RNS Number : 9483R
Shepherd Neame Limited
06 March 2019

INTERIM RESULTS

Outperformance in managed pubs division

New financing facilities provide long-term funding and flexibility to capitalise on future opportunities

Shepherd Neame, Britain's Oldest Brewer and owner and operator of 322 high quality pubs in Kent and the South East, today announces results for the 26 weeks ended 29 December 2018.

Financial performance:

- Underlying profit before tax[1] rose by +1.4% to £5.9m (2017: £5.8m). We have incurred a one-off exceptional charge of £10.8m associated with the refinancing of the business and the cancellation of the previous swap contracts. As a consequence, statutory loss before tax is £4.1m (2017: profit £5.5m).

- Underlying basic earnings per share[2] are up +1.3% to 31.6p (2017: 31.2p)

- Net assets per share increased by +1.1% since June 2018 to £13.68

- Interim dividend per share is up +2.1% to 5.87p (2017: 5.75p)

Operational highlights:

- Managed and tenanted pubs have continued to deliver a strong performance:

  - Managed pubs account for nearly half of Group revenue. Managed divisional turnover grew by +7.7% to £35.5m (2017: £32.9m). Managed pubs like-for-like (LFL) sales grew by +4.1% (2017: +2.1%). Average EBITDAR[3] per managed pub grew by +8.5% (2017: -3.5%). Despite ongoing cost inflation, underlying managed pub margin increased by 80 basis points to 15.1% (2017: 14.3%)

  - Tenanted divisional turnover grew by +0.7% to £18.1m (2017: £18.0m). LFL EBITDAR grew by +2.2% (2017: +2.1%) and average EBITDAR per tenanted pub grew by +4.0% (2017: +5.7%)

- Brewing and brands remains in transition following the termination of the Asahi contract and certain private label contracts including the Hatherwood range in Lidl:

  - Own brand beer and cider volume reduced by -1.0%

  - Total volume of brewed beer is down -30.8% or 36,000 barrels in the period of which 32,000 barrels related to the Asahi and Lidl contracts. Due to these lower volumes turnover

declined -31.4% to £22.2m

New financing structure:

- In October 2018 the Company put in place a new financing structure with £107.5m of committed long-term facilities

- The new financing structure provides certainty of funds, at a lower cost of debt and with an improved maturity profile, which allows the Company to continue to invest for the long term

[1] Profit before 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 profit less attributable taxation 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 the employees under the Share Incentive Plan, which are treated as cancelled.

[3] Earnings before interest, tax, depreciation, amortisation and rent payable.

Jonathan Neame, Chief Executive, commented:

"The business derives its long-term strength and resilience from its three operating divisions. The managed pub performance has been strong, offset by lower brewing and brands volumes. The tenanted pubs have continued their robust underlying performance.

Our managed pubs are the principal area of investment and of growth. The quality of this part of the business continues to rise with recent acquisitions and developments. The tenanted division is a well-balanced and high quality business that continues to attract great operators for us to partner. Brewing and brands is still in a period of transition and we are pursuing a number of good opportunities for future growth.

Since the half year, trade has continued to be good, with same outlet like-for-like managed pub sales up +3.7% for the 35 weeks to 2 March 2019, like-for-like tenanted pub EBITDA up +2.6% and own brand beer and cider volumes up +0.4%.

The new financing package gives us the platform to capitalise on the significant infrastructure and population growth that is planned in our Kent heartland over the next decade.

In spite of the risks associated with imminent departure from the EU, we remain confident that our long-term strategy positions the company well for the future."

6 March 2019

Shepherd Neame Tel: 01795 532206

Jonathan Neame, Chief Executive

Mark Rider, Finance and IT Director

Instinctif Partners Tel: 020 7457 2020

Matthew Smallwood

Andy Low

NOTES FOR EDITORS

Shepherd Neame is Britain's oldest brewer. Established in 1698 and based in Faversham, Kent it employs around 1,600 people.

At the half year, the Company operated 322 pubs, of which 244 were tenanted or leased, 68 managed and 10 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 and more recent additions to the range including Whitstable Bay, Five Grain Premium Lager, Bear Island East Coast Pale Ale and Orchard View cider.

