
| Accrued share-based payments | - | - | - | - | - | 176 | 176 |
| Distribution of own shares | - | - | - | 104 | - | (99) | 5 |
| Unconditionally vested share awards | - | - | - | 193 | - | (193) | - |
| **Balance at 26 December 2020** | **7,429** | **1,099** | **69,637** | **(1,031)** | **(4,457)** | **114,339** | **187,016** |

| | Called-up share capital £'000 | Share premium account £'000 | Revaluation reserve £'000 | Own shares £'000 | Hedging reserve £'000 | Profit and loss account £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| **Balance at 29 June 2019** | **7,429** | **1,099** | **71,858** | **(1,551)** | **(4,990)** | **134,252** | **208,097** |
| Profit for the period | - | - | - | - | - | 4,202 | 4,202 |
| Gains arising on cash flow hedges during the period | - | - | - | - | 426 | - | 426 |
| Tax relating to components of other comprehensive income | - | - | - | - | (83) | - | (83) |
| **Total comprehensive income** | **-** | **-** | **-** | **-** | **343** | **4,202** | **4,545** |
| Ordinary dividends paid | - | - | - | - | - | (3,573) | (3,573) |
| Revaluation reserve realised on disposal of properties | - | - | (464) | - | - | 464 | - |
| Accrued share-based payments | - | - | - | - | - | 256 | 256 |
| Purchase of own shares | - | - | - | (290) | - | - | (290) |
| Distribution of own shares | - | - | - | 314 | - | (301) | 13 |
| Unconditionally vested share awards | - | - | - | 160 | - | (160) | - |
| **Balance at 28 December 2019** | **7,429** | **1,099** | **71,394** | **(1,367)** | **(4,647)** | **135,140** | **209,048** |

# CONSOLIDATED CASH FLOW STATEMENT

**26 weeks ended 26 December 2020**

| **Unaudited 26 weeks ended 26 December 2020** | Unaudited 26 weeks ended 28 December 2019 | Audited 52 weeks ended 27 June 2020 |
|---|---|---|

| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
|---|---|---|---|---|---|---|
| **Net cash flows from operating activities (note 9)** | | **(4,589)** | | 10,347 | | 15,253 |
| **Cash flows from investing activities** | | | | | | |
| Proceeds of sale of tangible fixed assets | **1,179** | | 1,230 | | 1,752 | |
| Purchase of tangible fixed assets | **(2,257)** | | (7,985) | | (12,025) | |
| Purchase of intangible fixed assets | **-** | | (92) | | (92) | |
| Customer loan redemptions | **1** | | 1 | | 2 | |
| Acquisition of subsidiaries | **-** | | (151) | | (151) | |
| **Net cash flows from investing activities** | | **(1,077)** | | (6,997) | | (10,514) |
| **Cash flows from financing activities** | | | | | | |
| Dividends paid | **-** | | (3,573) | | (3,573) | |
| Interest paid | **(2,306)** | | (1,413) | | (3,211) | |
| Repayment of loans | **(3,000)** | | - | | - | |
| New loans | **-** | | 6,000 | | 13,000 | |
| Purchase of own shares | **-** | | (290) | | (290) | |
| Share option proceeds | **5** | | 13 | | 13 | |
| **Net cash flows from financing activities** | | **(5,301)** | | 737 | | 5,939 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(10,967)** | | 4,087 | | 10,678 |
| **Cash and cash equivalents at beginning of the period** | | **9,861** | | (817) | | (817) |
| **Cash and cash equivalents at end of the period** | | **(1,106)** | | 3,270 | | 9,861 |

# NOTES TO THE ACCOUNTS

**26 December 2020**

### 1 INTERIM STATEMENT

The financial information contained in this interim statement, which is unaudited, does not constitute statutory accounts as defined in s434 of the Companies Act 2006. Statutory accounts for the 52 weeks ended 27 June 2020, upon which the auditors issued an unqualified opinion, have been filed with the Registrar of Companies. The financial information comprises the results of Shepherd Neame Limited (the Company) and its subsidiaries (the Group).

