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Stonegate lifted operating profit 7.5% despite a £100m revenue drop

The pub operator said 147 managed sites shifted to partnership models, helping narrow pre-tax losses to £53m

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Stonegate Group said Tuesday that operating profit rose in the first 40 weeks of its financial year even as revenue fell by nearly £100m, as the company pushed ahead with a broad restructuring of its pub estate across the U.K.

The company, the country’s largest pub operator, reported operating profit of £245m for the 40 weeks ended July 5, up from £228m in the comparable period a year earlier. The increase of £17m represented growth of 7.5%.

Revenue fell to £1.16bn from £1.26bn, a decline of £100m, or 7.9%. Stonegate said the drop was mainly due to pubs leaving its managed estate as part of its transformation plan, rather than a simple fall in like-for-like trading.

Pre-tax losses narrowed to £53m from £73m, an improvement of £20m, or 27.4%. Loss after tax also improved, falling to £40m from £55m, a reduction of £15m, or 27.3%.

The figures reflect a company that is reshaping how it runs a large part of its portfolio. Stonegate has been moving sites away from direct management and into partnership formats run by third-party operators. During the period, it converted 147 managed pubs into partnership models.

Chief executive David McDowall said the latest period showed the strategy was producing results. He said profit growth continued in the third quarter and that the group remained on track for a significant year of profit growth.

The strongest gains came from the parts of the business that rely more heavily on local operators. Stonegate said profit in its leased and tenanted estate rose 5.7% from the same period last year. Craft Union, its operator-led business, posted profit growth of 15.2%. By contrast, the managed estate recorded a 1.2% decline.

The split helps explain why revenue and profit moved in opposite directions. Managed pubs generally generate higher reported sales because Stonegate books more of the customer spending directly. In partnership, leased and tenanted models, the company can earn income through rent, fees and other arrangements while carrying a different cost base. As more pubs shift out of the managed estate, reported revenue can fall even if profitability improves.

Stonegate also reduced investment during the period. Capital spending on expansion, conversions and maintenance came to £95m, down from £115m a year earlier. That was a reduction of £20m, or 17.4%.

At the same time, the group continued to sell assets. It disposed of 123 trading sites and nine pieces of land and completed five sale-and-leaseback deals involving operating pubs. Stonegate said those transactions generated net proceeds of £56m.

The update adds detail to a wider restructuring that has been underway across the group for months. Earlier this month, Stonegate said it had identified about 100 more pubs to transfer into its Pub Partners business, extending the shift toward partnership-based operations.

The results also come as the market watches the future of another part of Stonegate's estate. Reports published Monday said Heineken's pub arm was in talks to buy about 300 pubs from Stonegate in a deal that could be worth about £300m. Stonegate previously said no decisions had been made on its Platinum portfolio and that options under consideration included refinancing, a partial sale or a full sale.

The company's latest numbers suggest it is trying to build a smaller, more efficient and more resilient estate by disposing of some sites, converting others and leaning more heavily on operator-led formats. That approach can support margins even if total reported sales decline.

The results cover Stonegate's pub operations broadly, including income from food, accommodation and drinks, not only beer. The company did not disclose beer-specific sales, volumes, average pint prices or separate comparable beer trading figures, so the update gives a picture of performance in the broader hospitality channel rather than the direction of the beer market alone.

Stonegate operates thousands of sites across Britain and has been under pressure, like much of the pub sector, from higher labor, energy and financing costs in recent years. Against that backdrop, the company has been under close scrutiny from lenders, suppliers, rivals and regulators as it reworks its estate and balance sheet.

The group is also the subject of an investigation by the Pubs Code Adjudicator related to concerns about parts of its leased and tenanted estate. The regulator has not reached any conclusions.

For now, the latest trading update points to a business that is generating better operating returns from a smaller reported revenue base. The main driver was not a broad increase in sales across all formats, but a deliberate change in the mix of pubs it operates directly and those it places into partnership arrangements.