The Company also brews and distributes under licence, including 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

I am pleased to report a solid performance for the Company for the 26 weeks ended 29 December 2018, which was achieved against a challenging consumer backdrop and continuing political and economic uncertainty.

We have completed two key objectives in the period to strengthen Shepherd Neame for the long term:

- the Company has put in place a new financing structure that provides certainty of funds, at a lower cost of debt and with an improved maturity profile, which allows us to continue to invest for the long term.
- we have secured an outstanding site for a new build pub hotel in North Kent where major economic development is anticipated, to support future growth in our managed pubs division.

Following a number of years of strategic focus, our managed pubs division now represents nearly half of the group revenue, is our principal engine of growth and our main area for investment. We are pleased to report that this division performed strongly in the first half, with particularly buoyant summer and festive periods.

Tenanted pubs have also continued their path of consistent performance and good like-for-like EBITDAR[1] growth driven by continuous investment.

Our brewing and brands business is, as previously reported, in transition and has faced a tough market for cask and premium bottled ales (PBA) especially in the latter part of 2018. Consequently, the financial performance is below prior year levels.

Brewing and brands remains core to the business and our strategy is to be a leading independent brewer with a great heritage supplying our wide network of national customers and outlets in London and the South East.

A key strength of the business is the balance between the different financial and market characteristics of each division and we see all three as integral to the future growth of the company.

[1] Earnings before interest, tax, depreciation, amortisation and rent payable.

Financial Performance

As a result of lower beer volume, total company turnover reduced. Revenue in the period fell £7.6m (-9.1%) to £76.5m, of which £9.2m related to the exit from Asahi and other private label contracts.

Underlying operating profit was up +0.2% at £7.9m (2017: £7.9m). Underlying profit before tax[1] grew by +1.4% to £5.9m (2017: £5.8m). Underlying basic earnings per share was up +1.3% to 31.6p (2017: 31.2p).

Statutory loss before tax was £4.1m (2017: profit of £5.5m). This loss occurred, as announced in October 2018, as a result of a one-off exceptional charge of £10.8m associated with the refinancing of the business and the cancellation of the previous swap contracts.

With the continued growth of our managed pubs, the mix of our business continues to evolve in line with our strategy. Our underlying operating margin has risen to 10.4% (2017: 9.4%).

[1] Profit before 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

Tenanted and Managed Pub Operations

Overview

At the half year we operated 322 pubs (2017: 322) of which 244 are tenanted or leased (2017: 248), 68 are managed (2017: 66) and 10 (2017: eight) operated under commercial free of tie leases.

In the period, we have acquired two managed pubs (2017: nil) and disposed of no pubs (2017: four), one investment property (2017: one) and two pieces of land for development (2017: nil).

Our acquisitions were:

- § the freehold of the Wheatsheaf, Farnham, a high-quality pub with a strong reputation for food and drinks, centrally located in this affluent town.
- § the Cheshire Cheese, near Temple, London, the third pub in central London we have acquired in the last 12 months, alongside the Savoy Tap and Samuel Pepys. This pub is currently being redeveloped.

The company has also secured a site to build a new pub hotel at Castle Hill in the centre of Ebbsfleet Garden City. We anticipate that this will open in 2021 and will trade as a managed pub.

Driving Footfall to our Pubs

We have invested £3.3m (2017: £4.4m) in capital expenditure to improve the look and feel of our pubs and a further £1.5m (2017: £1.3m) in repairs and decorations.

In the period, we have carried out developments in our managed estate at the George and Dragon, Thames Ditton and the Albion Taverna, Faversham. In the second half, we have started the upgrade of the Marine Hotel, Tankerton, improving the restaurant, adding an extension to the dining areas and enhancing the external space.

The Woolpack, Banstead, transferred from the tenanted estate to the managed estate in February 2019. We plan a substantial redevelopment later in 2019 to further improve this excellent site.

In the tenanted estate, we have carried out developments at the White Horse, Hawkinge, and Neptunes Hall, Broadstairs, as well as numerous smaller schemes. We are currently upgrading the Royal Naval Reserve in Whitstable.

We continue to roll out our new signage scheme and expect that we will have completed approximately half the pub estate by the end of the calendar year.

