

INTERIM RESULTS

A strong performance in the tenanted estate

Turnover growth in all divisions

Shepherd Neame, Britain's Oldest Brewer and owner and operator of 320 high quality pubs in Kent and the South East, today announces results for the 26 weeks ended 28 December 2019.

Financial performance:

- Turnover in the period increased to £79.0m (2018: £76.5m), an increase of +3.3%
- Underlying operating profit¹ was up +1.1% at £8.0m (2018: £7.9m) and underlying profit before tax² was up +4.8% to £6.2m (2018: £5.9m) benefitting from lower interest charges
- Underlying basic earnings per share³ are up +4.7% to 33.1p (2018: 31.6p)
- Statutory profit before tax was £5.4m (2018: loss of £4.1m)
- The Board is declaring an interim dividend of 6.00p (2018: 5.87p), an increase of +2.2%

Operational Highlights:

- **Managed pubs (69) achieved a solid performance**
 - Total managed sales grew by +4.3% to £37.0m (2018: £35.5m)
 - Like-for-like sales were up by +0.9% against strong comparatives in the prior year (2018: +4.1%)
 - Average income⁴ per managed pub grew by +1.4% (2018: +8.5%)
- **Tenanted pubs (239) continued to trade strongly despite fewer pubs**
 - Average income per tenanted pub grew by +5.0% (2018: +4.0%)
 - Divisional underlying operating profit was up +1.7% to £6.7m (2018: £6.6m). Like-for-like tenanted pub income grew by +2.9% (2018: +2.2%)
 - Winner of the Publican Award for Best Tenanted/Leased Company (up to 500 sites)
- **Own brand volume returned to growth**
 - Own brand beer and cider volume grew ahead of the market at +3.3% (2018: -1.0%) during the period (versus market growth of +2.6%⁵)
 - Divisional turnover grew by +3.5%, underlying operating profit was £0.4m (2018: £0.5m)
 - We have made a promising start to the new partnership for distributing Singha beer

^[1] 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.

² Underlying operating profit less underlying net finance costs.

³ Underlying profit less attributable taxation divided by the weighted average number of ordinary shares in issue during the period. The number of shares in issue excludes those held by the company and not allocated to the employees under the Share Incentive Plan, which are treated as cancelled.

⁴ Calculated by dividing pub profit before depreciation, amortisation, rent and property costs and other cost allocations by the average number of divisional pubs trading in a financial period.

⁵ The British Beer and Pub Association.

Current Trading:

- **For the 35 weeks to 29 February 2020:**
 - Managed pub like-for-like sales up +0.6%
 - Like-for-like tenanted pub income up +2.6%
 - Own brand beer and cider volumes up +4.4%

Jonathan Neame, Chief Executive, commented:

"Shepherd Neame continues to benefit from a well-balanced business. These results demonstrate the strength of our tenanted pubs in a period where managed margin was held back by the challenging cost environment. We are pleased to see that own brand beer and cider volume is outperforming the market. As a result of this strategy we again have delivered a solid performance in the first half."

For the rest of the year, we remain concerned about the potential impact of the Covid-19 virus. We have seen no discernible change in customer behaviour to date. Looking forward it is impossible at this stage to gauge the likely impact, but should there be significant restrictions on travel and the movement of people in the coming months, that would have an inevitable bearing on our business and our supply chain."

Over the longer term, the quality and profile of the Company's brands and pubs will stand us in good stead and form an excellent platform from which to grow. We are confident we are building an even stronger business for the future."

March 2020

Shepherd Neame

Tel: 01795 532206

Jonathan Neame, Chief Executive

Mark Rider, Finance and IT Director

Instinctif Partners

Tel: 020 7457 2020

Matthew Smallwood

Seb Holland

NOTES FOR EDITORS

Shepherd Neame is Britain's oldest brewer. Established in 1698 and based in Faversham, Kent it employs around 1,900 people.

At the year end, the Company operated 320 pubs, of which 239 were tenanted or leased, 69 managed and 12 were held as investment properties under commercial free of tie leases. The pub estate ranges from inns and hotels to destination dining, great traditional and local community pubs.

The Company brews, markets and distributes its own beers to national and export customers under a range of highly successful brand names including traditional classics such as Spitfire and Bishops Finger as well as newer brands, such as Whitstable Bay, Bear Island and Orchard View Cider.

The Company also has partnerships with Boon Rawd Brewery Company for Singha beer, Thailand's original premium beer and with Boston Beer Company for Samuel Adams Boston Lager and Angry Orchard Hard Cider.

Shepherd Neame's shares are traded on the NEX Exchange Growth Market. See <http://www.nexexchange.com/> for further information and the current share price.

