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Shepherd Neame Limited
25 September 2019

FULL YEAR RESULTS

Strong performance in managed pubs division

Encouraging start to new year

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 52 weeks ended 29 June 2019.

Financial performance:

As the previous financial year was a 53 week year to the 30 June 2018 a number of alternative measures are disclosed in addition to the statutory measures. All figures quoted are on a 53 week basis unless otherwise stated.

- A year of good strategic progress and a solid financial performance
- Managed and tenanted pubs performance has been excellent and we continue to outperform the market. Brewing and brands, as previously outlined, is in transition with lower turnover and profit.
- Consequently, Group turnover reduced by -6.9% to £145.8m (2018: £156.6m)
- Underlying profit before tax[1] on a 52 v 52 week basis was down by -0.3% to £11.4m (2018: £11.4m) in line with expectations
- Underlying basic earnings per share[2] on a 52 v 52 week basis are level at 60.9p (2018: 60.9p)
- In order to fund the business for the long term and to take advantage of any opportunities that may arise over the next few years, the business refinanced its debt facilities. As a result a one-off exceptional charge of £10.8m was incurred. Statutory profit before tax therefore was £3.5m (2018: £12.1m)
- Net assets per share[3] increased by +3.5% to £14.01 (2018: £13.53)
- The Board is proposing a final dividend of 24.21p (2018: 23.45p) making the total dividend for the year up +3.0% to 30.08p (2018: 29.20p)

[1] Profit before any profit or loss on the disposal of properties, investment property fair value movements and operating or finance charges which are either material or infrequent in nature and do not relate to the underlying performance and before fair value movements on financial instruments charged to profit and loss.

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

Operational highlights:

All figures quoted are on a 52 v 52 week basis.

- Managed pubs strong performance:
  - Managed pubs (70 pubs) account for nearly half of Group turnover and have been the focus of significant investment in recent years
  - Like-for-like (LFL) sales grew by +3.2% (2018: +1.3%)
  - Average income[4] per managed pub grew by +6.6% (2018: -1.8%)
  - Despite ongoing cost inflation, underlying managed pub margin increased by 20 basis points to 13.4%

- Tenanted pubs (239 pubs) continued to trade well:
  - LFL tenanted pub income[5] grew by +2.3% (2018: +2.1%)
  - Average income per tenanted pub[6] grew by +3.3% (2018: +5.8%)

- Brewing and brands is in transition following the loss of the Asahi and Lidl contracts:
  - Own beer volume down -23.3% (2018: -10.6%)
  - Shepherd Neame own brand beer and cider volume grew by +0.5% (2018: -0.9%)
  - Modernised and expanded our portfolio
  - A new partnership was entered into in August 2019 with the Boon Rawd Brewery Company to import and distribute Singha Beer, Thailand's original premium beer

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

[5] Tenanted income calculated to exclude from both years those pubs which have not been trading throughout the two years. The principal exclusions are pubs purchased or sold, pubs which have closed, and pubs transferred to or from our managed business. Income is calculated against a comparable 52 week period in the prior year for pubs that were trading in both 52 week periods.

[6] Calculated by dividing total tenanted pub profit before depreciation, amortisation, rent and property costs and other cost allocations by the average number of tenanted pubs trading in a financial period.

Current Trading:

- In the 11 weeks to 14 September, total revenue in our managed pubs was up +4.7% (2018: +7.8%) and same outlet like-for-like managed sales were up +1.6% (2018: +5.1%)

- In the 11 weeks to 14 September, Shepherd Neame own brand beer and cider volume and grew by +5.8% (2018: +4.0%)
- In the 9 weeks to 31 August like-for-like tenanted pub income was up +2.7% (2018: +6.2%)

Jonathan Neame, Chief Executive, commented:

"Shepherd Neame remains well positioned in the sector, with great pub assets, an exciting and evolving beer portfolio, an excellent brand reputation and a heartland presence in Kent that will benefit from considerable economic development in the next 10 years. Our strong balance sheet and long term financing gives us a great platform to take advantage of any opportunities that arise.

Our managed pubs have achieved substantial growth in turnover and profit. The tenanted pub estate has maintained its impressive like-for-like performance. Brewing and brands performance has, as expected, been more challenging this year, but we are excited by the potential of our emerging portfolio.

We are a modern, well invested, financially strong and balanced business with a strategy designed to deliver long-term value for shareholders. We have transformed our business in recent years to increase our exposure to the growth areas of the market.

We are encouraged by how the new year has started and remain cautiously optimistic about the Company's prospects despite the uncertainties ahead."

25 September 2019

Shepherd Neame Tel: 01795 532206

Jonathan Neame, Chief Executive

Mark Rider, Finance and IT Director

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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 1,900 people.

At the year end, the Company operated 322 pubs, of which 239 were tenanted or leased, 70 managed and 13 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 more recent brands, such as Whitstable Bay, Five Grain Premium Lager, Bear Island East Coast Pale Ale and Orchard View Cider.

The Company also has partnerships with Singha, Thailand's original beer and US craft beers 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

Overview

I am pleased to report a year of good strategic progress and a solid financial performance for the 52 weeks to 29 June 2019, in line with our expectations.

In this year, the performance in both managed and tenanted pubs has been excellent and we continue to outperform the market. Our brewing and brands business is in a period of transition and has delivered lower turnover and profits, as anticipated. However, growth in our pub business has largely offset the reduction in brewing profits. In spite of a slight fall in Company turnover and profits, as a result of these combined outcomes, we have delivered a satisfactory overall underlying result.

Our aim is to own and operate the best estate of characterful and individual pubs within our Kent and south east heartland, to deliver a great customer experience and to maximise our core strengths as a leading independent brewer with a unique heritage.

We are a modern, successful business with a clear vision. We invest in high quality, cash generative assets that will provide good sustainable returns, and look to build the equity of our brands.

The Company is financed for the long term backed by a high quality freehold property base which delivers consistent long term growth in dividend and net asset value per share.

We sustain the long term success of the business by achieving a balance between the different market and financial characteristics of each division.

This year, we have met some important objectives to position the Company for the long term:

- acquired some great new managed pubs in those areas of North Kent due for major economic development over the next decade;
- expanded and positioned our beer portfolio to meet increasing demand in world lager and craft beers and since the year end, entered an important new partnership for distributing the leading Thai beer, Singha. We believe this will be a good medium term platform for growth. We continue to pursue other opportunities;
- entered into a new financing structure that provides certainty of funds, at a lower cost of debt and with an improved maturity profile, which enables us to continue to invest for the long term; and
- agreed future changes to the Board of Directors.

These steps, and our long-term strategy, give me great confidence that Shepherd Neame has an exciting future ahead.

Financial Results

The results are in line with our expectations. Key factors to note are:

- 2019 was a 52 week year vs 53 weeks in 2018. All commentary throughout this report is on that basis, unless otherwise stated;
- the refinancing and cancellation of the swap contracts resulted in a one-off total charge of £10.8m; and
- the headline reduction in revenue and operating profit is largely as a result of the transition out of the Asahi and Lidl own brand contracts.

Total revenue for the 52 week period (2018: 53 weeks) reduced by -6.9% to £145.8m (2018: £156.6m).

Managed pubs is our key area of investment and continued to grow and perform well, tenanted pubs maintained their strong like-for-like performance and brewing and brands, for the reasons outlined in the Chief Executive's report, saw a reduction in sales.

