Pre-Close Period Trading Update

Associated British Foods plc

Associated British Foods plc issues the following update prior to entering the close period for its interim results for the 24 weeks to 5 March 2022, which are scheduled to be announced on 26 April 2022.

Trading outlook

For the half year, we expect sales and adjusted operating profit for the Group to be strongly ahead of last year. Furthermore, we expect sales and adjusted operating profit to be ahead of the pre-COVID levels achieved in the half year to 29 February 2020.

Primark sales for the first half are expected to be well over 60% ahead of last year at constant currency with an operating profit margin of some 11%. This reflects the fact that all our stores remained open and trading throughout the period except for short periods in Austria and The Netherlands. The effect of inflation on raw materials and the supply chain in Primark this first half has been broadly mitigated by a reduction in store operating costs and overheads and a favourable US dollar exchange rate. Like-for-like sales improved compared to the final quarter of our 2021 financial year.

All our food businesses have experienced increasing inflationary pressures in raw materials, commodities, supply chain and energy. We have been taking steps to offset these higher input costs through operational cost savings and where necessary in Grocery, Ingredients and Agriculture, the implementation of price increases. However, actions on price inevitably lag input cost inflation. As a result, we expect some margin reduction in these three businesses at the half year but expect our plans to deliver a recovery in the run-rate of these margins by the financial year-end. We expect further growth in profit at AB Sugar at the half year.

As previously advised, the stronger profitability of Primark, and the consequent change in the weight of profit by tax jurisdiction for the Group will result in a decrease in the Group's effective tax rate for the year to closer to pre-COVID levels.

We expect growth in adjusted operating profit for the Group in the second half. As a result, our outlook for the full year is unchanged with significant progress expected in adjusted operating profit and adjusted earnings per share for the Group.

References to changes in revenue in the following segmental commentary are based on constant currency.

Cashflow and funding

Cashflow in the period is expected to be much improved on the same period last year when Primark store closures resulted in an estimated cash outflow of some £650m. This year the cashflow also benefited from the sale of autumn/winter inventory brought forward from the prior year. Net cash before lease liabilities is expected to be some £1.5bn at the half year, compared to £705m at the first half last year.

Including lease liabilities of £3.2bn, net debt at the half year is expected to be some £1.7bn giving a financial leverage ratio of 0.8 times. The successful launch on 10 February of our inaugural public bond of £400m, 2.5 per cent, due 2034 will diversify the Group's sources of funding and extend the duration of our borrowings. The remaining £297m of Private Placement Notes mature this financial year and in the 2024 financial year.

Grocery

Revenue in the first half is expected to be 2% ahead of last year. Our businesses experienced high levels of input cost inflation and margins are expected to be reduced due to the later phasing of mitigating pricing actions.

Twinings Ovaltine performed well in this period driven by Ovaltine revenue growth in Germany, Nigeria, Switzerland and, in particular, Thailand. Twinings revenue growth was driven by new product launches in Wellbeing teas which offset a reduction in sales from elevated levels through the retail channel as a result of COVID-19 last year.

Allied Bakeries sales were below the same period last year, following its decision to exit the Co-op business in April 2021. Westmill sales were well ahead of last year with a strong recovery in the restaurant trade. Acetum, our leading Balsamic Vinegar producer, continued to grow with an improved sales mix towards branded and premium products.

ACH revenue growth was driven by the price increases for its vegetable oils implemented over the last year to mitigate the impact of higher commodity costs. Strong bakery ingredient volumes more than offset declines in US retail yeast volumes compared to 2021 pandemic highs. The sales performance at George Weston Foods in Australia was led by good results at our foodservice and bakery business Tip Top and profitability is expected to improve with better trading at the Don meat business.

Sugar

AB Sugar traded strongly in the first half. Revenue is expected to be over 20% ahead of last year driven by both higher domestic volumes in Illovo and Azucarera and higher sugar and bioethanol prices. All businesses continued to focus on reducing the cost of sugar production through on-going cost reduction programmes. These cost savings and the contribution from higher sales more than offset the effects of significant input cost inflation, particularly energy costs, and the start-up costs at our Vivergo bioethanol plant. As a result, adjusted operating profit is expected to be ahead of last half year.

EU sugar prices continued to improve over last year as a consequence of low European sugar stocks and higher world market prices. Although current estimates for EU sugar production in the 2021/22 campaign are slightly higher than the prior year, with a recovery in yields to more normal levels, EU pricing is supported by higher world sugar prices. Our UK and Spanish businesses have largely contracted sales for the year at much improved prices compared to last year.

UK sugar production for the 2021/22 campaign is expected to be 1.05 million tonnes, compared to 0.9 million tonnes produced in the last campaign, with good growing conditions supporting higher yields and mitigating the reduced growing area. Despite beet logistics issues delaying the start-up of the campaign and affecting throughput levels, the factories have performed well. Energy costs are at very high levels although substantial forward cover largely mitigated the margin impact of this during the first half. We are expecting an adverse margin impact in the second half. We have benefitted from strong pricing both from the electricity we produce and export to the grid and from the bioethanol produced from sugar. Preparations are now well advanced for the re-starting of the Vivergo plant in March.

The performance in Spain improved, with higher prices and volumes. Sugar production is expected to be significantly higher than last year, although mostly in the form of lower margin refined raws. Significantly improved sales volumes reflected higher demand in Iberia and reduced imports from other EU countries.

