GROUP OPERATIONAL AND FINANCIAL REVIEW

Strong financial performance

"Cash flow significantly improved and net debt reduced ahead of target."

HAYLEIGH LUPINO
CHIEF FINANCIAL OFFICER

Revenue

Revenue increased by 3% to £898.6 million (2023: £872.3 million), demonstrating the appeal of our predominantly community-based estate. Our expertise in managing local pubs, along with our strategic commitment to delivering exceptional guest experiences and enhancing our Reputation score, has supported this growth. Like-for-like sales were up 4.8% versus FY2023, with like-for-like revenue growth outpacing the market, and seeing growth in both food and drink sales.

Total retail sales in the Group's managed and partnership pubs for the 52-week period increased by 3.6% to £835.1 million (2023: £806.1 million). We operated 157 pubs under the tenanted and leased model generating revenues of £34.0 million (2023: £39.5 million). As outlined at our CMD, it remains our intention to strategically expand our managed and partnership models over the medium-term.

Accommodation sales were broadly stable at £34.9 million (2023: £35.6 million), with continued demand for UK staycations.

Profit

Underlying operating profit from continuing operations increased by 17.9% to £147.2 million (2023: £124.8 million). Underlying operating margins grew by over 200 basis points compared to last year, from continued focus on driving efficiencies in energy, simplification and labour costs resulting in an enhanced margin of 16.4% (2023: 14.3%) and reflecting strong progress in our strategic attempts to drive margin expansion. Total operating profit from continuing operations was £151.7 million (2023: £90.2 million).

Underlying EBITDA from continuing operations increased by 13.0% to £192.5 million (2023: £170.3 million). The EBITDA margin was 21.4%, marking a significant increase on last year (2023: 19.5%).

Underlying profit before tax from continuing operations increased to £42.1 million (2023: £25.6 million) and statutory profit before tax from continuing operations was £14.4 million (2023: loss before tax of £(30.6) million), reflecting the impact of non-underlying items.

The difference between underlying profit before tax and profit before tax from continuing operations is a net non-underlying charge of £27.7 million, the details of which are set out below.

The statutory profit from continuing operations was £17.5 million (2023: loss of £(19.2) million). The statutory loss from both continuing and discontinued operations was £(18.5) million (2023: £(9.3) million).

Non-underlying items

There is a net non-underlying charge of £27.7 million before tax and £15.6 million after tax from continuing operations.

The £27.7 million charge primarily relates to a £32.2 million net loss in respect of interest rate swap movements. This principally relates to interest rate swaps the Group entered into to fix the interest rate payable on the floating rate tranches of its securitised debt. Other non-underlying items comprise £0.7 million of reorganisation, restructuring and relocation costs and £0.5 million of additional costs from the change in CEO, offset by £5.7 million of net impairment reversals of freehold and leasehold property values following the external estate valuation of the Group's effective freehold properties and the impairment review of the Group's leasehold properties undertaken during the year.

The tax credit relating to these non-underlying items is £12.1 million.

There is a non-underlying charge of £36.5 million from discontinued operations in respect of CMBC which is detailed in the disposal of and share of associate section on page 12.

Taxation

The underlying tax charge was £9.0 million (2023: £3.5 million). This gives an underlying tax rate of 21.4%. The effective rate is lower than the standard rate of corporation tax primarily due to additional amounts upon which tax relief is available and a prior year tax credit.

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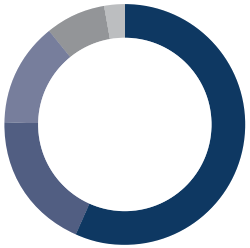
The total tax credit was £3.1 million (2023: £11.4 million) on total profit before tax from continuing operations of £14.4 million (2023: loss of £(30.6) million), with a negative effective tax rate of (21.5)%. In combination with the underlying items, the recognition of capital losses, previously derecognised, arising from the upward revaluation of land and buildings has resulted in the negative effective tax rate.