Underlying profit before tax was £11.4m (2018: £11.8m), or -0.3% on an adjusted 52 week basis.

Statutory profit before tax was £3.5m (2018: £12.1m) after the charge of £10.8m related to the refinancing.

The business is strongly cash generative and underlying EBITDA was robust. Margins in the business as a whole have continued to increase, as the mix of our business changes, with underlying operating profit margin at 10.5% (2018: 10.3%) and underlying EBITDA margin at 16.2% (2018: 15.7%).

Underlying basic earnings per share are 60.9p (2018: 63.0p), or level on an adjusted 52 week basis, and basic earnings per share are 17.6p (2018: 68.1p).

Dividend

The Board is proposing a final dividend of 24.21p (2018: 23.45p) making the total dividend for the year of 30.08p (2018: 29.20p), an increase of +3.0%. This represents underlying dividend cover of 2.0 times (2018: 2.2 times).

We will continue to target our dividend cover at or around this level in the future, consistent with our dividend policy. The final dividend will be paid on 18 October 2019 to shareholders on the register at the close of business on 4 October 2019.

New Financing Structure

In October 2018, the Company put in place a new financing structure with £107.5m of committed long term facilities. The key features of this financing structure are a private placement with BAE Systems Pensions Funds Investment Management Ltd raising £35m at 3.99% for 20 years and a new five-year revolving credit facility of £50m with Lloyds Bank plc and Santander UK plc.

We have seen the underlying finance charge reduce against the prior year, despite higher debt levels, as we are now on new and better terms.

In conjunction with the new financing structure, an off-balance sheet Directors' valuation of our licensed property assets has been undertaken which showed a surplus over current book value of £24m as at 30 June 2018. In future, the Board intends to carry out Directors' valuations of our managed and tenanted pub estates every four years.

Our new financing structure provides us with an excellent platform to take advantage of the opportunities we anticipate will exist in the market in the coming years.

Capital and Investment

Capital expenditure was £19.3m (2018: £14.7m) including £9.0m in new site acquisitions and £10.3m on investing in our pub estate and brewery.

We continue to manage our property assets actively and have realised £7.8m (2018: £6.0m) from property disposals.

The cancellation of the previous swap contracts was a cash cost of £9.4m (£7.6m net of tax).

Net debt has consequently risen to £82.0m (2018: £74.8m) as at June 2019 and net debt to EBITDA has increased to 3.5 times (2018: 3.0 times). Unlike many companies we have no outstanding final salary pension liabilities and a low proportion of lease liabilities.

Board of Directors

After what will have been 15 years as Chairman and 18 years as a Director, I feel that it is appropriate for me to step down at the AGM in October 2020.

I am delighted to announce that Richard Oldfield will become Chairman at that time. Richard currently is a Non-Executive Director, a position he has held since 2016. Richard brings significant skills and expertise in finance, investment and governance to complement the wide range of skills and experience of the Board.

He is the Founder and Chairman of Oldfield Partners LLP, an investment management firm with a global client base, a Director of Witan Investment Trust plc and former Chairman of Keystone Investment Trust plc. He was previously chief executive of Alta Advisers, the investment office of the Rausing family, and before this a director of Mercury Asset Management plc.

With Richard taking the Chair in 2020, a further Non-Executive Director has been sought to ensure that we retain extensive pub and brewing industry skills and knowledge amongst the Non-Executives. The Board is pleased to announce the proposed appointment of Kevin Georgel from July 2020. Kevin has spent over 20 years working in the UK brewing and pub sector. Appointed CEO of Admiral Taverns in 2014, Kevin joined Admiral Taverns in 2010 as Managing Director with responsibility for the Operations and Commercial aspects of the business. He was previously Operations Director at Punch Taverns with responsibility for the leased and tenanted estate. Prior to this he held various senior sales and marketing positions within Molson Coors. Kevin is a non-executive Director of St. Austell Brewery and in January 2020 becomes its Chief Executive. He is also Deputy Chairman of The British Beer and Pub Association.

Summary

The Board is focused on investing for the long-term benefit of shareholders with the aim to run the best pubs in our heartland and be a great British brewer.

The last few years have seen significant progress in developing Shepherd Neame into the modern, balanced business that it is today. The quality of our pub portfolio has improved materially and the acquisitions made this year continue to strengthen our asset base. The operational improvements to enhance the quality of our offer and attract the best people are impressive and set out in the Chief Executive's report.

The Brewing and Brands business has been more challenging this year, but we have repositioned and modernised our portfolio, built new partnerships, developed our marketing and built the skills in our team. All of this will enable us to build on our unique heritage, our geography and expertise and to take advantage of our position as a strong independent brewer.

Consumer behaviour is changing fast and will continue to change; but beer and pubs will remain central to British social life for a very long time to come. Our challenge is to keep evolving to meet changing needs and to invest to ensure that our offer remains fresh and relevant to the consumer. As our heartland demographics and population changes, we aim to change with it, so as to be central to the life of tomorrow's customer base.

Our balance sheet is strong, cash flow robust and margins healthy. The senior team has a good balance of skills and experiences and is motivated to take the Company forward and deliver long-term success.

Miles Templeman

Chairman

CHIEF EXECUTIVE'S REVIEW

This has been a great year for our pubs, and, as expected, a year of transition for brewing and brands but also one of new opportunities for the business as a whole.

The underlying performance of the business has been good, the balance sheet is strong and our overall market positioning has great potential. We have modernised and enhanced our beer range to offer a high quality, broad-based portfolio and entered new partnerships that can provide a platform for future growth.

We are well positioned to meet and exceed the expectations of today's consumer. In all sectors, and in particular leisure and hospitality, demand is increasingly driven by the experience economy, with consumers willing to pay more for products and services that deliver something special, unique or memorable.

Drinks choice is often driven by a desire for premiumisation, food choice is increasingly driven by a desire for a healthy lifestyle or as a rewarding treat. Consumers want more taste and flavour. Purchase decisions are often influenced by the sustainable practices of the manufacturer, the provenance of the ingredients and the authenticity of the company or brand.

These trends play to the inherent strengths of Shepherd Neame: an outstanding portfolio of pubs with character and individuality, a great reputation for our drinks brands, a strong local and community presence and unique heritage and history.

There are many and varied factors in the sector that influence performance at this time:

- At the macroeconomic level, the UK economy shrank for the first time since 2012 in the final quarter of our financial year[7] and business and consumer confidence is lower. The tough weather and FIFA World Cup driven comparatives in summer 2019 versus 2018 and pre Brexit stockpiling in the third quarter, may have contributed to this.
- Within the sector, well publicised cost pressures from business rates increases and National Living Wage continue. Cost pressure is likely to continue in these areas as well as from utility costs.

Competition remains fierce at the supply and retail levels but there are always opportunities in such a fragmented market for those companies with high quality products, great service and a distinct market position to succeed.

Further, and over the medium term, our geographic location is becoming an increasing advantage. As the level of economic re-generation and housebuilding within our heartland gathers pace, this will provide us with longer term opportunities.

It is against this backdrop that we remain focused in pursuit of our consistent and successful long-term strategy:

- to drive footfall to our pubs
- to develop the offer to enhance the customer experience
- to create demand and build awareness for our brands; and
- to attract, retain and develop the best people.