### 2 ACCOUNTING POLICIES

The consolidated interim accounts have been prepared under FRS 104 Interim Financial Reporting and on the basis of the accounting policies set out in the statutory accounts for the 52 weeks ended 27 June 2020.

### 3 NON-GAAP REPORTING MEASURES

Certain items recognised in reported profit or loss before tax can vary significantly from year to year and therefore create volatility in reported earnings which does not reflect the underlying performance of the Group. The Directors believe that the "underlying operating profit", "underlying profit before tax", "underlying basic earnings per share", "underlying earnings before interest, tax, depreciation, and amortisation" presented, provide a clear and consistent presentation of the underlying performance of ongoing business for shareholders. Underlying profit is not defined by FRS 102 and therefore may not be directly comparable with the "adjusted" profit measures of other companies. The adjusted items are:

- Profit or loss on disposal of properties;
- Investment property fair value movements;
- Operating and finance charges which are either material or infrequent in nature and do not relate to the underlying performance; and
- Fair value movements on financial instruments charged to profit and loss.

| | **Unaudited 26 weeks ended 26 Dec 2020 £'000** | Unaudited 26 weeks ended 28 Dec 2019 £'000 | Audited 52 weeks ended 27 June 2020 £'000 |
|---|---|---|---|
| **Underlying EBITDA[6]** | **531** | 12,198 | 9,656 |
| Depreciation and amortisation | **(4,114)** | (4,167) | (8,493) |
| Free trade loan discounts | **-** | (3) | (3) |
| Loss on sale of assets (excluding property) | **(21)** | (13) | (216) |

| | | | |
|---|---|---|---|
| **Underlying operating (loss)/profit** | **(3,604)** | 8,015 | 944 |
| Net underlying finance costs | **(2,212)** | (1,843) | (3,857) |
| **Underlying (loss)/profit before taxation** | **(5,816)** | 6,172 | (2,913) |
| | | | |
| Profit/(loss) on disposal of properties | **37** | 280 | (6) |
| Investment property fair value movements | **(114)** | (297) | 50 |
| Operating charges - items excluded from underlying results | **(1,015)** | (648) | (9,082) |
| Costs related to putting in place CLBILS loan | **(202)** | - | (185) |
| Ongoing fair value movements on financial instruments charged to profit and loss | **(87)** | (112) | 35 |
| **(Loss)/profit before taxation** | **(7,197)** | 5,395 | (12,101) |

Operating charges - items excluded from underlying results during the period comprises

a) An impairment charge of £417,000 in relation to six licensed properties.
b) A charge of £709,000 in respect of loss of office costs for redundancies made as a result of the COVID-19 pandemic.
c) A recovery of £111,000 in relation to previously disclosed unlawful activity carried out by an employee (see below).

Finance costs - items excluded from underlying results during the period comprises

a) £87,000 in respect of the ineffective portion of the movement in fair value of interest rate swaps.
b) £202,000 of fees in relation to putting in place a CLBILS loan to support liquidity following the COVID-19 outbreak.

During the 26 weeks ended 28 December 2019, operating charges - items excluded from underlying results, comprised

a) An impairment charge of £156,000 in respect of one property transferred from tenanted pubs to investment property in the period.
b) A one-off net charge of £492,000 relating to the correction of erroneous charges made against certain accounts as a result of unlawful action by one employee, acting independently.

   These entries were made in the period July 2008 to September 2019 and the majority of the charges related to previous accounting periods. Since the sums involved, although significant cumulatively, were not significant in any single year, and are not in aggregate material in the context of the Company's overall finances, the directors felt that it was appropriate to recognise the charge within items excluded from underlying results, during the period.

**3 NON-GAAP REPORTING MEASURES** CONTINUED

The gross value of the erroneous charges amounted to £861,000. However, this exposure was reduced by £369,000 in respect of the net write-off of associated debt not recovered by the Company in the prior accounting periods. The net balance represents repayments due.

The non-underlying finance charges for the 26 weeks ended 28 December 2019 comprised £112,000 in respect of the ineffective portion of the movement in fair value interest rate swaps.

