SINCE 1875
WADWORTH
TRADITIONS WORTH HOLDING ON TO

July 2024
Shareholder Newsletter



Trading update

We have just had our half year unaudited accounts signed off, confirming that we are currently tracking at 19% above our EBITDA from prior year. Prolonged bouts of poor weather have resulted in unplanned repair and maintenance costs which are higher than expected, so even though sales are up 8% on prior year, this means we are not seeing the full benefit of positive sales converting to profit. Even so, our performance at the half way stage is satisfactory, and we have built solid foundations for the second half of the year.

Managed House sales are up a further 10% on what was already a much improved prior year. We have continued to grow food volumes and margin and the Euro Football Championship has, as expected, produced a positive uplift in drink sales in our sport-led pubs. We constantly review the mix of pubs in the tenanted and managed estate and subsequently have taken the decision to transfer one of our managed houses to a tenancy which will take place later this month.

Tenanted estate sales are up 8% against prior year. We have undertaken a complete review of our tenanted estate which has highlighted opportunities for the business and led to changes in the way we support this division to maximise the opportunities available to us. We have fewer pubs to let than we have had at any point in the past 18 months and have welcomed 14 new tenants so far this year. We have focussed on succession planning to ensure we minimise the risk of a pub closing while one tenant changes to the next. We currently have 2 pubs for sale, both of which are classed as Assets of Community Value. This classification means that the local community has 6 months to decide whether they would like to make an offer for the pub before it is put on the open market.

The Sales division has had a solid 6 months with our cask volumes holding up well, and our new product launches are creating lots of interest. This is a particularly encouraging result given the well-publicised challenges in the wider beer market.

Northgate Brewery update

The application submitted by Backhouse Group has now been in the local authority planning system for 15 months. Although this has been a particularly long process there does finally seem to be positive momentum towards a successful outcome. However, it currently looks as if we are still 6 months away from permission being granted and thus receiving funds. This is obviously later than we expected, delaying our investment programme into the pubs and the repayment of another portion of debt. We have a number of capital expenditure schemes ready to go for our pub estate that will be given the green light at the appropriate time.

Plans are being drawn up for the listed part of the brewery site, separate to the Backhouse scheme, with a view to submitting a planning application in the next couple of months. The local council's initial feedback on the plans and proposed uses of the buildings has all been positive so far.



Beer and Beyond

Following the success of the limited edition collaboration brew last year, our 4.5% lager To Helles and Back has returned and was launched into 20 pubs in the estate at the beginning of June. The feedback has been fantastic and sales have been better than expected. We are increasing our brewing volumes to launch into another 20 pubs in August and then will open it up to the rest of the estate in September. These are very exciting times for the brewing team and they are continuing to work extremely hard to take advantage of the flexibility of the new brewery.

Evolution, our session IPA, is now available in over 60 pubs and meeting our ambitious volume expectations. We have also launched Evolution with a wholesaler in the south west which is starting to grow volumes.





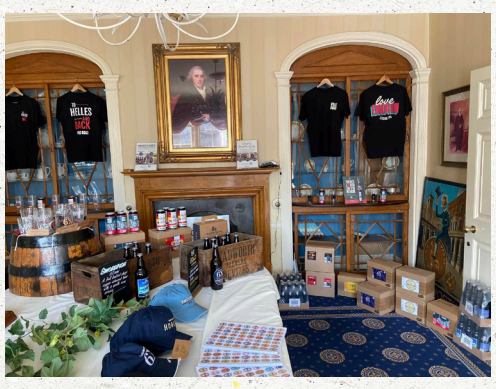


Our cask beer volumes are stable, helped enormously by the fact that the new brewery at Folly Road allows us to supply our pubs with smaller container sizes to ensure product quality whilst maintaining their range on the bar.

We have a number of other seasonal ales coming out over the remainder of the year, and with stout sales continuing to grow nationally by around 15%, we are looking into the return of Corvus as an additional stout option for our pubs.

Evolution, To Helles and Back, and potentially Corvus, are perfect illustrations of the flexibility, efficiency and innovation that is now available to us through our new Folly Road Brewhouse. We are now able to produce a variety of beers in modest volumes in an extremely cost-effective way, resulting in better margins for the company, better margins for our tenants and lower retail prices for our consumers, helping our pubs to compete more effectively in their local markets.

Now that the Visitor Centre has closed, I would like to take this opportunity to remind you that you can purchase Wadworth beers and related merchandise at the online shop found at https://shop.wadworth.co.uk and on Thursday to Saturday at the temporary pop up shop in Devizes that we have established at the Bear Hotel while we wait for our new shop to be ready, expected towards the end of the year.





I have attached a copy of our beer planner for the year so you are able to see which beers are available and when.

Board update



As announced at the AGM in May, Edward Harford has retired from the board after 6 years as a non-executive director, and we are extremely grateful for the immense support and wisdom that Edward has provided to the board during that time. Martyn Cozens joined the board as a non-executive director with effect from the July board meeting. Martyn spent the majority of his career in the brewing sector with Molson Coors, (formerly Bass Brewers) from where he recently retired. Martyn brings extensive knowledge of the UK beer market and will be of enormous benefit as we strive to be an innovative, profitable and valuable brewer.

Outlook

A new Labour government may mean new challenges but also opportunities. Our trade bodies have been lobbying hard for the sector far in advance of the election to ensure the new government is fully aware of the challenges the sector faces, and we are pursuing three particular avenues –

- a planning overhaul – and our own experience illustrates how essential this is,
- a root-and-branch review of business rates – pubs account for approximately 0.5% of total business turnover, but pay 2.8% of the total business rates bill, meaning pubs are almost 5x over-charged compared to other business sectors, and
- a reduction in alcohol duty rates to encourage further investment in the sector - the UK rate of 54.2p per pint is 12 times higher than in Germany and Spain at 4.6p per pint.



Notwithstanding these clear imbalances, good operators are continuing to do well and, although there is a lot of understandable negativity in the press regarding the sector, the prospects for well-invested, well-run pubs are good.

For Wadworth, our recovery is progressing well. As we continue to sell more of our own brewed products, this will bring greater margin benefits and ensure that we are maximising the efficiency of the new brewery. Trading in our pubs is continuing to improve in line with our expectations, and although repair and maintenance costs have been an unwelcome constraint on profits, we must ensure that we protect the underlying condition and value of our estate.

Finally, we have finalised our banking facilities for the next 12 months, entirely in line with our plans, and will now start to look at a longer term refinancing package as interest rates hopefully improve.

We continue to be pleased with the overall stability of the business. We are delivering solid year-on-year growth despite the headwinds of very poor weather and unforeseen repair costs. The new brewery is performing well and we are optimistic about the opportunities for further growth with smart investment in our people, our pubs and our beers. Equally though, we are realistic about the challenges facing the sector and conscious of the continuing pressures affecting our consumers.

I hope you have a fantastic Summer and fingers crossed for some good weather for us all.

Toby

NOTE: Following the AGM in May, we have now published our accounts on Companies House where the new Articles are also available. You may also have seen that the latest Asset Match trade in A Ordinary shares saw an increase in the price of a share from 125p to 144p.

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