7 Source: Office for National Statistics.

Tenanted and managed pub operations

Overview

At the year end we operated 322 pubs (2018: 321) of which 274 (2018: 276), or 85% of our outlets, are freehold. Of the total pubs, 239 are tenanted or leased (2018: 242) and 70 (2018: 68) are managed and 13 (2018: 11) operated under commercial free-of-tie leases.

Approximately two thirds of our pubs are in Kent, but with a growing presence of 37 pubs in central London and the rest in Essex, Sussex, Surrey, Berkshire and Hampshire. We are acquiring pubs throughout this core territory with gradual geographical expansion as appropriate. Our acquisition strategy is to buy predominantly, but not exclusively, managed pubs, with unique character, in landmark or high footfall locations so as to create a premium and differentiated customer experience. Our ambition is to own and operate the stand-out pubs in each community we serve. We look to grow through selective single site acquisitions or small pub groups if the right opportunity arises.

We have acquired four pubs in the year, a fifth since the year end and a further site for a new build. All will be operated as managed houses. The pubs are:

- The Cheshire Cheese, near the Temple, and the Compton Cross, in Soho, in central London;
- the Horse and Groom in Wilmington, a well-positioned pub in this densely populated area of North Kent;
- the Wheatsheaf in Farnham;
- since the end of the year the Crown at Rochester, which will join the estate in autumn 2019; and
- a site to build a new pub restaurant and hotel at Castle Hill in the centre of Ebbsfleet Garden City. We anticipate starting to build during 2020 with a target opening date mid 2021.

The two additions in London makes a total of four pubs, alongside the Savoy Tap and Samuel Pepys, that we have acquired in the capital in the last 18 months. The three pubs in north Kent are all in the heart of planned major housing and economic development projects.

As we strengthen the quality of our estate, we continue to dispose of those outlets that no longer fit our strategy. In the last year, we have disposed of three pubs (2018: eight), sold the freehold and leased back one other, and sold five (2018: one) unlicensed properties and land holdings. We have realised £7.8m (2018: £6.0m) of total disposal proceeds.

Over the last ten years, we have acquired 37 pubs and disposed of 95. These acquisitions and disposals have transformed the profile of our pub estate, with average income per managed pub growing by +72.1% in ten years and average income per tenanted pub growing by +42.4%.

Drive footfall to our pubs

We aim to drive footfall to our pubs by designing and developing unique pubs and hotels with a 'wow' factor. We believe that continuous investment in our internal facilities and improvement to the kerb appeal of our pubs, make our outlets stand out from the local competition and so recruit new customers and retain existing. Great pub design plays a hugely important part in creating a premium and differentiated experience. We have excellent skills in house, and use external consultants as appropriate.

This year, we have invested £7.0m (2018: £10.2m) in capital expenditure to improve the look and feel of our pubs and a further £2.8m (2018: £2.8m) in repairs and decorations. This is consistent with our long term plan to maintain the highest standards for our customers.

We have completed an upgrade of the restaurant and extended the conservatory at the Marine Hotel at Whitstable and a refurbishment of the restaurant and bar at the Royal Albion in Broadstairs, with further projects at the Vine in Tenterden, the Shakespeare in Canterbury, the George and Dragon in Thames Ditton and the Albion in Faversham, as well as a number of smaller developments this year.

The Woolpack, Banstead transferred from the tenanted to managed estate in February 2019. We plan a substantial redevelopment later in 2019 to exploit this great site and expect this, alongside the Wharf in Dartford, to be our major investment projects in 2020.

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

We are investing ever greater amounts in the external appearance of our pubs to improve signage and lighting, to enhance garden and car park facilities and generally improve overall amenities for our customers. We expect to have installed our new look signage on half the pub estate by the end of the 2019 calendar year.

Developing our offer to enhance the customer experience

We aim to enhance the customer experience in our pubs by delivering great fresh food, providing accommodation of character and offering an interesting range of drinks.

We operate a well invested, balanced portfolio of pubs and derive our income from three key streams. Drinks sales, in our managed pubs, represents 58% of the total mix (2018: 56%), with food sales 33% (2018: 34%) and accommodation 9% (2018: 9%). Our tenanted and leased pubs are also well positioned across drinks, food and accommodation offers.

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 drink sales with lager and cider brands performing especially well. Our coastal sites, in particular, benefitted from these favourable summer conditions. As the year has unfolded the trading conditions have become more difficult with a challenging final quarter as we lapped the exceptional trading in the prior year. Christmas trading 2018 was buoyant with period like-for-like managed pub sales up +7.1% and Easter 2019 was strong too, but periods in between these holiday peaks have been more testing.

In these circumstances it is particularly pleasing that we still managed to grow like-for-like sales in all categories with like-for-like food sales returning to growth.

Like-for-like drinks sales in the managed estate grew by +4.3% (2018: +2.3%). The demand for premium drinks and ever wider choice of beers continues. We have enhanced our bars, and are continually evolving our range to meet consumer demand. In beer, world lagers and fuller flavoured, craft beers drive growth. In cider, craft and red fruit based products are popular. The good performance of cocktails, gin and flavoured mixers continues.

In the eating out market pubs have continued to outperform restaurants because pubs are more flexible at adapting their offer to changing consumer needs. Visit frequency, according to MCA[8], has fallen by -0.6%, driven predominantly by decline in daytime meals.

We have focused efforts on developing menus to respond to health conscious customers and now provide a variety of vegetarian and vegan options. We have launched a new vegan burger and expanded our range of seasonal and fresh produce.

We have made improvements to the way we communicate our food offer. We are proud of our position in the community and look to use local suppliers where possible within our menus and have invested more in online engagement with our chefs and communications about our local supplier network via #shepsfood.

We recognise that people are often time-poor and some customers may want to ensure that their visit to our pubs is as fast and efficient as possible. In response to these demands we are exploring ways to improve the overall speed of service through automated table ordering and online booking.

As a consequence of all these measures, our managed like-for-like food sales grew by +1.9% (2018: -1.3%).

Providing high quality accommodation is a key part of our offer and this part of the business has enjoyed rapid growth in recent years. At the year end there were 294 (2018: 294) letting rooms in the managed estate and 220 (2018: 220) in the tenanted estate. The new site in Ebbsfleet will add 17 rooms to the managed estate in 2021.

Our managed like-for-like accommodation sales grew by +1.5% (2018: +2.9%). During the year we refurbished 31 bedrooms (2018: 16 bedrooms) at the Dog and Bear, Lenham, the Millers Arms, Canterbury, the Sun Inn, Faversham, and the Crown, Chislehurst as part of our ongoing programme to upgrade and maintain high standards in our managed inns and hotels. Occupancy fell slightly to 77% from the prior year level of 79%, but RevPAR continued to grow marginally to £68 (2018: £67).

[8]Source: MCA Insight UK Eating Out Market Report 2019.

Attracting, retaining and developing the best people

We aim to attract, retain and develop the best people by understanding the potential in everyone, inspiring them to achieve their goals, and by building loyalty and engagement of our licensees and employees through the professionalism of the support we provide.

We employed 1,865 people (2018: 1,662) at the year end, of which the majority are in our managed pubs: 1,611 (2018: 1,403), a number that has nearly doubled in the last ten years.

Across the business, we have an enviable reputation for attracting great staff and looking after them. We provide comprehensive training, support and engender a strong family culture across the business. We aim to create an aspirational career pathway and position ourselves as the local hospitality employer of choice.

In the past year, we have added new systems to help us manage this growing team and support their training and personal development more effectively. In the coming year, we will add further systems to enable enhanced communication and engagement at all levels across our employee base.