For the 52 weeks ended 27 June 2020, the non-underlying operating charges comprised the amounts noted above for the correction of the erroneous charges along with interest of £107,000 and additional charges of £347,000 in respect of fees relating to this matter (total net charge £946,000). In addition, there was an impairment charge of £7,638,000 in relation to 26 licensed properties and a provision of £498,000 in respect of potential charges relating to an enquiry opened by HMRC relating to the provision of uniforms and training to employees.
The non-underlying finance charges for the 52 weeks ended 27 June 2020 comprise £185,000 for fees in relation to putting in place the CLBILS loan following the COVID-19 outbreak offset by £35,000 credited in respect of the ineffective portion of the movement in fair value interest rate swaps.

**4 SEGMENTAL REPORTING**

The Group has three operating segments, which are largely organised and managed separately according to the nature of the products and services provided and the profile of the customers:

- Brewing and Brands which comprises the brewing, marketing and sales of beer and other products;
- Managed Pubs; and
- Tenanted Pubs which comprises pubs operated by third parties under tenancy or tied lease agreements.

Transfer prices between operating segments are set on an arm's length basis.

| 26 weeks ended 26 December 2020 | Brewing and Brands £'000 | Managed Pubs £'000 | Tenanted Pubs £'000 | Unallocated £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Turnover** | **22,635** | **21,554** | **10,234** | **898** | **55,321** |
| Underlying operating (loss)/profit | (971) | (883) | 1,587 | (3,337) | (3,604) |
| Items excluded from underlying results | - | (321) | (96) | (598) | (1,015) |

| | | | | | |
|---|---|---|---|---|---|
| **Divisional operating (loss)/profit** | **(971)** | **(1,204)** | **1,491** | **(3,935)** | **(4,619)** |
| Net underlying finance costs | | | | | **(2,212)** |
| Finance costs excluded from underlying results | | | | | **(202)** |
| Fair value movements on ineffective element of cash flow hedges | | | | | **(87)** |
| Profit on disposal of property | | | | | **37** |
| Investment property fair value movements | | | | | **(114)** |
| **Loss before taxation** | | | | | **(7,197)** |
| **Other segment information** | | | | | |
| Capital expenditure - tangible and intangible fixed assets | 531 | 1,008 | 549 | 56 | **2,144** |
| Depreciation and amortisation | 827 | 1,705 | 1,364 | 218 | **4,114** |
| Underlying divisional EBITDA | (132) | 830 | 2,953 | (3,120) | **531** |
| Number of pubs | - | 69 | 232 | 15 | **316** |

| 26 weeks ended 28 December 2019 | Brewing and Brands £'000 | Managed Pubs £'000 | Tenanted Pubs £'000 | Unallocated £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Turnover** | **23,027** | **36,962** | **18,355** | **691** | **79,035** |
| Underlying operating profit | 366 | 5,353 | 6,690 | (4,394) | 8,015 |
| Items excluded from underlying results | - | - | (156) | (492) | (648) |
| **Divisional operating profit** | **366** | **5,353** | **6,534** | **(4,886)** | **7,367** |
| Net underlying finance costs | | | | | **(1,843)** |
| Fair value movements on ineffective element of cash flow hedges | | | | | **(112)** |
| Profit on disposal of property | | | | | **280** |
| Investment property fair value movements | | | | | **(297)** |
| **Profit before taxation** | | | | | **5,395** |
| **Other segment information** | | | | | |
| Capital expenditure - tangible and intangible fixed assets | 832 | 4,103 | 2,401 | 552 | **7,888** |
| Depreciation and amortisation | 842 | 1,724 | 1,324 | 277 | **4,167** |
| Underlying divisional EBITDA | 1,215 | 7,089 | 8,001 | (4,107) | **12,198** |
| Number of pubs | - | 69 | 239 | 12 | **320** |