Illovo continued to deliver strong domestic sales in Zambia, Malawi and Tanzania along with a strong contribution from co-products in South Africa. However, there was some disruption to production in Zambia, Eswatini and Mozambique in the period. Illovo's sugar production for the full year is expected to be broadly in line with last year with earlier season start-ups planned later this year to offset the delays already experienced at the end of the current season.

AB Sugar China trading performance was in line with last year.

Agriculture

Revenue in the first half at AB Agri is expected to be well ahead of last year with higher selling prices reflecting commodity and energy cost increases. We expect profit margins to be reduced in the period compared to the first half of the last financial year due to the later phasing of mitigating pricing actions.

Ingredients

Revenue in the first half is expected to be 10% ahead of last year driven by volume recovery in a number of our speciality ingredients businesses. Cost efficiencies have partially offset the impact of the significant cost inflation but margins at the half year will be lower than at the same time last year with a later phasing of planned price actions.

AB Mauri revenues were ahead of the same period last year, but the growth was reduced by lower demand for retail yeast and bakery ingredients compared to last year when COVID-19 restrictions were driving the popularity of home baking. The businesses in ABF Ingredients performed well, with revenue significantly ahead driven by sustained volume recoveries and price increases to compensate for input inflation.

Retail

Primark sales for the first half are expected to be well over 60% ahead of last year. All of our stores are trading and remained open throughout the half year, except for short periods of store closures in Austria and The Netherlands. This compared to prolonged periods of store closure in the UK and Europe in the first half of last year.

Over the last two years we have opened 27 new stores, increasing our retail selling space by 8%. Total sales for Primark are expected to be 4% lower than pre-COVID levels in the same period two years ago.

Operating profit margin has recovered strongly and is now expected to be some 11% in the first half. This brings half year margin close to the pre-COVID levels achieved two years ago.

Like-for-like sales have improved compared to the final quarter of our 2021 financial year and for the first half are expected to be 11% lower than pre-COVID levels in the same period two years ago. Customer footfall is picking up again in most markets, particularly the UK and Ireland, after the disruption caused by the rapid rise in Omicron infections in the middle of the period.

Sales in our UK stores are well ahead of last year. Like-for-like sales have improved and are expected to be 9% below two years ago and total sales are expected to be 8% below two years ago. Stores in retail parks and town centres continue to outperform destination city centre stores with like-for-like sales in retail parks ahead of pre-COVID levels.

Sales in Continental Europe are also well ahead of last year. Like-for-like sales for the period are expected to be 14% below two years ago reflecting the continued impact of Omicron on customer footfall. In France, Iberia and Italy, our major opportunities for growth, like-for-like sales are now improving. Total sales are expected to be 2% below two years ago which include a 12% increase

in retail selling space. We estimate a sales loss of some £32m relating to the short periods of store closures in Austria and The Netherlands during the period.

Our US business continues to outperform the rest of the store estate and is on track to deliver 2% like-for-like sales growth in the period compared to pre-COVID levels with total sales 35% ahead of two years ago.

We have seen a very positive initial reaction from customers across all markets to the bursts of colour in our new spring/summer collections. Luggage and swimwear have performed well in recent weeks, giving us confidence as we look ahead to the holiday season after two years of travel restrictions. Response to the launch of our new collaboration with Greggs in the UK was strong with high levels of engagement across our social channels driving excitement around the Primark brand, particularly among the younger customer base.

Operating profit margin in the period is expected to be some 11% at the half year. This mainly reflects our stores trading for the whole of the period and an increase in sales densities over the same period last year. The effect of inflation on raw materials and supply chain costs in this first half has been broadly mitigated by a favourable US dollar exchange rate and a reduction in store operating costs and overheads. With our stock purchases largely committed for the second half of the financial year, we expect some reduction in the operating profit margin from that achieved in the first half reflecting further inflationary pressures.

The pressure of disruption to the supply chain experienced in the autumn has continued to alleviate despite some delays in dispatch and slightly longer lead times.

The roll-out of the Oracle stock management system across our store estate is progressing well and we expect all stores to be equipped with state-of-the art point of sale terminals by the end of 2022. We are also on track to launch our new, improved customer-facing website in the UK by the end of March, and across all our markets by the autumn. The new website will showcase many more of our products and will provide customers with product availability by store.

Retail selling space increased by 0.2 million sq ft since the financial year end and at 5 March 2022 we will be trading from 402 stores and 17.0 million sq ft of retail space, which compared to 16.5 million sq ft a year ago. Four new stores were opened in the period: Catania in Sicily, Italy, and Vigo, Girona and Cadiz in Spain. In addition, we relocated to larger premises in Gloucester in the UK.

We expect to add a net 0.5 million sq ft of additional selling space this financial year. We continue to make good progress with new store signings, in line with our ambition to grow our store estate to some 530 stores over the next five years, with a particular focus on the US, France, Italy and Iberia.

ESG

A briefing is planned for 18 May on the environmental factors that are most material for the Group. Last year's ESG investor presentations are available on our website.

Notes:

- Definitions of the alternative performance measures referred to in this announcement can be found in note 30 of our Annual Report and Accounts 2021.
- Financial leverage is defined as net debt including lease liabilities: adjusted EBITDA for the year to 5 March 2022

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