We try to engage pub teams as much as possible in the development of their individual businesses and to create a culture of empowerment. We have on-site champions for coffee, customer service and social media. We encourage our food teams to build our online presence by showcasing great fresh food and individual chef stories.

A particular challenge in the sector has been to attract quality chefs. In the last year, we have worked more closely with local catering colleges to recruit new young talent. We have launched an apprentice scheme for chef development at various stages of their career path. We have a programme to improve the kitchen working environments and deliver improved air conditioning.

We also enjoy great relationships with our tenanted and leased partners and are proud to support their achievements. We greatly value personal relationships and offer a flexible and tailored approach to the challenges and opportunities in each outlet.

We were delighted with the recent results from this year's KAM Media industry survey, which gave us great feedback from our licensees on the support and service levels we provide. We score highly against our key competitors in most categories and firmly believe we attract some of the best talent within the sector.

We are firm supporters of Voluntary Code of Practice for the operation of Tenanted and Leased pubs. We are particularly pleased with the take up of one of the initiatives launched this year, to provide a comprehensive regulatory compliance support package. Every year, we hold a celebration to recognise and reward the outstanding talent of our licensees. I am delighted that Lou Davies and her team at the Market House, Maidstone were named as the Shepherd Neame Pub of the Year for their remarkable transformation of this pub.

Pub performance

Our Managed pubs continue to outperform the market. The Coffer Peach Business Tracker recorded like-for-like sales growth in the market of +1.6% for the 12 months to June 2019. Our same outlet like-for-like managed pub sales were up +3.2% for the 52 weeks to 29 June 2019 (2018: +1.3%). Average income per managed pub grew by +6.6% (2018: -1.8%).

Within the tenanted estate we have continued the very robust and consistent trajectory of recent years, with like-for-like tenanted pub income up +2.3% (2018 : +2.1%) and average income per tenanted pub up +3.3% (2018: +5.8%.).

Brewing and brands

Overview

The market for beer continues to evolve at a rapid rate.

There is a clear role for an independent brewer, of our size, based in the south east, with our skills and expertise. We have a unique heritage, brew great beers, have strong local provenance, and enjoy excellent customer relationships. We also see considerable new opportunities emerging as the market evolves.

Achieving the highest quality standards in production is a key success criterion. In the last year, we have won 15 different awards for the quality of our beer and packaging. We have invested £1.1m in new plant and infrastructure. In 2020 we plan to install new yeast and filter plants to further improve product quality at similar levels of capital expenditure. We have invested £0.5m more in marketing and brand activity than the prior year, which we believe is the right step for the long term as we build the Shepherd Neame brand.

The overall beer market grew by +1.7% in the 12 months to June 2019[8], with growth largely driven through the off trade, which now accounts for 54% of total volume[8]. The on trade also grew by +0.3%[9].

The growth in the category has been driven by world lager. Cask ale and premium bottled ale, categories where we have traditionally been strong have declined. Canned volume is growing ahead of bottled. We have seen increased demand for more taste and flavour and hop-forward character in beers which is driving considerable brand switch in each category.

As previously communicated, the termination of the Asahi contract in 2018 and the end of the Lidl own brand contract allowed us to focus capacity on our own brands but was always going to require change for us, because of lower production volume and also because we no longer had a strong world lager brand. Recent portfolio enhancements are designed to address this.

[9] Source: The British Beer and Pub Association

Creating demand and building awareness for our brands

In response to the market trends, we have taken a number of important steps in the last year to strengthen the Company's beer portfolio over the next few years. We have:

- modernised our flagship British classic ale, Spitfire
- refreshed our highly successful Whitstable Bay range
- successfully launched the Bear Island range with Bear Island East Coast Pale Ale and Triple Hopped Lager
- introduced the Cask Club with a series of collaboration ales with leading craft brewers.

In addition, and having evaluated a number of potential partnerships in world lager and craft beer opportunities, we have:

- introduced Sam 76, a hazy American IPA, and Angry Orchard Rose Cider, both on trend craft brands imported from Boston Beer
- entered a new partnership with Boon Rawd Brewery Company to import and distribute Singha Beer, Thailand's original premium beer throughout the UK.

The move to go into partnership with Boon Rawd Brewery Company puts an exciting world lager in our sales portfolio which appeals to younger, discerning and adventurous consumers. This is backed up by top level brand sponsorships at Chelsea FC and Moto GP races.

Whilst this brand will take some time to build we believe it will complement our own portfolio and see good opportunities for growth over the medium term. We are engaged in discussions with other potential partners for further opportunities to access different parts of the market.

As a result of these portfolio developments, we have conducted a comprehensive engagement programme with customers and consumers, with a series of trade shows, outside events and strong social media activity. We have received a very good reaction to the brand activity and the direction we are taking.

Brewing and brands performance

Our core own brand beer and cider volumes grew by +0.5% (2018: -0.9%) reflecting the key changes made within the portfolio. Strong performances were seen in Spitfire Lager, Bear Island and Orchard View.

Total own beer volumes fell by -23.3% (2018: -10.6%). The impact of the Asahi and Lidl contracts was a reduction in volume of 40,000 brewers barrels.

Current trading

We have made an encouraging start to the new year against strong comparatives in the prior period.

For the 11 weeks to 14 September 2019, total managed sales grew by +4.7% (2018: +7.8%), same outlet like-for-like managed sales were up +1.6% (2018: +5.1%) and own beer and cider volumes continued the recent improved momentum and grew by +5.8% (2018: +4.0%).

In the 9 weeks to 31 August 2019 like-for-like tenanted pub income was up +2.7% (2018: +6.2%).

Summary

Shepherd Neame remains well positioned in the sector, with great pub assets, an exciting beer portfolio, excellent brand reputation and a geographical location with potential for economic growth. The new financing and strong balance sheet gives us a great platform to take advantage of any opportunities that may arise in the sector.

This year has seen an excellent performance from our managed pubs with substantial growth in turnover and profit. The tenanted pubs have continued their recent impressive sustained like-for-like performance.

Brewing and Brands performance has been more challenging as expected this year, but we are excited by the potential of our recent portfolio enhancements.

Shepherd Neame is a modern, well invested, balanced business. We have transformed our pub operations in recent years to increase our exposure to the growth areas of the market. We see further opportunities emerging in both beer and pubs to unlock more.

As an authentic and independent business we appeal to many of today's consumer attitudes. We think for the long term, we invest for the long term and we are financed for the long term, but we are flexible and agile to respond to changes in the market over the short term.