**4 SEGMENTAL REPORTING** CONTINUED

| 52 weeks ended 27 June 2020 | Brewing and Brands £'000 | Managed Pubs £'000 | Tenanted Pubs £'000 | Unallocated £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Turnover** | **41,724** | **55,108** | **25,224** | **1,563** | **123,619** |
| Underlying operating (loss)/profit | (307) | 2,367 | 6,979 | (8,095) | 944 |
| Items excluded from underlying results | - | (6,771) | (1,161) | (1,150) | (9,082) |
| **Divisional operating (loss)/profit** | **(307)** | **(4,404)** | **5,818** | **(9,245)** | **(8,138)** |
| Net underlying finance costs | | | | | **(3,857)** |
| Finance costs excluded from underlying results | | | | | **(185)** |
| Fair value movements on ineffective element of cash flow hedges | | | | | **35** |
| Loss on disposal of property | | | | | **(6)** |
| Investment property fair value movements | | | | | **50** |
| **Loss before taxation** | | | | | **(12,101)** |
| **Other segment information** | | | | | |
| Capital expenditure - tangible and intangible fixed assets | 1,126 | 6,730 | 3,894 | 720 | **12,470** |
| Depreciation and amortisation | 1,702 | 3,551 | 2,712 | 528 | **8,493** |

| | | | | | |
|---|---|---|---|---|---|
| Underlying divisional EBITDA | 1,423 | 5,998 | 9,755 | (7,520) | **9,656** |
| Number of pubs | - | 69 | 234 | 16 | **319** |

## 5 NET FINANCE COSTS

| | 26 weeks ended 26 Dec 2020 | | | 26 weeks ended 28 Dec 2019 | 52 weeks ended 27 June 2020 |
|---|---|---|---|---|---|
| | **Underlying results** | **Excluded from underlying results** | **Total statutory** | Total statutory | Total statutory |
| | **£'000** | **£'000** | **£'000** | £'000 | £'000 |
| **Interest payable:** Bank loans and overdrafts | **2,245** | **-** | **2,245** | 1,829 | 3,833 |
| **Other interest (receivable)/ payable** | **(22)** | **-** | **(22)** | - | 32 |
| **Investment expense/(income)** from fixed asset investments | **2** | **-** | **2** | - | (12) |
| **Other finance income:** Unwinding of discounts on provisions | **(13)** | **-** | **(13)** | 14 | 4 |
| Cost relating to putting in place CLBILS loan | **-** | **202** | **202** | - | 185 |
| Ongoing fair value movements on financial instruments charged/(credited) to profit and loss | **-** | **87** | **87** | 112 | (35) |
| **Net finance costs** | **2,212** | **289** | **2,501** | 1,955 | 4,007 |

## 6 TAXATION

| | 26 weeks ended 26 December 2020 | | | 26 weeks ended 28 December 2019 | | | 52 weeks ended 27 June 2020 |
|---|---|---|---|---|---|---|---|
| | **Underlying results** | **Excluded from underlying results** | **Total statutory** | Underlying results | Excluded from underlying results | Total statutory | Total statutory |
| | **£'000** | **£'000** | **£'000** | £'000 | £'000 | £'000 | £'000 |
| Corporation tax | **(860)** | **(151)** | **(1,011)** | 1,420 | (110) | 1,310 | (178) |
| Deferred tax | **(143)** | **(111)** | **(254)** | (123) | 6 | (117) | (173) |
| **Total tax (credited)/charged to profit and loss account** | **(1,003)** | **(262)** | **(1,265)** | 1,297 | (104) | 1,193 | (351) |

Taxation on the underlying result has been provided at 17% (2019: 21%) based on the current best estimate of the effective tax rate for the 52 weeks to 26 June 2021. The average statutory rate of corporation tax for the 52 weeks to 26 June 2021 is expected to be 19% (52 weeks to 27 June 2020: 19%).