Developing our offer to enhance the customer experience

At the start of this financial year, we enjoyed exceptionally warm weather and success for the England football team in the FIFA World Cup. As a consequence, we had buoyant drinks sales with lager and cider brands performing strongly. Our coastal sites, in particular, benefitted from the favourable summer conditions.

As the year has evolved, drinks sales have remained strong and food sales have returned to growth after a difficult trading period in the prior year. Christmas trading was buoyant with the month of December like-for-like managed pub sales up +7.1%. Like-for-like drink sales for the six months to December 2018 were +5.8% (2017: +2.3%) and like-for-like food sales +2.2% (2017: +0.2%).

Accommodation across our estate has come under more competitive pressure but our revenue per available room (RevPAR) remains strong. Like-for-like accommodation sales were up +0.7% (2017: +6.4%). Occupancy was down at 80.5% (2017: 82.5%) but RevPAR was up +1.4% at £73 (2017: £72).

Managed Pub Performance

Our managed pubs continue to outperform the market[1]. Total divisional turnover in the managed estate grew by +7.7% to £35.5m (2017: £32.9m). Divisional underlying operating profit grew by +13.6% to £5.4m (2017: £4.7m). Despite ongoing cost inflation from higher business rates and national minimum wage, underlying divisional operating profit margin increased by 80 basis points to 15.1% (2017: 14.3%). Same outlet like-for-like managed pub sales were up +4.1% (2017: +2.1%). Average EBITDAR per managed pub grew by +8.5% (2017: -3.5%).

I am delighted that our performance is recognised as a finalist in the Publican Awards for Best Managed Pub Company (51+ sites) to be held in March 2019.

[1] Coffer Peach tracker for sales trends for pub, bar and restaurant groups.

Tenanted Pub Performance

Total divisional turnover in the tenanted estate grew by +0.7% to £18.1m (2017: £18.0m) on a lower number of pubs. Divisional underlying operating profit was down marginally at £6.6m (2017: £6.7m), as a consequence of £0.2m incremental property repair and decorations spend versus the prior year. Like-for-like tenanted pub EBITDAR grew by +2.2% (2017: +2.1%). Average EBITDAR per tenanted pub grew by +4.0% (2017: +5.7%).

Creating Brand Awareness

In the last 12 months, we have continued to modernise our own beer portfolio and expand our range. We have invested incremental marketing spend of £0.2m to this end.

We have developed new packaging for the Spitfire and Whitstable Bay range for launch in spring 2019. We launched Bear Island East Coast Pale Ale earlier in the year and we have now complemented this with Bear Island Triple Hopped Lager. We will enhance our range of imported craft beer and cider from Boston Beer and have launched a new Cask Club with a great range of seasonal ales.

We have also implemented various initiatives to drive ever higher standards in our products, packaging and supply chain.

Brewing and Brands Performance

We continue to be in a period of transition following the termination of the Asahi contract and certain private label contracts, including the Hatherwood range in Lidl. The total volume of brewed beer is down -30.8%, or - 36,000 barrels in the period. The combined volume of these two contracts accounts for a decrease of -32,000 barrels or £9.2m of turnover. Our underlying own beer and cider volume reduced -1.0% in line with the more challenging market for cask and PBAs, against a beer market growth of +3.7%[1] driven by strong demand for world lager.

Due to our lower beer volumes, brewing and brands turnover declined by -31.4% to £22.2m (2017: £32.4m) and divisional underlying operating profit was £0.5m (2017: £1.3m).

We believe we are taking the right steps to strengthen the business for the long-term. Given the high level of operational gearing in this division movement in volume can improve profits quickly.

[1] The British Beer and Pub Association.

Capital and Investment

Underlying EBITDA[1] was level at £12.1m (2017: £12.1m). The total amount invested in capital expenditure was £7.1m (2017: £6.1m), of which £2.1m was invested in the acquisition of two new pubs (2017: nil), and £5.0m on core capital expenditure (2017: £6.1m).

We continue to manage our property portfolio actively and have realised £1.5m (2017: £3.4m) from the disposal of land and investment property.

[1] 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.

New Financing Structure

In October 2018, the company put in place a new financing structure with £107.5m of committed long-term facilities.