Jonathan Neame

Chief Executive

FINANCIAL COMMENTARY

Turnover and underlying profit

The previous financial year was a 53 week year. Commentary in this section is on an equivalent 52 week to 52 week basis unless otherwise specified. Trading performance across the operating segments on a comparative basis is shown in the table below:

Turnover	**2019 52 weeks £'000**	**2018 52 weeks £'000**	**Change %**	2018 53 weeks £'000	Change %
Managed Pubs	**68,777**	**63,913**	**+7.6**	65,332	+5.3
Tenanted Pubs	**35,033**	**34,678**	**+1.0**	35,374	-1.0
Brewing and Brands	**40,742**	**53,524**	**-23.9**	54,424	-25.1
Unallocated	**1,249**	**1,411**	**-11.5**	1,437	-13.1
Total	**145,801**	**153,526**	**-5.0**	156,567	-6.9
Underlying Profit					
Managed Pubs	**9,215**	**8,413**	**+9.5**	8,694	+6.0
Tenanted Pubs	**12,950**	**12,921**	**+0.2**	13,215	-2.0
Brewing and Brands	**923**	**2,219**	**-58.4**	2,301	-59.9
Unallocated	**(7,830)**	**(7,947)**	**+1.5**	(8,146)	+3.9
Underlying operating profit	**15,258**	**15,606**	**-2.2**	16,064	-5.0
Net finance costs	**(3,901)**	**(4,214)**	**+7.4**	(4,295)	+9.2
Underlying profit before tax	**11,357**	**11,392**	**-0.3**	11,769	-3.5

Managed pubs delivered good sales growth through like-for-like sales of +3.2% combined with further growth from the new pubs acquired in the year taking total turnover growth to +7.6%. Underlying operating profit grew by a healthy +9.5% through sales growth combined with an improvement in underlying operating margins of 20 basis points to 13.4%.

This margin improvement came from improved labour costs, focus on food margins and procurement and offset the inflationary impacts that have affected the whole industry around labour and business rates.

Good progress has been made in mitigating rises in the national living wage and apprenticeship levy through implementing a new labour scheduling system with a focus on improved service at the lowest cost and introducing an apprenticeship scheme for chefs and pub managers.

Ongoing cost inflation means that margins will be under continued pressure.

Tenanted pubs turnover grew by +1.0% despite a lower number of pubs trading across the financial year. Underlying operating profit was up +0.2% following the increase in turnover offset by increases in depreciation as we continue to

invest to transform the tenanted estate.

Brewing and brands was impacted by the exit from the Asahi and Lidl own brand contracts which led to a reduction in volumes of 40,000 brewers barrels. Total own beer volumes were 150,000 brewers barrels (2018: 196,000 brewers barrels) leading to a turnover fall of -23.9%. Underlying EBITDA for this segment was £3.0m (2018: £4.4m) and capital investment £1.1m (2018: £1.8m) and hence free cash flow generated from this division was £1.9m (2018: £2.6m).

Underlying net finance costs of £3.9m (2018: £4.2m) benefitted from the refinancing and lower cost of debt. Underlying interest cover was 3.9 times (2018: 3.7 times).

Items excluded from underlying results

Total items excluded from underlying results were a net charge of £7.9m (2018: net credit of £0.4m). This year's items comprised four elements:

- As part of the refinancing exercise the Company terminated interest rate swap contracts totalling £35.0m for net cash consideration of £9.4m in connection with the repayment of the associated term 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. A further charge of £1.0m was taken in respect of the movement in fair value of the ineffective portion of the remaining interest rate swap and cap.
- The annual impairment review resulted in an impairment charge of £0.2m relating to five properties (2018: £0.6m charge in relation to three properties).
- Property profits of £2.8m (2018: £1.9m) on the sale of three pubs, the sale and leaseback of one pub and the sale of five unlicensed properties (2018: eight pubs and one unlicensed property) were recognised as the business continues to dispose of predominantly small community wet led pubs and unlicensed assets that no longer fit with the Company's long-term strategy.
- The annual revaluation to fair value of investment properties on the balance sheet resulted in an increase in value of £0.2m (2018: £0.8m).

In the previous year there were one-off operating charges of £1.8m in relation to restructuring costs following a review of strategy for the brewing and brands division associated with the expiry of the Asahi contract.

Taxation

The total tax charge was £0.9m (2018: £2.1m), an effective rate of 25.4% (2018: 17.4%) following a higher tax charge on property disposals. The average statutory rate of corporation tax in the UK for the period was 19.0% (2018: 19.0%). The underlying tax rate was 21.1% (2018: 21.3%). The net tax charge on items excluded from underlying results was a credit of £1.5m (2018: credit of £0.4m).

The Company expects the underlying tax rate to continue to be around 2% higher than the average statutory rate in place.

Summary rates of taxation	**2019 Profit £'000**	**Tax £'000**	**Rate**	2018 Profit £'000	Tax £'000	Rate
Profit before tax and tax thereon	**3,471**	**882**	**25.4%**	12,119	2,104	17.4%
Operating charges excluded from underlying results	**-**	**-**		1,759	334	
Impairment	**168**	**32**		622	118	
Non underlying finance costs	**10,772**	**2,047**		-	-	
Profit on disposal of property	**(2,848)**	**(521)**		(1,908)	102	
Investment property fair value movements	**(206)**	**(39)**		(823)	(156)	
Underlying profit before tax and underlying tax thereon	**11,357**	**2,401**	**21.1%**	11,769	2,502	21.3%

Earnings per share and dividends

Underlying basic earnings per ordinary share fell by -3.3% to 60.9p (2018: 63.0p) following the decrease in underlying operating profit but on an adjusted 52 vs 52 weeks basis was level. Basic earnings per ordinary share decreased to 17.6p (2018: 68.1p) due to the lower operating profits and the one off impacts of the refinancing.

Dividend per share paid and proposed in respect of the year increased by 3.0% to 30.08p per ordinary share (2018: 29.20p per ordinary share) to give total dividends of £4.4m (2018: £4.3m). Underlying dividend cover fell to 2.0 times (2018: 2.2 times) and total dividend cover has fallen to 0.6 times (2018: 2.3 times).

Cash Flow

The decrease in underlying operating profits meant underlying EBITDA decreased by -3.9% to £23.7m (2018: £24.6m) or -1.4% on a 52 vs 52 week basis. Tax cash payments decreased to £1.6m due to the one off costs of refinancing being tax deductible. Net cash inflow from operating activities decreased by £0.1m to £22.5m (2018: £22.6m).

The total cash cost of interest and dividends, purchase of own shares and issue costs of new loans decreased by £1.2m to £9.3m (2018: £10.5m). Due to the 2018 financial year being 53 weeks in length five quarterly interest payments were incurred whereas the 2019 financial year reverts to the usual four. Dividend payments reflect the increase in payment of the final 2018 and interim 2019 dividends.

In order to service the Company's future obligations under employee incentive plans 57,000 shares were purchased at an average market price of £10.45. In 2018 2,200 shares were purchased at an average market price of £11.25. Within that year all the consideration for these purchases was settled, combined with a further £1.3m of consideration for shares purchased in the 2017 financial year.

Total disposal proceeds of £7.8m (2018: £6.0m) were realised from the sale of pubs and assets that no longer fit our strategy. Taking these items together internally generated free cash flow was £21.1m (2018: £18.1m) which has been invested in capital expenditure for the long-term growth of the Company as follows:

- Cash spend on core capital expenditure was £10.3m (2018: £14.0m) as we continue to invest to strengthen the pub and brewery asset base. The previous year had three large managed developments at the Market House, Maidstone, the Spitfire, Kings Hill, West Malling and at the Boathouse, Yalding, whereas the 2019 financial year had just one major development at the Marine, Whitstable.
- A further £9.0m was invested in the acquisition of two new leasehold sites and two freehold pub sites. In 2018 £0.7m was invested in the acquisition of two new leasehold pub sites in London.