For further information on the Company, see www.shepherdneame.co.uk.

CHAIRMAN'S STATEMENT

Interim Results

I am pleased to report another solid period in the 26 weeks ended 28 December 2019 with a strong performance in the tenanted estate and turnover growth in all divisions.

After an encouraging start to the financial year consumer spend was subdued through the autumn as a consequence of persistent wet weather and political uncertainty in the run up to the General Election. However, we enjoyed a buoyant festive period from mid-December and have made a good start to the second half of the year even though we are lapping a strong February.

In the last financial year, we identified two key objectives that will be of long term benefit to the Company:

- acquire new sites in North Kent where there will be substantial economic development in the future, and
- expand our beer partnerships to sit alongside our modernised range.

We have made progress against both these objectives. We have received planning permission and have purchased a site in Ebbsfleet and anticipate commencing the build phase in May 2020. The site will be named the Chalk Yard and will have 17 bedrooms and a pub and restaurant. It will be our largest single pub project to date. We anticipate opening in mid-2021.

Also in North Kent, we acquired The Crown, Rochester and intend to redevelop it in due course. This is in addition to the acquisition of the Horse and Groom, Wilmington in the prior year. In January 2020, we closed the Wharf at Crossways in Dartford for a major redevelopment of the pub.

The cumulative impact of these four investments in close proximity will transform the profile of the Shepherd Neame pub estate in this rapidly developing area.

On the beer side we commenced our distribution partnership for Singha Beer, Thailand's original premium beer, in September 2019. We are pleased with the initial response of customers to the brand and are positive about the opportunities this opens up for us in future years. Singha provides a useful complement to our Spitfire, Whitstable Bay and Bear Island ranges to make an exciting portfolio for our customers.

Financial Performance

Turnover in the period increased to £79.0m (2018: £76.5m), an increase of +3.3%, driven by higher sales in our managed pubs and brewing and brands businesses.

Underlying operating profit was up +1.1% to £8.0m (2018: £7.9m) and underlying profit before tax was up +4.8% to £6.2m (2018: £5.9m) benefitting from lower interest charges. Underlying basic earnings per share was up +4.7% to 33.1p (2018: 31.6p).

Statutory profit before tax was £5.4m (2018: loss of £4.1m). The prior year loss was incurred as a result of refinancing and the associated swap contract cancellation charge. The new debt structure provides certainty of funds, at a lower cost of debt and an improved maturity profile.

Operating charges - items excluded from underlying results

Since the half year, we have identified a transaction in one of our ledgers that gave us cause for concern. We investigated this thoroughly and extensively in consultation with external advisers and our auditors. We have uncovered a series of erroneous charges made against certain accounts, as a result of unlawful action by one employee, who was acting independently over a number of years.

This employee has now left the business and we are taking action to attempt to recover our loss. We are in the process of reimbursing fully all those accounts affected. A net charge of £0.5m has been recognised within items excluded from underlying results (see note 3).

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. We are confident that the matter is isolated and resolved. We have commissioned a full review of our internal controls in the area concerned and have implemented changes.

We have also recognised an impairment charge of £0.2m in respect of one property.

Capital and Investment

We continue to invest in the business for the long term. Capital expenditure was £8.1m (2018: £7.1m), including £1.4m (2018: £2.1m) on new site acquisitions and £6.7m (2018: £5.0m) invested in the pub estate and brewery.

We continue to manage our pub and investment property assets actively and have realised a total of £1.2m (2018: £1.5m) from disposals.

Tenanted and Managed Pub Operations

Overview

Our long term investment strategy is to grow through selective single site acquisitions in landmark or high footfall locations. Our recent acquisitions have been in urban areas with a large local catchment and high disposable income.

The Crown, Rochester meets these criteria and was acquired in September 2019. It is being run as a managed pub in a prominent location at the end of the High Street overlooking the River Medway. We see further potential for the site as this part of the town is regenerating and will benefit from substantial house building.

Meanwhile we continue to dispose of those smaller outlets which no longer fit our strategy, albeit the rate of disposal activity has slowed as the quality of our business has improved.

In the period, we acquired one managed pub (2018: two), disposed of two pubs (2018: nil), one investment property (2018: one) and two pieces of land, one with planning permission for residential development.

At the half year we operated 320 pubs (2018: 322) of which 239 are tenanted or leased (2018: 244), 69 are managed (2018: 68) and 12 (2018: 10) are operated under commercial free of tie leases.

Driving Footfall to our Pubs

We have invested £4.7m (2018: £3.3m) in capital expenditure to improve the look and feel of our pubs and a further £1.5m (2018: £1.5m) in repairs and decorations.