Major infrastructure and housing development is forecast to take place in our heartland between now and 2030 and Kent's population is anticipated to grow by more than 20% in that time. This facility provides certainty of funding in uncertain political times allowing the company to take advantage of opportunities that arise with largely fixed rates of interest.

The key features of this financing structure are:

- § a private placement with BAE Systems Pension Funds Investment Management Ltd raising £35m at 3.99% for 20 years.
- § this private placement replaces £37.5m of our previous long-term loan that was due to expire in 2026. The residual £22.5m of the loan remains in place. Swap contracts of £35m associated with the loan have been terminated at a cash cost of £9.4m (£7.6m net of tax). The cancellation of the swaps has no impact on net asset value per share but increases net debt in the short term and contributes to an exceptional charge in this period of £10.8m.
- § a new five-year revolving credit facility of £50m with Lloyds Bank plc and Santander UK plc. this matures in 2023 and replaces the existing facility of £45m that was due to expire in 2020. The terms of this facility are LIBOR plus bank margin of between 1.35% and 2.50% depending on the leverage ratio of net debt to EBITDA.

In conjunction with this refinancing, an off-balance sheet Directors' valuation of our licensed property assets was undertaken, showing a surplus over book value of £24m at 30 June 2018. In future, the Board intends to carry out further off balance sheet Directors' valuations of our licensed estate every four years.

Investment Property

As at 29 December 2018, the company owns investment property valued at £7.3m (2017: £7.1m).

The company is continually seeking to manage its non-core property portfolio. During the period we have achieved planning permission and subsequent disposal of land at two sites. Since the half year, we have sold the farmhouse at Queen Court, Ospringe.

Earlier in 2018, we made a planning application for 50 houses on land outside Faversham. This application was refused and is the subject of an appeal.

Dividend

The Board is declaring an interim dividend of 5.87p (2017: 5.75p), an increase of +2.1%. The dividend will be paid on 28 March 2019 to those shareholders on the register at 15 March 2019.

Outlook and Current Trading

The business derives its long term strength and resilience from its three operating divisions. The managed pub performance has been strong, offset by lower brewing and brands volumes. The tenanted pubs have continued their robust underlying performance.

Our managed pubs are the principal area of investment and of growth. The quality of this part of the business continues to rise with recent acquisitions and developments. The tenanted division is a well-balanced and high quality business that continues to attract great operators for us to partner. Brewing and brands is still in a period of transition and we are pursuing a number of good opportunities for future growth.

Since the half year, trade has continued to be good, with same outlet like-for-like managed pub sales up +3.7% for the 35 weeks to 2 March 2019, like-for-like tenanted pub EBITDAR up 2.6%, and own brand beer and cider volumes up +0.4%.

In spite of the risks associated with imminent departure from the EU, we remain confident that our long-term strategy positions the company well for the future.

CONSOLIDATED PROFIT AND LOSS ACCOUNT 26 weeks ended 29 December 2018

		Unaudited 26 weeks ended 29 December 2018			Unaudited 26 weeks ended 23 December 2017			Audited 53 weeks ended 30 June 2018
		Underlying results	**Items excluded from underlying results**	**Total statutory**	Underlying results	Items excluded from underlying results	Total statutory	Total statutory
	note	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000	£'000
Turnover	4	**76,500**	**-**	**76,500**	84,123	-	84,123	156,567
Operating charges		**(68,571)**	**-**	**(68,571)**	(76,208)	(1,981)	(78,189)	(142,884)
Operating profit	4	**7,929**	**-**	**7,929**	7,915	(1,981)	5,934	13,683
Finance costs	3,5	**(2,040)**	**(9,820)**	**(11,860)**	(2,110)	-	(2,110)	(4,295)
Fair value movements on ineffective element of cash flow hedges	3,5	**-**	**(991)**	**(991)**	-	-	-	-
Net finance costs	3,5	**(2,040)**	**(10,811)**	**(12,851)**	(2,110)	-	(2,110)	(4,295)
Profit on disposal of property	3	**-**	**663**	**663**	-	1,366	1,366	1,908
Investment property fair value movements	3	**-**	**139**	**139**	-	310	310	823
Profit/(loss) before taxation		**5,889**	**(10,009)**	**(4,120)**	5,805	(305)	5,500	12,119
Taxation	6	**(1,237)**	**1,961**	**724**	(1,219)	498	(721)	(2,104)
Profit/(loss) after taxation		**4,652**	**(8,048)**	**(3,396)**	4,586	193	4,779	10,015
(Loss)/earnings per 50p ordinary share	7							
Basic				**(23.1)p**			32.5p	68.1p
Diluted				**(22.9)p**			32.2p	67.4p
Underlying basic				**31.6p**			31.2p	63.0p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