Cash flow and net debt

Summary cash flow statement	**2019 £'000**	2018 £'000
Underlying EBITDA	**23,673**	24,639
Working capital and other operating cash flows	**391**	2,266
Tax	**(1,567)**	(2,831)
Operating charges excluded from underlying results	**-**	(1,475)
Cash flow from operations	**22,497**	22,599
Dividends paid, purchase of own shares and share option proceeds	**(4,917)**	(5,523)
Interest paid and issue costs of new loan	**(4,341)**	(4,970)
Disposal of fixed assets	**7,825**	6,008
Internally generated free cash flow	**21,064**	18,114
Core capital expenditure	**(10,312)**	(14,015)
Customer loan redemptions	**61**	75
Cash flow pre acquisitions and debt repayment	**10,813**	4,174
Acquisition of pubs	**(8,992)**	(733)
Cash acquired on acquisition	**347**	-
Settlement of derivative financial instruments	**(9,610)**	-
Repayment of borrowings	**(54,500)**	(2,000)
New bank loans raised	**59,500**	-
Net cash (outflow)/inflow for the period	**(2,442)**	1,441
Movement in loan issue costs	**262**	(155)
Movement in loans	**(5,000)**	2,000
Closing net debt	**(81,977)**	(74,797)

Financing and loan facilities

In October 2018 the Company's debt facilities were refinanced to support the long term strategy of the business. The new structure gives the Company £107.5m of committed long term facilities and is attractive because it provides:

- Certainty of funding as the business looks for growth.
- A lower rate of interest than the debt being replaced.
- An improved debt maturity profile with a revolving credit facility expiring in 2023, and private placement expiring in 2038.
- New debt partners who share and support our long-term focus and strategy.

Specifically, the key features of this new financing structure are:

- A private placement raising £35m from BAE Systems Pension Funds Investment Management Ltd ("BAE Pension Fund"), who received loan notes at a fixed interest rate of 3.99% for 20 years.
- These loan notes replaced part of the term loan that was due to expire in 2026. As a result, £37.5m of this loan was cancelled and repaid leaving £22.5m remaining. Swap contracts of £35m associated with this loan have been terminated. The cancellation of the swaps has had no impact on net asset value per share, but has increased net debt in the short term.
- A new five-year revolving credit facility of £50m with Lloyds Bank plc and Santander UK plc. This matures in 2023 replacing the previous facility of £45m that was due to expire in 2020 and would therefore have had to be refinanced in 2019 during the proposed period of the UK's exit from the European Union. 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. The rate of LIBOR on the first £20m of the drawings on this facility has been capped at 2.0% mitigating a level of interest rate risk on this floating rate debt.

At the year end net debt stood at £82.0m (2018: 74.8m) meaning the new facilities provide £25.5m of headroom.

Balance sheet

There was a £6.8m increase in fixed assets (2018: increase of £2.1m) and an increase in net debt of £7.2m to £82.0m (2018: £74.8m).

Shareholders funds at 29 June 2019 were £208.1m (2018: £201.1m) meaning net assets per share showed an increase of +3.5% to £14.01 (2018: £13.53).

Balance sheet gearing at the year end was 39% (2018: 37%) and the leverage ratio of net debt to underlying EBITDA at the year end was 3.5 times (2018: 3.0 times).

Investment Property

We continue to hold a small number of non-core assets that no longer fit the Company's long term strategy but which are held to unlock potential increased shareholder value in the future. These assets are generally land or buildings that do not meet the Company's tied pub model or land associated with the Company's historic farming activities. As at 29 June 2019, the Company owns investment property valued at £8.8m (2018: £7.9m).

During the period we have achieved planning permission for residential development and subsequent disposal of land at two pub sites, and one other property. We have also sold the historic farmhouse at Queen Court, Ospringe and are exploring options for further disposals of land and buildings from this property.

In 2018, we made a planning application for 50 houses on land outside Faversham. The application was refused, but is the subject of an appeal, due to be heard in the autumn 2019.

UK exit from the European Union

The business has a Brexit risk committee reporting to the Executive Board to focus on the Company's responses to risks and opportunities associated with the UK's exit from the European Union. The key risks identified for the Company are disclosed in the risk and uncertainty report on page 24 of the Annual Report and Accounts 2019. A number of factors have been reviewed by the committee with mitigating steps put in place as appropriate:

- The Company has a relatively small level of exports to the EU as total worldwide export sales are less than 2% of turnover.

- A high proportion of inputs to the brewery and our pubs come from the UK or from Kent. Certain purchases such as wines come from outside the UK but this is a relatively low value of overall purchases. Currently the currency value of 3 months purchases of Euro and US dollars sit within cash and cash equivalents to hedge against turbulence in foreign exchange rates.
- The Company has no refinancing risk having taken the option to refinance early in October 2018.
- The Company has made arrangements to take additional local storage space to support higher stock levels.
- The overall proportion of EU nationals employed by the Company is relatively low at less than 10%. Notwithstanding this, to support recruitment, retention and development of key roles across the pub estate an apprenticeship scheme has been started for chefs and pub managers.

Certain risks are harder to mitigate against. The Company and a number of its customers are reliant on the Kent road infrastructure to enable smooth transport of products or to visit our pubs. Any sustained congestion on this road network could lead to supply chain challenges or a lower number of visits to our pubs. It is difficult to take early mitigation against this risk but the Company will remain flexible to react to changes as they arise.

CONSOLIDATED PROFIT AND LOSS ACCOUNT 52 weeks ended 29 June 2019

		52 weeks to 29 June 2019			53 weeks to 30 June 2018		
	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
Turnover	1,2	**145,801**	**-**	**145,801**	156,567	-	156,567
Operating charges	3	**(130,543)**	**(168)**	**(130,711)**	(140,503)	(2,381)	(142,884)
Operating Profit	1	**15,258**	**(168)**	**15,090**	16,064	(2,381)	13,683
Finance costs		**(3,901)**	**(9,820)**	**(13,721)**	(4,295)	-	(4,295)
Fair value movements on financial instruments charged to profit and loss		**-**	**(952)**	**(952)**	-	-	-
Net finance costs		**(3,901)**	**(10,772)**	**(14,673)**	(4,295)	-	(4,295)
Profit on disposal of property	3	**-**	**2,848**	**2,848**	-	1,908	1,908
Investment property fair value movements	3	**-**	**206**	**206**	-	823	823
Profit/(loss) before taxation		**11,357**	**(7,886)**	**3,471**	11,769	350	12,119
Taxation	4	**(2,401)**	**1,519**	**(882)**	(2,502)	398	(2,104)
Profit/(loss) after taxation		**8,956**	**(6,367)**	**2,589**	9,267	748	10,015
Earnings per 50p ordinary share	6						
Basic				**17.6p**			68.1p
Diluted				**17.5p**			67.4p
Underlying basic				**60.9p**			63.0p

All results are derived from continuing activities.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 52 weeks ended 29 June 2019

	note	**52 weeks ended 29 June 2019 £'000**	53 weeks ended 30 June 2018 £'000
Profit after taxation		**2,589**	10,015
Gains arising on cash flow hedges during the period		**248**	4,271
Transfers to the profit and loss account on cash flow hedges		**10,660**	-
Tax relating to components of other comprehensive income	4	**(1,931)**	(792)
Other comprehensive gains		**8,977**	3,479
Total comprehensive income		**11,566**	13,494

CONSOLIDATED AND PARENT COMPANY BALANCE SHEET As at 29 June 2019

	Group 29 June 2019 £'000	Group 30 June 2018 £'000	**Company 29 June 2019 £'000**	Company 30 June 2018 £'000
Fixed assets				