Our largest investment in the period was the transformation of the Woolpack, Banstead acquired in 2009. It has been operated under lease for most of the time since then. We transferred it to the managed estate in 2019 and have now invested £1.4m. This is an exceptional site in the centre of this affluent town south of London and is now a flagship operation for us in that area. Initial trade since it re-opened in December has been excellent.

In the last ten years we have acquired a number of other sites currently operated under lease and that may benefit from a change of operating model to managed. We will review the circumstances on an individual basis as and when they become available over the coming years.

Also, in the managed estate, we have redeveloped the Compton Cross, Soho. This was acquired in the previous financial year and re-opened under its original name of the Coach and Horses. This gives us another high profile site in central London.

In the second half we will continue with the programme to upgrade our bedroom stock in our inns and hotels. We plan to refurbish nine rooms at The Marine in Whitstable and eight rooms at the Royal Albion in Broadstairs.

In the tenanted estate, we have invested in major works at the Red Lion, Charing Heath and the Lord Nelson, Dover. At the former, we have converted a disused barn to create four letting rooms and upgraded the pub; with the latter we have transformed this well located pub now that the long awaited town centre redevelopment is complete.

The new signage scheme continues to gain momentum. We have now completed half the estate. The quality and extent of each scheme improves the whole time and has a real and positive impact on customer first impressions.

Developing our offer to enhance the customer experience

We drive footfall by presenting our pubs inside and outside in an appealing and stylish way. Once we have attracted customers we need to ensure that our offer is suited to today's customer needs and build loyalty to our pubs and brands.

In the last two years we have built our Rewards Club to engender loyalty with our customer base, and now regularly communicate offers on food and accommodation.

We have recruited more team members in the last six months to strengthen our digital and pub marketing capability. One of the initiatives that has been launched successfully is a series of walks around our rural pubs.

Overall pub performance continues to be driven by the shift to premium drinks sales as we continue to enhance our offer and expand the range. Managed like-for-like drink sales were up +1.8% (2018: +5.8%).

The eating out market remains very competitive and our food offer evolves to meet customers rapidly changing tastes. This now incorporates a much broader range of lower calorie, vegan and vegetarian dishes. We have also created a bespoke gluten-free burger for our managed estate.

We are always looking for ways to team with local producers. Under our Love Food campaign to champion local ingredients, we have worked with Faversham-based Karimix to create a bespoke Kentish tomato chutney. We encourage staff involvement to promote many of the great dishes we serve in our pubs via #shepsfood.

The introduction of the Ten Kites system for allergen control and communication has been welcomed by staff and customers alike. This provides interactive menus across our managed house websites and allows customers to use dietary and allergen filters to tailor their choice.

It is particularly pleasing to note that our efforts to drive our food business have been recognised as we were a finalist at the Publican Awards for Best Food Offer (Managed > 50 sites). Managed like-for-like food sales were down -0.7% (2018: +2.2%).

Accommodation remains in demand in spite of the consumer caution in the autumn but our rate of growth has slowed. Like-for-like accommodation sales were up +0.9% (2018: +0.7%). Occupancy improved to 81.6% (2018: 80.5%) and RevPAR⁶ was up +1.4% at £74 (2018: £73).

Managed Pub performance

Total divisional turnover in the managed estate grew by +4.3% to £37.0m (2018: £35.5m). Divisional underlying operating profit declined marginally by -0.2% to £5.4m (2018: £5.4m). Ongoing cost inflation means that margins are under continued pressure with same outlet like-for-like sales up by +0.9% against strong comparative figures from the prior year (2018: +4.1%). Average income per managed pub grew by +1.4% (2018: +8.5%).

Tenanted Pub Performance

Total divisional turnover in the tenanted estate grew by +1.3% (2018: +0.7%) to £18.4m (2018: £18.1m) despite a fewer number of pubs. Divisional underlying operating profit was up +1.7% to £6.7m (2018: £6.6m). We continue to invest in repair and decorations at a high rate although the rate of increase is levelling out as the quality of overall maintenance and presentation of our pubs is at a high level. Like-for-like tenanted pub income grew by +2.9% (2018: +2.2%). Average income per tenanted pub grew by +5.0% (2018: +4.0%).

The sector continues to suffer from high cost inflation from rates and national minimum wage increases. It is therefore welcome to hear recent Government announcements of extending rate relief for smaller pubs.

In independent surveys of our licensees we score highly across all areas including in the communication and understanding our Business Development Managers have of our Pubs and the extensive personal support they provide to our licensees.