26 weeks ended 29 December 2018

	Unaudited 26 weeks ended 29 December 2018	Unaudited 26 weeks ended 23 December 2017	Audited 53 weeks ended 30 June 2018
	£'000	£'000	£'000
(Loss)/profit after taxation	**(3,396)**	4,779	10,015
Gains arising on cash flow hedges during the period	**567**	2,240	4,271
Transfers to the profit and loss account on cash flow hedges	**10,866**	-	-
Tax relating to components of other comprehensive income	**(2,008)**	(416)	(792)
Other comprehensive gains	**9,425**	1,824	3,479
Total comprehensive income	**6,029**	6,603	13,494

CONSOLIDATED BALANCE SHEET As at 29 December 2018

	Unaudited 29 December 2018 £'000	Unaudited 23 December 2017 £'000	Audited 30 June 2018 £'000
Fixed assets			
Goodwill	**564**	679	620
Tangible fixed assets	**310,367**	305,127	308,037
Investments and loans	**18**	101	76
	310,949	305,907	308,733
Current assets			
Stocks	**6,416**	6,854	6,841
Debtors	**16,329**	21,999	14,036
Deferred tax asset	**983**	3,370	2,992
Cash at bank and in hand	**2,894**	96	1,625
	26,622	32,319	25,494
Creditors: amounts falling due within one year			
Bank loans and overdrafts	**-**	(300)	-
Creditors	**(23,267)**	(29,161)	(24,614)
	(23,267)	(29,461)	(24,614)
Net current assets	**3,355**	2,858	880
Total assets less current liabilities	**314,304**	308,765	309,613
Creditors: amounts falling due after more than one year			
Bank loans	**(89,088)**	(79,343)	(76,422)
Derivative financial instruments	**(6,769)**	(19,648)	(16,955)
Deferred lease liability	**(2,423)**	(2,168)	(2,314)
Provisions for liabilities	**(12,821)**	(12,811)	(12,870)
Net assets	**203,203**	194,795	201,052
Capital and reserves			
Called-up share capital	**7,429**	7,429	7,429
Share premium account	**1,099**	1,099	1,099
Revaluation reserve	**73,532**	73,581	73,532
Own shares	**(1,806)**	(1,742)	(1,588)
Hedging reserve	**(4,542)**	(15,622)	(13,967)
Profit and loss account	**127,491**	130,050	134,547
Equity shareholders' funds	**203,203**	194,795	201,052

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 26 weeks ended 29 December 2018

	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 cash flow hedges	-	-	-	-	10,866	-	10,866
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**

	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 24 June 2017	**7,429**	**1,099**	**73,579**	**(2,277)**	**(17,446)**	**128,727**	**191,111**
Profit for the period	-	-	-	-	-	4,779	4,779
Gains arising on cash flow hedges during the period	-	-	-	-	2,240	-	2,240
Tax relating to components of other comprehensive income	-	-	-	-	(416)	-	(416)
Total comprehensive income	**-**	**-**	**-**	**-**	**1,824**	**4,779**	**6,603**
Ordinary dividends paid	-	-	-	-	-	(3,348)	(3,348)
Transfer of realised revaluation	-	-	2	-	-	(2)	-
Accrued share-based payments	-	-	-	-	-	416	416
Distribution of own shares	-	-	-	378	-	(365)	13
Unconditionally vested share awards	-	-	-	157	-	(157)	-
Balance at 23 December 2017	**7,429**	**1,099**	**73,581**	**(1,742)**	**(15,622)**	**130,050**	**194,795**