Goodwill	**760**	620	**760**	620
Tangible fixed assets	**314,728**	308,037	**314,728**	308,037
Investments and loans	**10**	76	**5,519**	239
	315,498	308,733	**321,007**	308,896
Current assets				
Stocks	**7,111**	6,841	**7,111**	6,841
Debtors	**12,945**	14,036	**12,945**	14,036
Deferred tax asset	**1,058**	2,992	**1,058**	2,992
Cash at bank and in hand	**116**	1,625	**116**	1,625
	21,230	25,494	**21,230**	25,494
Creditors: amounts falling due within one year				
Bank loans and overdrafts	**(933)**	-	**(1,068)**	-
Creditors	**(23,096)**	(24,614)	**(28,470)**	(24,806)
	(24,029)	(24,614)	**(29,538)**	(24,806)
Net current (liabilities)/assets	**(2,799)**	880	**(8,308)**	688
Total assets less current liabilities	**312,699**	309,613	**312,699**	309,584
Creditors: amounts falling due after more than one year				
Bank loans	**(81,160)**	(76,422)	**(81,160)**	(76,422)
Derivative financial instruments	**(6,822)**	(16,955)	**(6,822)**	(16,955)
Deferred lease liability	**(2,547)**	(2,314)	**(2,547)**	(2,314)
Provision for liabilities	**(14,073)**	(12,870)	**(14,073)**	(12,870)
Net assets	**208,097**	201,052	**208,097**	201,023
Capital and reserves				
Called-up share capital	**7,429**	7,429	**7,429**	7,429
Share premium account	**1,099**	1,099	**1,099**	1,099
Revaluation reserve	**71,858**	73,532	**71,858**	73,532
Own shares	**(1,551)**	(1,588)	**(1,551)**	(1,588)
Hedging reserve	**(4,990)**	(13,967)	**(4,990)**	(13,967)
Profit and loss account	**134,252**	134,547	**134,252**	134,518
Equity shareholders' funds	**208,097**	201,052	**208,097**	201,023

The profit attributable to the shareholders of the Company for the 52 weeks ended 29 June 2019 was £2,618,000 (2018: £10,270,000 for the 53 weeks ended 30 June 2018).

These accounts for Shepherd Neame Limited (Registered in England number 138256) were approved by the Board of Directors on 24 September 2019 and were signed on its behalf by:

Miles
Templeman Jonathan
Neame
Directors

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 52 weeks ended 29 June 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 24 June 2017	**7,429**	**1,099**	**73,579**	**(2,277)**	**(17,446)**	**128,727**	**191,111**
Profit for the financial year	-	-	-	-	-	10,015	10,015
Gains arising on cash flow hedges during the year	-	-	-	-	4,271	-	4,271
Tax relating to components of other comprehensive income	-	-	-	-	(792)	-	(792)
Total comprehensive income	**-**	**-**	**-**	**-**	**3,479**	**10,015**	**13,494**
Ordinary dividends paid	-	-	-	-	-	(4,197)	(4,197)
Revaluation reserve realised on disposal of properties	-	-	(47)	-	-	47	-
Accrued share-based payments	-	-	-	-	-	649	649
Purchase of own shares	-	-	-	(25)	-	-	(25)
Distribution of own shares	-	-	-	556	-	(536)	20
Unconditionally vested share awards	-	-	-	158	-	(158)	-
Balance at 30 June 2018	**7,429**	**1,099**	**73,532**	**(1,588)**	**(13,967)**	**134,547**	**201,052**

Profit for the financial year	-	-	-	-	-	2,589	2,589
Gains arising on cash flow hedges during the year	-	-	-	-	248	-	248
Transfers to the profit and loss 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	-	-	-	-	785	-	785
Tax relating to components of other comprehensive income	-	-	-	-	(1,931)	-	(1,931)
Total comprehensive income	**-**	**-**	**-**	**-**	**8,977**	**2,589**	**11,566**
Ordinary dividends paid	-	-	-	-	-	(4,341)	(4,341)
Revaluation reserve realised on disposal of properties	-	-	(1,674)	-	-	1,674	-
Accrued share-based payments	-	-	-	-	-	396	396
Purchase of own shares	-	-	-	(595)	-	-	(595)
Distribution of own shares	-	-	-	467	-	(448)	19
Unconditionally vested share awards	-	-	-	165	-	(165)	-
Balance at 29 June 2019	**7,429**	**1,099**	**71,858**	**(1,551)**	**(4,990)**	**134,252**	**208,097**

There are no differences in the Parent Company Statement of Changes in Equity and the Consolidated Statement of Changes in Equity above other than the Parent Company Profit for the financial year of £2,618,000 (2018: Parent Company profit of £10,270,000).

CONSOLIDATED CASH FLOW STATEMENT 52 weeks ended 29 June 2019

		52 weeks ended 29 June 2019		53 weeks ended 30 June 2018
	£'000	**£'000**	£'000	£'000
Net cash flows from operating activities (note 7)		**22,497**		22,599
Cash flows from investing activities				
Proceeds of sale of tangible fixed assets	**7,825**		6,008	
Purchase of tangible fixed assets	**(13,710)**		(14,748)	
Customer loan redemptions	**61**		75	
Acquisition of subsidiaries	**(5,594)**		-	
Cash acquired on acquisition	**347**		-	
Net cash flows from investing activities		**(11,071)**		(8,665)
Cash flows from financing activities				
Dividends paid	**(4,341)**		(4,197)	
Interest paid	**(3,526)**		(4,970)	
Settlement of derivative financial instruments	**(9,610)**		-	
Repayment of long-term loans	**(54,500)**		(2,000)	
New long-term loans	**59,500**		-	
Issue costs of new long-term loans	**(815)**		-	
Purchase of own shares	**(595)**		(1,346)	
Share option proceeds	**19**		20	
Net cash flows from financing activities		**(13,868)**		(12,493)
Net (decrease)/increase in cash and cash equivalents		**(2,442)**		1,441
Cash and cash equivalents at beginning of the period		**1,625**		184
Cash and cash equivalents at end of the period		**(817)**		1,625

NOTES TO THE ACCOUNTS 29 June 2019

1 Segmental reporting

The operating segment disclosure requirements of IFRS 8 are required as the Group has publicly traded equity instruments. The accounting policy for identifying segments is based on internal management reporting information that is regularly reviewed by the chief operating decision-maker.

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.

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 elements 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 fixed assets and goodwill	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**

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 and goodwill	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**

Geographical information

An analysis of the Group's turnover by geographical market is set out below:

	52 weeks ended 29 June 2019 £'000	53 weeks ended 30 June 2018 £'000
Turnover		
UK	**143,581**	154,031
Rest of the World	**2,220**	2,536
	145,801	156,567

2 Turnover

An analysis of the Group's turnover is as follows:

	52 weeks ended 29 June 2019 £'000	53 weeks ended 30 June 2018 £'000
Sale of goods and services	**136,757**	147,503
Rental income	**9,044**	9,064
	145,801	156,567

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.
- Fair value movements on financial instruments charged to profit and loss.