As a consequence of the huge strides we have made in the quality of our tenanted pubs in recent years, we were delighted to win the Publican Award for Best Tenanted/Leased Company (up to 500 sites).

Creating demand and building awareness for our brands

In the last year, we took a number of measures to refresh and modernise our core brand portfolio. These measures are beginning to bear fruit, as our own brand beer and cider volume grew by +3.3% (2018:-1.0%) ahead of the market.

We have had a promising start to the new partnership with Boon Rawd Brewery Company to distribute Singha Beer. The partnership commenced at the end of the summer with a phased transition from the previous supplier. The brand is strong in its Thai restaurant base but is also backed by high level sponsorship activity. This gives us a credible and exclusive world lager to enhance our portfolio.

To support these portfolio developments we have strengthened our heartland on-trade sales team. We are also in the process of introducing a comprehensive online ordering platform, which will be operational in the next few months.

In the brewery, we continue to invest in quality enhancements and have committed to the installation of a new yeast propagation plant at a total cost of £0.5m. This will be operational by year end.

As the market for packaged products changes, particularly in the light of environmental concerns, so do the needs of our customers. As such we are reviewing our small packaging capability.

⁶ Revenue per Available Room

Brewing and brands performance

Total divisional turnover grew by +3.5%, with divisional underlying operating profit of £0.4m (2018: £0.5m).

We saw growth in our own brands portfolio and overall turnover growth was enhanced by the new partnership with Singha beer. However, total own brewed volumes fell by -7.9% with the final impact of exiting the Lidl own brand contract in the prior year.

Investment Property

As at 28 December 2019, the Company owns investment property valued at £8.3m (June 2019: £8.8m).

Our appeal against the refusal of planning consent for 50 houses on land outside Faversham was dismissed. Nevertheless we believe that this land has long term development prospects and will continue to promote the site through the local planning process.

Dividend

The Board is declaring an interim dividend of 6.00p (2018: 5.87p), an increase of 2.2%. The dividend will be paid on 2 April 2020 to those shareholders on the register at 20 March 2020.

Outlook and Current Trading

This has been a satisfactory trading period considering the challenging conditions of the autumn. The tenanted performance has been strong. Recent developments in the brewing and brands business now appear to be bearing fruit and we are optimistic about the potential of some of our recent initiatives.

The managed pubs division has performed well but it has been harder to generate like-for-like sales growth in this period. We are excited about the new developments at the Wharf and Woolpack and by the long term potential of the Chalk Yard.

Since the half year (and for the 35 weeks to 29 February 2020), like-for-like tenanted pub income has remained strong at +2.6% (2018: +2.6%), own brand beer and cider volumes are up +4.4% (2018: +0.4%) and same outlet like-for-like managed pub sales are up +0.6% (2018: +3.7%).

For the rest of the year, we remain concerned about the potential impact of the Covid-19 virus. We have seen no discernable change in customer behaviour to date. Looking forward it is impossible at this stage to gauge the likely impact, but should there be significant restrictions on travel and the movement of people in the coming months, that would have an inevitable bearing on our business and our supply chain.

Over the longer term, the quality and profile of the Company's brands and pubs will stand us in good stead and form an excellent platform from which to grow. We are confident we are building an even stronger business for the future.

Miles Templeman
Chairman

CONSOLIDATED PROFIT AND LOSS ACCOUNT 26 weeks ended 28 December 2019

		Unaudited 26 weeks ended 28 December 2019			Unaudited 26 weeks ended 29 December 2018			Audited 52 weeks ended 29 June 2019
	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	79,035	-	79,035	76,500	-	76,500	145,801
Operating charges		(71,020)	(648)	(71,668)	(68,571)	-	(68,571)	(130,711)
Operating profit	4	8,015	(648)	7,367	7,929	-	7,929	15,090
Finance costs	3,5	(1,843)	-	(1,843)	(2,040)	(9,820)	(11,860)	(13,721)
Fair value movements on financial instruments charged to profit and loss	3,5	-	(112)	(112)	-	(991)	(991)	(952)
Net finance costs	3,5	(1,843)	(112)	(1,955)	(2,040)	(10,811)	(12,851)	(14,673)
Profit on disposal of property	3	-	280	280	-	663	663	2,848
Investment property fair value movements	3	-	(297)	(297)	-	139	139	206
Profit/(loss) before taxation		6,172	(777)	5,395	5,889	(10,009)	(4,120)	3,471
Taxation	6	(1,297)	104	(1,193)	(1,237)	1,961	724	(882)
Profit/(loss) after taxation		4,875	(673)	4,202	4,652	(8,048)	(3,396)	2,589
Earnings/(loss) per 50p ordinary share	7							
Basic				28.5p			(23.1)p	17.6p
Diluted				28.3p			(22.9)p	17.5p
Underlying basic				33.1p			31.6p	60.9p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