## 7 EARNINGS PER SHARE

| | **26 weeks ended 26 Dec 2020** | 26 weeks ended 28 Dec 2019 | 52 weeks ended 27 June 2020 |
|---|---|---|---|
| | **£'000** | £'000 | £'000 |
| (Loss)/profit attributable to equity shareholders | **(5,932)** | 4,202 | (11,750) |
| Items excluded from underlying results | **1,119** | 673 | 9,122 |
| **Underlying (loss)/earnings attributable to equity shareholders** | **(4,813)** | 4,875 | (2,628) |

| | **Number** | Number | Number |
|---|---|---|---|
| Weighted average number of shares in issue | **14,751** | 14,725 | 14,733 |
| Dilutive outstanding options | **-** | 122 | - |
| **Diluted weighted average share capital** | **14,751** | 14,847 | 14,733 |
| **(Loss)/earnings per 50p ordinary share** | | | |
| Basic | **(40.2)p** | 28.5p | (79.8)p |
| Diluted | **(40.2)p** | 28.3p | (79.8)p |
| Underlying basic | **(32.6)p** | 33.1p | (17.8)p |

The earnings per share calculation is based on earnings from continuing operations and on the weighted average ordinary share capital which excludes shares held by trusts in respect of employee incentive plans and options.

## 8 DIVIDENDS

| | **26 weeks ended 26 Dec 2020** | 26 weeks ended 28 Dec 2019 | 52 weeks ended 27 June 2020 |
|---|---|---|---|
| | **£'000** | £'000 | £'000 |
| Final dividend for 2020: nil (2019: 24.21p) per ordinary share | **-** | 3,573 | 3,573 |
| **Dividends paid** | **-** | 3,573 | 3,573 |

## 9 NOTES TO THE CASH FLOW STATEMENT

### a Reconciliation of operating profit to cash generated by operations

| | 26 weeks ended 26 Dec 2020 | | | 26 weeks ended | 52 weeks ended |
|---|---|---|---|---|---|
| | Underlying results | Excluded from underlying results | Total | 28 Dec 2019 Total | 27 June 2020 Total |
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Operating (loss)/profit** | **(3,604)** | **(1,015)** | **(4,619)** | 7,367 | (8,138) |
| Adjustment for: | | | | | |
| Depreciation and amortisation | **4,114** | **-** | **4,114** | 4,167 | 8,493 |
| Impairment of tangible fixed assets | **-** | **417** | **417** | 156 | 7,498 |
| Impairment of intangible fixed assets | **-** | **-** | **-** | - | 140 |
| Share-based payments expense | **176** | **-** | **176** | 256 | 318 |
| Decrease/(increase) in stocks | **2,085** | **-** | **2,085** | (893) | (1,119) |
| (Increase)/decrease in debtors and prepayments | **(1,311)** | **-** | **(1,311)** | (3,096) | 3,027 |
| (Decrease)/increase in creditors and accruals | **(5,443)** | **(47)** | **(5,490)** | 2,559 | 4,990 |
| Free trade loan discounts | **-** | **-** | **-** | 3 | 3 |
| Loss on sale of assets (excluding property) | **21** | **-** | **21** | 13 | 216 |
| Interest received | **-** | **-** | **-** | - | 10 |
| Income tax received/(paid) | **18** | **-** | **18** | (185) | (185) |
| **Net cash (outflow)/inflow from operating activities** | **(3,944)** | **(645)** | **(4,589)** | 10,347 | 15,253 |

### b Reconciliation of movement in cash to movement in net debt

| | 26 weeks ended 26 Dec 2020 | 26 weeks ended 28 Dec 2019 | 52 weeks ended 27 June 2020 |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| Opening cash and overdraft | **9,861** | (817) | (817) |
| Closing cash and overdraft | **(1,106)** | 3,270 | 9,861 |
| Movement in cash in the period | **(10,967)** | 4,087 | 10,678 |
| Cash from increase in bank loans | **-** | (6,000) | (13,000) |
| Cash used to repay bank loans | **3,000** | - | - |
| Movement in loan issue costs | **(52)** | (51) | (102) |
| Movement in net debt resulting from cash flows | **(8,019)** | (1,964) | (2,424) |
| Net debt at beginning of the period | **(84,401)** | (81,977) | (81,977) |
| **Net debt at end of the period** | **(92,420)** | (83,941) | (84,401) |