Total tax contribution
(£m)



VAT	**100.2**
Employee payroll taxes	**33.2**
Business rates	**24.2**
Employer payroll taxes	**14.2**
Machine games duty, corporation tax & other	**4.9**

Earnings per share

Total basic earnings per share on continuing operations were (2.8) pence (2023: (3.0) pence loss per share). Basic underlying earnings per share on continuing operations were 5.2 pence per share (2023: 3.5 pence per share).

Capital expenditure

Capital expenditure was £46.2 million in the year (2023: £65.3 million). Capital was predominantly focused on maintenance of both the estate and operational systems during the year. We expect that capital expenditure will be around £60 million in 2025, as we move towards the 7-8% of revenue target.

Property, net assets and disposals

The Group conducts an annual external valuation of its properties, with all pubs inspected on a rotating basis. Approximately one-third of the estate undergoes physical inspection each year, while the remainder is subject to a desktop valuation. In July 2024, Christie & Co carried out an external valuation, the results of which are reflected in the full year accounts.

The carrying value of the estate remains at £2.1 billion (2023: £2.1 billion). Following the valuation and a leasehold impairment review, on a like-for-like basis there was an increase of approximately £57 million in freehold and leasehold fair values for properties held as at the revaluation date, along with a £5.7 million reversal of impairment of freehold and leasehold properties in the income statement.

Net assets increased to £654.8 million (2023: £640.1 million), with a net asset value per share of £1.03 (2023: £1.01).

During the year, the Group generated £46.9 million in net proceeds from non-core pub disposals, with a further £4.0 million expected from transactions that were part of the FY2024 strategic disposal programme and completed within the first two months of FY2025. Disposal proceeds were in line with book value.

Disposal of and share of associate – Carlsberg Marston's Brewing Company (CMBC)

On 8 July 2024, the Group announced the sale of its remaining non-core brewing assets to create a business entirely focused on pubs, with a binding agreement to sell the whole of its 40% interest in CMBC for £206.0 million, or £202.6 million net of transaction fees. The transaction completed on 31 July 2024.

Following the Group's disposal of its 40% share in the joint venture, income from associates has been recognised in discontinued operations.

Impairment indicators on the carrying value of the investment immediately prior to disposal were identified, including the result of the net disposal proceeds being less than the carrying value of the investment. The Group has recognised an impairment to the carrying value of the investment immediately prior to disposal of £8.0 million. The amount of the impairment in this case is a judgemental matter due to the circumstances at hand, including uncertainty over the future cash flows of CMBC. As a result, the impairment has been disclosed as a key source of estimation uncertainty. The remaining difference between the newly impaired carrying value of the investment and the net disposal proceeds represents a loss on disposal of £11.9 million. Further details are provided in note 8 on page 107 of the Financial statements.

The statutory result in discontinued operations is a loss of £(36.0) million (2023: profit of £9.9 million). Underlying income from associates is £0.5 million (2023: £9.9 million). Non-underlying items include the two non-underlying items disclosed in our H1 results, which have been updated for tax differences, of £(14.0) million share of CMBC's ale brand impairment and £(2.6) million share of a CMBC onerous contract provision, which together with the underlying income from associates are the Group's share of the statutory profit after tax generated by CMBC. Other non-underlying items are the impairment to the carrying value of the investment in associate prior to disposal of £8.0 million and loss on disposals of £11.9 million.

Prior to the disposal, dividends from associates of £13.8 million were received in the year (2023: £21.6 million).

Pensions

The balance on our final salary scheme was a £13.1 million surplus at 28 September 2024 (2023: £12.9 million surplus). The net annual cash contribution of c.£6million will not continue in FY2025 and onwards. The company will continue to pay the administrative fees associated with the scheme.