26 weeks ended 28 December 2019

	Unaudited 26 weeks ended 28 December 2019 £'000	Unaudited 26 weeks ended 29 December 2018 £'000	Audited 52 weeks ended 29 June 2019 £'000
Profit/(loss) after taxation	4,202	(3,396)	2,589
Gains arising on cash flow hedges during the period	426	567	248
Transfers to the profit and loss account on cash flow hedges	-	10,866	10,660
Tax relating to components of other comprehensive income	(83)	(2,008)	(1,931)
Other comprehensive gains	343	9,425	8,977
Total comprehensive income	4,545	6,029	11,566

CONSOLIDATED BALANCE SHEET As at 28 December 2019

Unaudited 26 weeks ended 28 December 2019	Unaudited 26 weeks ended 29 December 2018	Audited 52 weeks ended 29 June 2019
---	---	---

	£'000	£'000	£'000
Fixed assets			
Intangible fixed assets	775	564	760
Tangible fixed assets	317,019	310,367	314,728
Investments and loans	6	18	10
	317,800	310,949	315,498
Current assets			
Stocks	8,004	6,416	7,111
Debtors	15,999	16,329	12,945
Deferred tax asset	975	983	1,058
Cash at bank and in hand	3,270	2,894	116
	28,248	26,622	21,230
Creditors: amounts falling due within one year			
Bank loans and overdrafts	-	-	(933)
Creditors	(26,474)	(23,267)	(23,096)
	(26,474)	(23,267)	(24,029)
Net current assets/(liabilities)	1,774	3,355	(2,799)
Total assets less current liabilities	319,574	314,304	312,699
Creditors: amounts falling due after more than one year			
Bank loans	(87,211)	(89,088)	(81,160)
Derivative financial instruments	(6,739)	(6,769)	(6,822)
Deferred lease liability	(2,620)	(2,423)	(2,547)
Provisions for liabilities	(13,956)	(12,821)	(14,073)
Net assets	209,048	203,203	208,097
Capital and reserves			
Called-up share capital	7,429	7,429	7,429
Share premium account	1,099	1,099	1,099
Revaluation reserve	71,394	73,532	71,858
Own shares	(1,367)	(1,806)	(1,551)
Hedging reserve	(4,647)	(4,542)	(4,990)
Profit and loss account	135,140	127,491	134,252
Equity shareholders' funds	209,048	203,203	208,097

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY^{26 weeks ended 28 December 2019}

	Called-up share capital	Share premium account	Revaluation reserve	Own shares	Hedging reserve	Profit and loss account	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'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

	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 30 June 2018	7,429	1,099	73,532	(1,588)	(13,967)	134,547	201,052
Loss for the period	-	-	-	-	-	(3,396)	(3,396)
Gains arising on cash flow hedges during the period	-	-	-	-	567	-	567
Transfers to the profit and loss account on termination of interest rate swaps	-	-	-	-	9,875	-	9,875
Transfers to the profit and loss account on hedge ineffectiveness of remaining interest rate swaps	-	-	-	-	991	-	991
Tax relating to components of other comprehensive income	-	-	-	-	(2,008)	-	(2,008)
Total comprehensive income	-	-	-	-	9,425	(3,396)	6,029
Ordinary dividends paid	-	-	-	-	-	(3,475)	(3,475)
Accrued share-based payments	-	-	-	-	-	185	185
Purchase of own shares	-	-	-	(595)	-	-	(595)
Distribution of own shares	-	-	-	210	-	(203)	7
Unconditionally vested share awards	-	-	-	167	-	(167)	-
Balance at 29 December 2018	7,429	1,099	73,532	(1,806)	(4,542)	127,491	203,203