## 9 NOTES TO THE CASH FLOW STATEMENT CONTINUED

### c Analysis of net debt

| | June 2020 | Cash flow | Repayment of loans | Amortisation of issue costs | December 2020 |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | **£'000** |
| Cash | 9,861 | (9,798) | - | - | **63** |
| Bank overdraft | - | (1,169) | - | - | **(1,169)** |
| Cash and cash equivalents | 9,861 | (10,967) | - | - | **(1,106)** |
| Debt due in less than one year | (94,262) | - | 3,000 | (52) | **(91,314)** |
| **Total** | (84,401) | (10,967) | 3,000 | (52) | **(92,420)** |

## 10 CAPITAL EXPENDITURE AND COMMITMENTS

In the 26 weeks ended 26 December 2020, there were additions to tangible and intangible fixed assets on an accruals basis of £2,144,000 (2019: £7,888,000). In the financial period, there were disposals of tangible fixed assets with a net book value of £1,163,000 (2019: £963,000). As at 26 December 2020, capital commitments contracted, but not provided for by the Group, amounted to £164,000 (2019: £1,077,000).

**11 RELATED PARTY TRANSACTIONS**

Jonathan Neame, Chief Executive of Shepherd Neame Limited, was Chairman of Visit Kent Limited until March 2020 therefore only comparative figures are disclosed for related party transactions. During the 26 weeks ended 28 December 2019, fees and sponsorship activity paid to Visit Kent Limited amounted to £6,000 including VAT. As at 28 December 2019, Shepherd Neame Limited was owed £2,000 including VAT, by Visit Kent Limited and Shepherd Neame owed a balance of nil to Visit Kent Limited.

George Barnes is an executive director of Shepherd Neame Limited. Mr A J A Barnes, a close member of George Barnes' family, was up until 31 December 2019 a partner of Clarke Barnes Solicitors LLP and since 1 January 2020 has been a partner at Barnes Solicitors LLP, which both provided legal services in respect of Group properties. During the period £31,000 including VAT and disbursements to third parties was paid to Barnes Solicitors LLP (2019: £13,000 paid to Clarke Barnes Solicitors LLP). No balance was owed to either partnership by Shepherd Neame Limited as at 26 December 2020 (2019: nil).

Nigel Bunting, an executive director of Shepherd Neame Limited, is also a director of Davy and Company Limited. During the period, the Group did not purchase any goods (2019: nil) but made sales to the value of £6,000 (2019: £97,000) to Davy and Company Limited and its associated companies. At 26 December 2020, the balance owed by Shepherd Neame Limited to the Davy Group of companies was nil (2019: nil) and the balance owed to the Group by the Davy Group of companies, including VAT, was nil (2019: £21,000).

All the transactions referred to above were made in the ordinary course of business and outstanding balances were not overdue. There is no overall controlling party of Shepherd Neame Limited.

**12 BORROWINGS**

Due to the Business not being able to trade fully through lockdowns it has not been able to meet the technical terms and covenants associated with the loan notes and bank loans. As a result of these technical breaches the loans have been classified as short term on the balance sheet. The lenders have supported the Business through this period and have provided a waiver of covenants through to September 2022 and amended them in the interim with a replacement covenant around minimum liquidity.

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[1] H1 2020 is the first half of the financial period of the 52 weeks to the 27 June 2020. This first half equated to the 26 weeks ended 28 December 2019 which were announced on 11 March 2020.

[2] (Loss)/profit before net finance costs, any profit or loss on the disposal of properties, investment property fair value movements and operating charges which are either material or infrequent in nature and do not relate to the underlying performance (see note 3).

[3] Underlying (loss)/profit less attributable taxation divided by the weighted average number of ordinary share in issue during the period (see note 7).

[4] Net assets at the balance sheet date divided by the number of shares in issue being 14,857,500 50p shares.

[5] Net debt plus deferred liabilities

[6] Underlying profit before tax pre net finance costs, depreciation, amortisation, profit or loss on sale of fixed assets excluding property and free trade loan discounts.

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