CONSOLIDATED CASH FLOW STATEMENT 26 weeks ended 29 December 2018

	Unaudited 26 weeks ended 29 December 2018		Unaudited 26 weeks ended 23 December 2017		Audited 53 weeks ended 30 June 2018
	£'000	**£'000**	£'000	£'000	£'000
Net cash flows from operating activities (note 9)		**9,316**		7,929	22,599
Cash flows from investing activities					
Proceeds of sale of tangible fixed assets	**1,508**		3,436	6,008	
Purchase of tangible fixed assets	**(7,074)**		(6,108)	(14,748)	
Customer loan redemptions	**58**		70	75	
Net cash flows from investing activities		**(5,508)**		(2,602)	(8,665)
Cash flows from financing activities					
Dividends paid	**(3,475)**		(3,348)	(4,197)	
Interest paid	**(1,436)**		(2,058)	(4,970)	
Settlement of derivative financial instruments	**(9,386)**		-	-	
Repayment of long-term loans	**(54,500)**		-	(2,000)	
New long-term loans	**67,500**		1,000	-	
Issue costs of new long-term loans	**(654)**		-	-	
Purchase of own shares	**(595)**		(1,322)	(1,346)	
Share option proceeds	**7**		13	20	
Net cash flows from financing activities		**(2,539)**		(5,715)	(12,493)
Net increase/(decrease) in cash and cash equivalents		**1,269**		(388)	1,441
Cash and cash equivalents at beginning of the period		**1,625**		184	184
Cash and cash equivalents at end of the period		**2,894**		(204)	1,625

NOTES TO THE ACCOUNTS 29 December 2018

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 53 weeks ended 30 June 2018, 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 53 weeks ended 30 June 2018, except for the adoption of FRS 102.25 regarding borrowing costs, as of 1 July 2018.

FRS 102.25 Borrowing Costs

The Group adopted FRS 102.25 on 1 July 2018 prospectively. Accordingly, the information presented for comparative periods has not been restated and is presented, as previously reported.

FRS 102.25 covers the recognition of borrowing costs. Borrowing costs are generally recognised as an expense when incurred. Interest expenses which are directly attributable to the acquisition or construction of tangible fixed assets that take a substantial period of time to prepare for use are capitalised as part of the cost of those assets being created. Capitalisation begins when both finance costs and expenditures for the asset are being incurred and activities that are necessary to prepare the asset for its intended use. Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete.

FRS 102.25 has had no impact on the recognition of borrowing costs in the period, accordingly no separate presentation of its impact on the financial statements is presented.

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 ineffective element of cash flow hedges.

	Unaudited 26 weeks ended 29 Dec 2018	Unaudited 26 weeks ended 23 Dec 2017	Audited 53 weeks ended 30 June 2018
	£'000	£'000	£'000
Underlying EBITDA	**12,106**	12,101	24,639
Depreciation and amortisation	**(4,124)**	(4,074)	(8,294)
Free trade loan discounts	**(19)**	(39)	(62)
Loss on sale of assets (excluding property)	**(34)**	(73)	(219)
Underlying operating profit	**7,929**	7,915	16,064
Net finance costs	**(2,040)**	(2,110)	(4,295)
Underlying profit before taxation	**5,889**	5,805	11,769
Profit on disposal of property	**663**	1,366	1,908
Investment property fair value movements	**139**	310	823
Operating charges - items excluded from underlying results	**-**	(1,981)	(2,381)
Settlement of interest rate swaps	**(9,386)**	-	-
Write-off of unamortised finance costs	**(434)**	-	-
Fair value movements on ineffective element of cash flow hedges	**(991)**	-	-
(Loss)/profit on ordinary activities before taxation	**(4,120)**	5,500	12,119

During the period £37.5m of term loan was repaid and the Group entered into new financing arrangements. The Group also terminated interest rate swap contracts totalling £35.0m for net cash consideration of £9.4m in connection with the repayment of the loan. As a result, other finance costs excluded from underlying results includes £9.4m in respect of settled interest rate swap liabilities and £0.4m of unamortised finance costs relating to the previous facility which have been written off. Finance costs excluded from underlying results includes £1.0m in respect of the ineffective portion of the movement in fair value interest rate swaps.

Operating charges - items excluded from underlying results of £1,981,000 for the 26 weeks ended 23 December 2017 comprised £1,495,000 in respect of restructuring costs following a review of strategy for the brewing and brands business associated with the termination of the Asahi contract, and an impairment charge of £486,000 in respect of the Royal Wells Hotel, Tunbridge Wells reflecting a decline in trading at this site.