CONSOLIDATED CASH FLOW STATEMENT 26 weeks ended 28 December 2019

	Unaudited 26 weeks ended 28 December 2019 £'000	Unaudited 26 weeks ended 29 December 2018 £'000	Audited 52 weeks ended 29 June 2019 £'000
Net cash flows from operating activities (note 9)	10,347	9,316	22,497
Cash flows from investing activities			
Proceeds of sale of tangible fixed assets	1,230	1,508	7,825
Purchase of tangible fixed assets	(7,985)	(7,074)	(13,710)
Purchase of intangible fixed assets	(92)	-	-
Customer loan redemptions	1	58	61
Acquisition of subsidiaries	(151)	-	(5,594)
Cash acquired on acquisition	-	-	347
Net cash flows from investing activities	(6,997)	(5,508)	(11,071)
Cash flows from financing activities			
Dividends paid	(3,573)	(3,475)	(4,341)
Interest paid	(1,413)	(1,436)	(3,526)
Settlement of derivative financial instruments	-	(9,386)	(9,610)
Repayment of long-term loans	-	(54,500)	(54,500)
New long-term loans	6,000	67,500	59,500
Issue costs of new long-term loans	-	(654)	(815)
Purchase of own shares	(290)	(595)	(595)
Share option proceeds	13	7	19
Net cash flows from financing activities	737	(2,539)	(13,868)
Net increase/(decrease) in cash and cash equivalents	4,087	1,269	(2,442)
Cash and cash equivalents at beginning of the period	(817)	1,625	1,625
Cash and cash equivalents at end of the period	3,270	2,894	(817)

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 29 June 2019, 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 29 June 2019, except for the adoption of FRS 102.18 regarding intangible assets other than goodwill, as of 30 June 2019. The amendments to FRS 102 following the Triennial Review (December 2017) have been adopted in the period but no material changes have arisen as a result of this.

FRS 102.18 Intangible assets other than goodwill

The Group adopted FRS 102.18 on 30 June 2019 prospectively. Accordingly, the information presented for comparative periods has not been restated and is presented, as previously reported.

FRS 102.18 covers accounting for all intangible assets other than goodwill and intangible assets held by an entity for sale in the ordinary course of business.

Intangible assets with finite useful lives are carried at cost less accumulated amortisation and impairment losses. Amortisation is recognised on a straight-line basis over the estimated useful life of between three and five years. Provision is made for any impairment.

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 28 Dec 2019 £'000	Unaudited 26 weeks ended 29 Dec 2018 £'000	Audited 52 weeks ended 29 June 2019 £'000
Underlying EBITDA	12,198	12,106	23,673
Depreciation and amortisation	(4,167)	(4,124)	(8,298)
Free trade loan discounts	(3)	(19)	(25)
Loss on sale of assets (excluding property)	(13)	(34)	(92)
Underlying operating profit	8,015	7,929	15,258
Net underlying finance costs	(1,843)	(2,040)	(3,901)
Underlying profit before taxation	6,172	5,889	11,357
Profit on disposal of properties	280	663	2,848
Investment property fair value movements	(297)	139	206
Operating charges - items excluded from underlying results	(648)	-	(168)
Settlement of interest rate swaps associated with refinancing	-	(9,386)	(9,386)
Write-off of unamortised finance costs following refinancing	-	(434)	(434)
Ongoing fair value movements on financial instruments charged to profit and loss	(112)	(991)	(952)
Profit/(loss) on ordinary activities before taxation	5,395	(4,120)	3,471

Operating charges - items excluded from underlying results comprise:

- An impairment charge of £156,000 in respect of one property transferred from tenanted pubs to investment property in the period. The charge of £168,000 for the 52 weeks ended 29 June 2019 comprised a net impairment loss in respect of

five licensed properties to write them down to their recoverable amount and the reversal of impairment of two licensed properties.

- 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 feel that it is appropriate to recognise the charge within items excluded from underlying results, in the current period.

The gross value of the erroneous charges amounted to £861,000. However, this exposure has been 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, and we are in the process of reimbursing fully all those accounts affected, together with interest. We are taking action to attempt to recover our loss.

Additional charges in respect of fees relating to this matter will be recognised in the accounts for the full year to give a total charge in the region of £950,000, subject to recoveries.

Finance costs - items excluded from underlying results

During the 26 weeks ended 29 December 2018, £37,500,000 of term loan was repaid and the Group entered into new financing arrangements. The Group also terminated interest rate swap contracts totalling £35,000,000 for net cash consideration of £9,386,000 in connection with the repayment of the loan. As a result, other finance costs excluded from underlying results included £9,386,000 in respect of settled interest rate swap liabilities and £434,000 of unamortised finance costs relating to the previous facility which have been written off. Finance costs excluded from underlying results included £991,000 in respect of the ineffective portion of the movement in fair value interest rate swaps.

The non-underlying finance charges for the 52 weeks ended 29 June 2019 comprised £9,386,000 and £434,000 noted above and £952,000 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.