	52 weeks ended 29 June 2019 £'000	53 weeks ended 30 June 2018 £'000
Underlying EBITDA	**23,673**	24,639
Depreciation and amortisation	**(8,298)**	(8,294)
Free trade loan discounts	**(25)**	(62)
Loss on sale of assets (excluding property)	**(92)**	(219)
Underlying operating profit	**15,258**	16,064
Net underlying finance costs	**(3,901)**	(4,295)
Underlying profit before taxation	**11,357**	11,769
Profit on disposal of properties	**2,848**	1,908
Investment property fair value movements	**206**	823
Operating charges - items excluded from underlying results	**(168)**	(2,381)
Settlement of interest rate swaps associated with refinancing	**(9,386)**	-
Write-off of unamortised finance costs following refinancing	**(434)**	-
Other fair value movements on financial instruments charged to profit and loss	**(952)**	-
Profit on ordinary activities before taxation	**3,471**	12,119

During the period, £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 includes £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 includes £952,000 in respect of the ineffective portion of the movement in fair value interest rate swaps.

Operating charges - items excluded from underlying results comprised an impairment charge of £168,000.

The charge of £2,381,000 for the 53 weeks ended 30 June 2018 comprised £1,759,000 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 £622,000.

4 Taxation

a Tax on profit on ordinary activities

	52 weeks ended 29 June 2019			53 weeks ended 30 June 2018		
	Underlying	**Excluded from**	**Total**	Underlying	Excluded from	Total

Tax charged to profit and loss	**resultsunderlying results** **£'000**	**statutory** **£'000**	results £'000	underlying results £'000	statutory £'000
Current tax					
UK corporation tax at 19.0% (2018: 19.0%)	**2,455**	**(1,959)**	**496**	2,645	(251)	2,394
Prior year under provision	**1**	**-**	**1**	25	-	25
Total current tax	**2,456**	**(1,959)**	**497**	2,670	(251)	2,419
Deferred tax					
Origination and reversal of timing differences	**(59)**	**440**	**381**	(158)	(147)	(305)
Prior year under/(over) provision	**4**	**-**	**4**	(10)	-	(10)
Total deferred tax	**(55)**	**440**	**385**	(168)	(147)	(315)
Total tax charged to profit and loss	**2,401**	**(1,519)**	**882**	2,502	(398)	2,104

Tax charged to other comprehensive income		
Deferred tax		
Gains arising on cash flow hedges in the period	**1,931**	792
Total tax charged to other comprehensive income	**1,931**	792

b Reconciliation of the total tax charge

	52 weeks ended 29 June 2019 £'000	53 weeks ended 30 June 2018 £'000	
Group profit on ordinary activities before taxation	**3,471**	12,119	12,119
Tax on Group profit at average UK corporation tax rate of 19.0% (2018: 19.0%)	**659**	2,303	2,303
Expenses not deductible for tax purposes	**85**	96	96
Profit on sale of property less chargeable gains	**133**	(310)	(310)
Prior year under provision	**5**	15	15
Total tax charged to profit and loss	**882**	2,104	2,104

c Factors that may affect future tax charges

Following the Finance Act 2016, the main rate of UK Corporation tax rate will reduce to 17% from 1 April 2020. A rate of 17% (2018: 17%) has been used in the deferred tax calculations which is the tax rate that is expected to apply in the periods in which the timing differences are expected to reverse.

During the 52 weeks beginning 30 June 2019, the net reduction of deferred tax liabilities expected to be credited to the profit and loss account is estimated at £100,000 due to the reversal of accelerated capital allowances. This estimate is based upon a number of assumptions, including the level of capital expenditure qualifying for capital allowances, which is uncertain and could result in a different actual movement.

There is no expiry date on timing differences.

5 Dividends

	52 weeks ended 29 June 2019 £'000	53 weeks ended 30 June 2018 £'000
Declared and paid during the year		
Final dividend for 2018: 23.45p (2017: 22.73p) per ordinary share	**3,475**	3,348
Interim dividend for 2019: 5.87p (2018: 5.75p) per ordinary share	**866**	849
Dividends paid	**4,341**	4,197

The Directors propose a final dividend of 24.21p (2018: 23.45p) per 50p ordinary share totalling £3,578,000 (2018: £3,475,000) for the 52 weeks ended 29 June 2019. The dividend is subject to approval by the shareholders at the Annual General Meeting, to be held on 18 October 2019 and has not been included as a liability in these financial statements, as it has not yet been approved or paid.

Shares held by the Company (and not allocated to employees under the Share Incentive Plan) are treated as cancelled when calculating dividends and earnings per share.

6 Earnings per share

	52 weeks ended 29 June 2019	53 weeks ended 30 June 2018
	£'000	£'000
Profit attributable to equity shareholders	**2,589**	10,015
Items excluded from underlying results	**6,367**	(748)
Underlying earnings attributable to equity shareholders	**8,956**	9,267

	Number	Number
Weighted average number of shares in issue	**14,717**	14,707
Dilutive outstanding options	**114**	142
Diluted weighted average share capital	**14,831**	14,849
Basic	**17.6p**	68.1p
Diluted	**17.5p**	67.4p
Underlying basic	**60.9p**	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.

7 Notes to the cash flow statement

a Reconciliation of operating profit to cash generated by operations

	52 weeks ended 29 June 2019			53 weeks ended 30 June 2018		
	Underlying results	**Excluded from underlying results**	**Total**	Underlying results	Excluded from underlying results	Total
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Operating profit	**15,258**	**(168)**	**15,090**	16,064	(2,381)	13,683
Adjustment for:						
Depreciation and amortisation	**8,298**	**-**	**8,298**	8,294	-	8,294
Impairment loss on tangible fixed assets	**-**	**652**	**652**	-	622	622
Reversal of impairment on tangible fixed assets	**-**	**(484)**	**(484)**	-	-	-
Share-based payments expense	**396**	**-**	**396**	569	80	649
(Increase)/decrease in stocks	**(254)**	**-**	**(254)**	222	-	222
Decrease in debtors and prepayments	**1,168**	**-**	**1,168**	5,948	-	5,948
Decrease in creditors and accruals	**(938)**	**-**	**(938)**	(4,488)	(120)	(4,608)
Free trade loan discounts	**25**	**-**	**25**	62	-	62
Loss on sale of assets (excluding property)	**92**	**-**	**92**	219	324	543
Interest received	**18**	**-**	**18**	15	-	15
Income tax paid	**(1,566)**	**-**	**(1,566)**	(2,831)	-	(2,831)
Net cash inflow/(outflow) from operating activities	**22,497**	**-**	**22,497**	24,074	(1,475)	22,599

b Analysis of net debt

	2018	Cash flow	Repayment of long-term loans	New long-term loans	Issue costs of new loans	Amortisation of issue costs	**2019**
	£'000	£'000	£'000	£'000	£'000	£'000	**£'000**
Cash	1,625	(1,509)	-	-	-	-	**116**
Bank overdraft	-	(933)	-	-	-	-	**(933)**
Cash and cash equivalents	1,625	(2,442)	-	-	-	-	**(817)**
Debt due after more than one year	(76,422)	-	54,500	(59,500)	815	(553)	**(81,160)**
Total	(74,797)	(2,442)	54,500	(59,500)	815	(553)	**(81,977)**

8 Accounts

The financial information set out above does not constitute the Group's statutory accounts for the 52 weeks ended 29 June 2019 or 53 weeks ended 30 June 2018 but is derived from those accounts. Statutory accounts for 2018 have been delivered to the Registrar of Companies and those for 2019 will be delivered following the Company's annual general meeting. The auditors have reported on those accounts; their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under s498(2) or (3) of the Companies Act 2006.

The preliminary announcement is prepared on the same basis as set out in the previous year's annual accounts.

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