The charge of £2,381,000 for the 53 weeks ended 30 June 2018 comprised £1,759,000 in respect of the restructuring costs noted above and an impairment charge of £622,000 in respect of three licensed properties.

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 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)**
Underlying profit on ordinary activities before taxation					**5,889**
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 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**

26 weeks ended 23 December 2017	Brewing and Brands £'000	Managed Pubs £'000	Tenanted Pubs £'000	Unallocated £'000	Total £'000
Turnover	**32,401**	**32,922**	**17,984**	**816**	**84,123**
Underlying operating profit	1,317	4,721	6,663	(4,786)	**7,915**
Items excluded from underlying results	(1,495)	(486)	-	-	**(1,981)**
Divisional operating profit	**(178)**	**4,235**	**6,663**	**(4,786)**	**5,934**
Net finance costs					**(2,110)**
Profit on disposal of property					**1,366**
Investment property fair value movements					**310**
Profit on ordinary activities before taxation					**5,500**
Other segment information					
Capital expenditure - tangible fixed assets	598	2,394	2,727	278	**5,997**
Depreciation and amortisation	992	1,422	1,145	515	**4,074**
Underlying divisional EBITDA	2,376	6,159	7,823	(4,257)	**12,101**
Number of pubs	-	66	248	8	**322**

4 Segmental reporting continued

53 weeks ended 30 June 2018	Brewing and Brands £'000	Managed Pubs £'000	Tenanted Pubs £'000	Unallocated £'000	Total £'000
Turnover	**54,424**	**65,332**	**35,374**	**1,437**	**156,567**
Underlying operating profit	2,301	8,694	13,215	(8,146)	**16,064**
Items excluded from underlying results	(1,700)	(535)	(136)	(10)	**(2,381)**
Divisional operating profit	**601**	**8,159**	**13,079**	**(8,156)**	**13,683**
Net finance costs					**(4,295)**
Profit on disposal of property					**1,908**
Investment property fair value movements					**823**

Profit on ordinary activities before taxation					**12,119**
Other segment information					
Capital expenditure - tangible fixed assets	1,830	7,625	4,594	938	**14,987**
Depreciation and amortisation	1,995	2,955	2,351	993	**8,294**
Underlying divisional EBITDA	4,449	11,690	15,606	(7,106)	**24,639**
Number of pubs	-	68	242	11	**321**

5 Net finance costs

	26 weeks ended 29 Dec 2018			26 weeks ended	53 weeks ended
	Underlying results	**Excluded from underlying results**	**Total statutory**	23 Dec 2017 Total statutory	30 June 2018 Total statutory
	£'000	**£'000**	**£'000**	£'000	£'000
Interest payable: Bank loans and overdrafts	**2,058**	**-**	**2,058**	2,129	4,330
Interest receivable: Other	**-**	**-**	**-**	(3)	(2)
Investment income: Income from fixed asset investments	**(15)**	**-**	**(15)**	-	(15)
Other finance income: Unwinding of discounts on provisions	**(3)**	**-**	**(3)**	(16)	(18)
Settlement of interest rate swaps	**-**	**9,386**	**9,386**	-	-
Write-off of unamortised finance costs	**-**	**434**	**434**	-	-
Fair value movements on ineffective element of cash flow hedges	**-**	**991**	**991**	-	-
Net finance costs	**2,040**	**10,811**	**12,851**	2,110	4,295

6 Taxation

	26 weeks ended 29 December 2018			26 weeks ended 23 December 2017			53 weeks ended 30 June 2018
	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	**1,355**	**(2,030)**	**(675)**	1,335	(243)	1,092	2,419
Deferred tax	**(118)**	**69**	**(49)**	(116)	(255)	(371)	(315)
Total tax charged/(credited) to profit and loss account	**1,237**	**(1,961)**	**(724)**	1,219	(498)	721	2,104

Taxation has been provided at 21% (2017: 21%) based on the estimated effective tax rate for the 52 weeks to 29 June 2019. The average statutory rate of corporation tax for the 52 weeks to 29 June 2019 is 19% (53 weeks to 30 June 2018: 19%).