	Brewing and Brands	Managed Pubs	Tenanted Pubs	Unallocated	Total
26 weeks ended 28 December 2019	£'000	£'000	£'000	£'000	£'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 on ordinary activities 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

26 weeks ended 29 December 2018	Brewing and Brands £'000	Managed Pubs £'000	Tenanted Pubs £'000	Unallocated £'000	Total £'000
Turnover	22,239	35,454	18,114	693	76,500
Underlying operating profit	462	5,362	6,576	(4,471)	7,929
Items excluded from underlying results	-	-	-	-	-
Divisional operating profit	462	5,362	6,576	(4,471)	7,929
Net underlying finance costs					(2,040)
Finance costs excluded from underlying results					(9,820)
Fair value movements on ineffective element of cash flow hedges					(991)
Profit on disposal of property					663
Investment property fair value movements					139
Loss on ordinary activities before taxation					(4,120)

Other segment information

Capital expenditure - tangible and intangible fixed assets	404	3,977	1,986	772	7,139
Depreciation and amortisation	1,006	1,628	1,215	275	4,124
Underlying divisional EBITDA	1,516	6,988	7,797	(4,195)	12,106
Number of pubs	-	68	244	10	322

52 weeks ended 29 June 2019	Brewing and Brands £'000	Managed Pubs £'000	Tenanted Pubs £'000	Unallocated £'000	Total £'000
Turnover	40,742	68,777	35,033	1,249	145,801
Underlying operating profit	923	9,215	12,950	(7,830)	15,258
Items excluded from underlying results	-	140	(308)	-	(168)
Divisional operating profit	923	9,355	12,642	(7,830)	15,090
Net underlying finance costs					(3,901)
Finance costs excluded from underlying results					(9,820)
Fair value movements on ineffective element of cash flow hedges					(952)
Profit on disposal of property					2,848
Investment property fair value movements					206
Profit on ordinary activities before taxation					3,471

Other segment information

Capital expenditure - tangible and intangible fixed assets	1,105	13,647	4,216	1,203	20,171
Depreciation and amortisation	1,979	3,282	2,479	558	8,298
Underlying divisional EBITDA	2,968	12,517	15,460	(7,272)	23,673
Number of pubs	-	70	239	13	322

5 Net finance costs

	26 weeks ended 28 Dec 2019 Underlying results £'000	Excluded from underlying results £'000	Total statutory £'000	26 weeks ended 29 Dec 2018 Total statutory £'000	52 weeks ended 29 June 2019 Total statutory £'000
Interest payable: Bank loans and overdrafts	1,829	-	1,829	2,058	3,938
Investment income: Income from fixed asset investments	-	-	-	(15)	(18)

Other finance income: Unwinding of discounts on provisions	14	-	14	(3)	(19)
Settlement of interest rate swaps associated with refinancing	-	-	-	9,386	9,386
Write-off of unamortised finance costs following refinancing	-	-	-	434	434
Ongoing fair value movements on financial instruments charged to profit and loss	-	112	112	991	952
Net finance costs	1,843	112	1,955	12,851	14,673

6 Taxation

	26 weeks ended 28 December 2019			26 weeks ended 29 December 2018			52 weeks ended 29 June 2019
	Underlying results £'000	Excluded from underlying results £'000	Total statutory £'000	Underlying results £'000	Excluded from underlying results £'000	Total statutory £'000	Total statutory £'000
Corporation tax	1,420	(110)	1,310	1,355	(2,030)	(675)	497
Deferred tax	(123)	6	(117)	(118)	69	(49)	385
Total tax charged/(credited) to profit and loss account	1,297	(104)	1,193	1,237	(1,961)	(724)	882

Taxation has been provided at 21% (2018: 21%) based on the estimated effective tax rate for the 52 weeks to 27 June 2020. The average statutory rate of corporation tax for the 52 weeks to 27 June 2020 is expected to be 19% (52 weeks to 29 June 2019: 19%).

In the 26 weeks ended 29 December 2018, taxation on items excluded from underlying results included a corporation tax credit of £2,054,000 in respect of the charge to the profit and loss account on the cancellation of interest rate swaps.

7 Earnings per share

	26 weeks ended 28 Dec 2019 £'000	26 weeks ended 29 Dec 2018 £'000	52 weeks ended 29 June 2019 £'000
Profit/(loss) attributable to equity shareholders	4,202	(3,396)	2,589
Items excluded from underlying results	673	8,048	6,367
Underlying earnings attributable to equity shareholders	4,875	4,652	8,956
	Number	Number	Number
Weighted average number of shares in issue	14,725	14,723	14,717
Dilutive outstanding options	122	126	114
Diluted weighted average share capital	14,847	14,849	14,831
Earnings/(loss) per 50p ordinary share			
Basic	28.5p	(23.1)p	17.6p
Diluted	28.3p	(22.9)p	17.5p
Underlying basic	33.1p	31.6p	60.9p