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Dividend

As set out at the CMD, our capital allocation framework is focused on delivering sustainable long-term value for shareholders. Going forward, the Board will balance debt reduction and strategic growth investments with the goal of creating a more financially robust business that can ultimately support shareholder returns. At present, there are restrictions on the ability of the business to distribute dividends which arise as a result of both the legal entity structure and securitisation structure. Refinancing of our capital structure would provide greater optionality in this respect and, whilst there is no immediate action set to be taken, this remains under review. Dividends form a core part of our capital allocation framework, and whilst no dividend will be paid in respect of FY2024, the Board is cognisant of the importance of dividends to shareholders.

Cash flow

Cash flow was significantly improved on the prior year with an operating cash inflow of £207.4 million (2023: £141.2 million). Excluding the CMBC dividend, operating cash inflow was £193.6 million (2023: £119.6 million).

Net interest costs including bank and swap termination fees were £103.8 million (2023: £92.8 million) and capital expenditure was £46.2 million (2023: £65.3 million), resulting in recurring free cash flow of £43.6 million (2023: outflow of £(38.5) million).

Recurring free cash flow in FY2024 benefitted from lower levels of capital expenditure and taxation and going forward we continue to target recurring free cash flow of over £50 million a year. Taking into account disposals proceeds received of £46.9 million (2023: £51.3 million), CMBC dividend of £13.8 million (2023: £21.6 million) and disposal of 40% interest in CMBC of £205.5 million (2023: £nil million), net cash flow for the period was £309.8 million (2023: £34.4 million).

Debt and financing

Net debt, excluding IFRS 16 lease liabilities, was £883.7 million, a reduction of £301.7 million (2023: £1,185.4 million). Total net debt of £1,257.4 million (2023: £1,565.8 million) includes IFRS 16 lease liabilities of £373.7 million (2023: £380.4 million).

The Group has made significant progress in debt reduction during the year; pre-IFRS debt/EBITDA leverage reduced to 5.2x (2023: 8.0x). Leverage including IFRS 16 reduced to 6.5x (2023: 9.2x).

During the year, we successfully secured an amendment and extension to our banking facility, which was due to expire in January 2025, and during our interim results announced £340.0 million of funding. Following the disposal of our 40% share in CMBC, the net proceeds have been used to repay debt and the bank facilities have been adjusted accordingly. The revised bank facility is for £200.0 million, of which £35.0 million was drawn at year-end, maturing in July 2026, with the potential to extend beyond this.

There are one-off transaction costs of c.£3.6 million and the costs of the facilities are variable: to be determined by the level of leverage, or drawings, from time-to-time alongside changes in the SONIA rate. £60 million of the facilities is hedged.

The Group's financing, providing an appropriate level of flexibility and liquidity for the medium term, comprises:

- £200.0 million bank facility to July 2026 – at the year-end £35.0 million was drawn providing headroom of £165.0 million and non-securitised cash balances of £11.5 million
- Seasonal overdraft with current limit of £5-£20 million, depending on dates – unused at the period end. The seasonal overdraft is expected to reduce to £5-10 million in the near future
- Long-term securitisation debt of £560.2 million – at the period end none of the £120.0 million securitisation liquidity facility was utilised
- Long-term other lease-related borrowings of £338.4 million
- £373.7 million of IFRS 16 leases

The vast majority of our borrowings are long-dated and asset-backed, including the securitisation debt of £560.2 million, which has low interest rates in the current environment and a payment structure that reduces debt. The weighted average fixed interest rate payable by the Group on its securitised debt at 28 September 2024 was 6.45%.

The loan to value of its debt, which is improving year-on-year, is currently 50% for debt excluding IFRS 16 lease liabilities and 49% for the securitisation debt.

The securitisation is fully hedged to 2035. Other lease related borrowings are index-linked capped and collared at 1% and 4%. There is now one £60 million floating-to-fixed interest rate swap against the bank facility: £60 million is fixed at 3.45% until 2029. Reflecting the reduced level of our bank borrowings, we exited another £60 million forward floating-to-fixed interest rate swap in September 2024.

In summary, we have adequate cash headroom in our bank facility to provide operational liquidity. Importantly, c.100% of our medium to long-term financing is hedged, with known or fixed costs thereby minimising any exposure to interest rate movements.