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 on the cancellation of interest rate swaps.

7 Earnings per share

	26 weeks ended 29 Dec 2018	26 weeks ended 23 Dec 2017	53 weeks ended 30 June 2018
	£'000	£'000	£'000
(Loss)/profit attributable to equity shareholders	**(3,396)**	4,779	10,015
Items excluded from underlying results	**8,048**	(193)	(748)
Underlying earnings attributable to equity shareholders	**4,652**	4,586	9,267

	Number	Number	Number
Weighted average number of shares in issue	**14,723**	14,689	14,707
Dilutive outstanding options	**126**	141	142
Diluted weighted average share capital	**14,849**	14,830	14,849
(Loss)/earnings per 50p ordinary share			
Basic	**(23.1)p**	32.5p	68.1p
Diluted	**(22.9)p**	32.2p	67.4p
Underlying basic	**31.6p**	31.2p	63.0p

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 weeks ended	53 weeks ended
	29 Dec 2018	23 Dec 2017	30 June 2018

	£'000	£'000	£'000
Final dividend for 2018: 23.45p (2017: 22.73p) per ordinary share	**3,475**	3,348	3,348
Interim dividend for 2018: 5.75p per ordinary share	**-**	-	849
Dividends paid	**3,475**	3,348	4,197

9 Notes to the cash flow statement

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

	26 weeks ended 29 Dec 2018 £'000	26 weeks ended 23 Dec 2017 £'000	53 weeks ended 30 June 2018 £'000
Operating profit	**7,929**	5,934	13,683
Adjustment for:			
Depreciation and amortisation	**4,124**	4,074	8,294
Impairment loss on tangible fixed assets	**-**	486	622
Share-based payments expense	**185**	416	649
Decrease in stocks	**425**	209	222
(Increase)/decrease in debtors and prepayments	**(1,716)**	(2,009)	5,948
(Decrease)/increase in creditors and accruals	**(443)**	102	(4,608)
Free trade loan discounts	**19**	39	62
Loss on sale of assets (excluding property)	**34**	277	543
Interest received	**15**	3	15
Income tax paid	**(1,256)**	(1,602)	(2,831)
Net cash inflow from operating activities	**9,316**	7,929	22,599

(b) Analysis of net debt

	June 2018 £'000	Cash flow £'000	Repayment of long-term loans £'000	New long-term loans £'000	Issue costs of new loans £'000	Amortisation of issue costs £'000	**December 2018 £'000**
Cash and cash equivalents	1,625	1,269	-	-	-	-	**2,894**
Debt due after more than one year	(76,422)	-	54,500	(67,500)	844	(510)	**(89,088)**
Total	(74,797)	1,269	54,500	(67,500)	844	(510)	**(86,194)**

10 Capital expenditure and commitments

In the 26 weeks ended 29 December 2018, there were additions to tangible fixed assets on an accruals basis of £7,139,000 (2017: £5,997,000). In the financial period, there were disposals of tangible fixed assets with a net book value of £880,000 (2017: £2,347,000). As at 29 December 2018, capital commitments contracted, but not provided for by the Group, amounted to £544,000 (2017: £1,763,000).

11 Related party transactions

Jonathan Neame, Chief Executive of Shepherd Neame Limited, is Chairman of Visit Kent. During the 26 weeks ended 29 December 2018 there were no fees and sponsorship activity paid to Visit Kent (2017: £3,000 including VAT). There was no balance owed to Visit Kent Limited at either 29 December 2018 or 23 December 2017.

George Barnes is an executive director of Shepherd Neame Limited. Mr A J A Barnes, a close member of George Barnes' family, is a partner of Clarke Barnes Solicitors LLP, which provided legal services in respect of Group properties during the period at a cost of £11,000 including VAT and disbursements to third parties (2017: £16,000). No balance was owed to the partnership by Shepherd Neame Limited as at 29 December 2018 (2017: £4,000).

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 (2017: £2,000) but made sales to the value of £146,000 (2017: £123,000) to Davy and Company Limited and its associated companies. At 29 December 2018, no balance was owed by Shepherd Neame Limited to the Davy Group of companies (2017: nil) and the balance owed to the Group by the Davy Group of companies, including VAT, was £31,000 (2017: £52,000).

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.

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