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 28 Dec 2019 £'000	26 weeks ended 29 Dec 2018 £'000	52 weeks ended 29 June 2019 £'000
Final dividend for 2019: 24.21p (2018: 23.45p) per ordinary share	3,573	3,475	3,475
Interim dividend for 2019: 5.87p per ordinary share	-	-	866
Dividends paid	3,573	3,475	4,341

9 Notes to the cash flow statement

(a) Reconciliation of operating profit to cash generated by operations

	26 weeks ended 28 Dec 2019			26 weeks ended 29 Dec 2018 Total	52 weeks ended 29 June 2019 Total
	Underlying results £'000	Excluded from underlying results £'000	Total £'000	£'000	£'000
Operating profit	8,015	(648)	7,367	7,929	15,090
Adjustment for:					
Depreciation and amortisation	4,167	-	4,167	4,124	8,298
Impairment of tangible fixed assets	-	156	156	-	652
Reversal of impairment on tangible fixed assets	-	-	-	-	(484)
Share-based payments expense	256	-	256	185	396
(Increase)/decrease in stocks	(893)	-	(893)	425	(254)
(Increase)/decrease in debtors and prepayments	(3,096)	-	(3,096)	(1,716)	1,168
Increase/(decrease) in creditors and accruals	2,067	492	2,559	(443)	(938)
Free trade loan discounts	3	-	3	19	25
Loss on sale of assets (excluding property)	13	-	13	34	92
Interest received	-	-	-	15	18
Income tax paid	(185)	-	(185)	(1,256)	(1,566)
Net cash inflow from operating activities	10,347	-	10,347	9,316	22,497

(b) Reconciliation of movement in cash to movement in net debt

	26 weeks ended 28 Dec 2019 £'000	26 weeks ended 29 Dec 2018 £'000	52 weeks ended 29 June 2019 £'000
Opening cash and overdraft	(817)	1,625	1,625
Closing cash and overdraft	3,270	2,894	(817)
Movement in cash in the period	4,087	1,269	(2,442)
Cash from increase in bank loans	(6,000)	(67,500)	(59,500)
Cash used to repay bank loans	-	54,500	54,500
Movement in loan issue costs	(51)	334	262
Movement in net debt resulting from cash flows	(1,964)	(11,397)	(7,180)
Net debt at beginning of the period	(81,977)	(74,797)	(74,797)
Net debt at end of the period	(83,941)	(86,194)	(81,977)

(c) Analysis of net debt

	June 2019 £'000	Cash flow £'000	New long-term loans £'000	Amortisation of issue costs £'000	December 2019 £'000
Cash	116	3,154	-	-	3,270
Bank overdraft	(933)	933	-	-	-
Cash and cash equivalents	(817)	4,087	-	-	3,270
Debt due after more than one year	(81,160)	-	(6,000)	(51)	(87,211)
Total	(81,977)	4,087	(6,000)	(51)	(83,941)

10 Capital expenditure and commitments

In the 26 weeks ended 28 December 2019, there were additions to tangible and intangible fixed assets on an accruals basis of £7,888,000 (2018: £7,139,000). In the financial period, there were disposals of tangible fixed assets with a net book value of £963,000 (2018: £880,000). As at 28 December 2019, capital commitments contracted, but not provided for by the Group, amounted to £1,077,000 (2018: £544,000).

11 Related party transactions

Jonathan Neame, Chief Executive of Shepherd Neame Limited, is Chairman of Visit Kent Limited. During the 26 weeks ended 28 December 2019, fees and sponsorship activity paid to Visit Kent Limited amounted to £6,000 including VAT (2018: nil). There was a balance owed to Shepherd Neame Limited by Visit Kent Limited at 28 December 2019 of £2,000 (2018: nil).

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, which provided legal services in respect of Group properties during the period at a cost of £13,000 including VAT and disbursements to third parties (2018: £11,000). No balance was owed to the partnership by Shepherd Neame Limited as at 28 December 2019 (2018: 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 (2018: nil) and made sales to the value of £97,000 (2018: £146,000) to Davy and Company Limited and its associated companies. At 28 December 2019, the balance owed by Shepherd Neame Limited to the Davy Group of companies was nil (2018: nil) and the balance owed to the Group by the Davy Group of companies, including VAT, was £21,000 (2018: £31,000).

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.

This information is provided by RNS, the news service of the London Stock Exchange. RNS is approved by the Financial Conduct Authority to act as a Primary Information Provider in the United Kingdom. Terms and conditions relating to the use and distribution of this information may apply. For further information, please contact rns@lseg.com or visit www.rns.com.

END

NEXFFFELVEIILII