20 JANUARY 2022

Trading update

Associated British Foods plc

Associated British Foods plc today issues a trading update for the 16 weeks to 8 January 2022 summarising the significant trading developments since the last market update.

Group revenue

Group revenue from continuing operations for the 16 weeks ended 8 January 2022, compared to the 16 weeks ending 2 January 2021, was 16% higher at actual exchange rates. At constant currency, revenue from continuing operations was 19% higher. The following table sets out revenue on a segmental basis for the period with changes to the prior year.

	Year to date £m	Last year £m	Change	Change at constant currency
Grocery	1,215	1,222	-1%	+2%
Sugar	609	545	+12%	+12%
Agriculture	545	507	+7%	+8%
Ingredients	528	497	+6%	+10%
Total Food	**2,897**	**2,771**	**+5%**	**+6%**
Retail	2,672	2,031	+32%	+36%
Group	**5,569**	**4,802**	**+16%**	**+19%**

Grocery, Sugar, Agriculture and Ingredients revenues in aggregate were 6% ahead of last year at constant currency. Sugar revenues were driven by strong European sugar prices and Ingredients revenues by a recovery in volumes from COVID-19 affected levels last year. All businesses have experienced inflationary pressures in raw materials, commodities, supply chain and energy. Margins in Grocery and Ingredients were impacted where sales price actions have lagged the effects of input cost inflation.

Retail sales were 36% ahead of last year at constant currency with an operating profit margin ahead of our expectations. All of our stores are trading and remained open throughout the period, except for short periods in Austria and the Netherlands. Like-for-like sales in this period improved compared to the final quarter of our 2021 financial year. The improving trend in customer footfall was interrupted in December by the rapid rise in COVID-19 cases of the Omicron variant but we are now seeing a recovery in UK and Ireland footfall.

Cash flow year-to-date has been strong compared to last year driven by good trading, and at Primark lower markdowns and the sale of inventory carried forward from the autumn/winter season last year.

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

Grocery

Grocery sales were 2% ahead of last year. Our businesses have experienced high levels of input cost inflation and margins were reduced in the quarter due to the phasing of the implementation of mitigating pricing actions.

Twinings Ovaltine performed well this period with strong Ovaltine revenue growth with higher volumes in emerging markets. Twinings revenue growth was driven by the growth and new product launches in Wellbeing teas which offset a reduction in some retail sales from the high COVID-19 affected volumes last year.

ACH revenue increase was driven by several price increases for its vegetable oils, which mitigated the impact of rising commodity costs. The sales performance at George Weston Foods in Australia was driven by good results from Tip Top foodservice and gluten-free retail bread products along with higher Don meat volumes.

Sugar

AB Sugar revenue was 12% ahead of last year, with operating profit ahead of last year. The revenue increase was driven by stronger European sugar prices, higher Illovo domestic sales and improved pricing for bioethanol produced by British Sugar at Wissington. All businesses have been focused on mitigating the effects of significant cost input inflation, particularly in energy costs.

European sugar prices increased over last year as a consequence of low European sugar stocks combined with higher world market prices. Estimates for European sugar production in the 2021/22 campaign are slightly higher with a recovery in yields to more normal levels, supported by good growing conditions. Our UK and Spanish businesses have largely contracted sales for the financial year at these pricing levels.

Sugar production in the UK for the 2021/22 campaign is expected to be 1.04 million tonnes, compared to 0.9 million tonnes produced in the last campaign with higher yields more than offsetting the reduced growing area. Energy costs are at very high levels but forward contracts have avoided the impact of these during the first quarter. Preparation for the start of production at the Vivergo biofuel plant in Hull is well advanced.

The trading performance in Spain has improved, with higher prices and volumes partially offset by a higher proportion of sugar produced from cane raws.

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. Contracts have been placed and site works commenced for a major expansion of our sugar production capacity in Tanzania.

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

Agriculture

AB Agri revenue was 8% ahead of last year with higher selling prices reflecting commodity and energy cost increases.

Ingredients

Sales in Ingredients were 10% ahead of last year driven by volume recoveries in a number of our speciality ingredients businesses. However, margins were lower than the same period last year as significant inflationary pressures impacted costs ahead of planned price actions.

AB Mauri revenues were ahead despite lower demand for retail yeast and retail 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 good growth in enzymes, yeast extracts and a recovery in extruded cereals.

Retail

Sales were 36% ahead of last year when we saw widespread closure of our stores in the UK and Europe. Stores in retail parks and town centres continued to outperform destination city centre stores with like-for-like sales in retail parks ahead of pre-COVID levels. Over the last two years, since the start of the pandemic, we have opened 25 stores lifting our retail selling space by 7%.

Sales in our UK stores were well ahead of last year. Like-for-like sales were 10% below two years ago and improved on the final quarter of our financial year 2021. Trading was impacted by a decline in footfall as a result of the rapid rise in Omicron cases but has improved in recent weeks.

Sales in Continental Europe were also well ahead of last year. Like-for-like sales for the period were 14% below two years ago with footfall continuing to be impacted by the high level of Omicron infections. However, total sales were 2% below two years ago which includes an increase of 12% in retail selling space. We estimate a sales loss of some £30m relating to the short periods of store closures in Austria and The Netherlands during the period.

Our US business was the standout performer and delivered 4% like-for-like sales growth in the period compared to pre-COVID levels and sales were 37% ahead of two years ago.

Total Primark sales this period were 5% lower than pre-COVID levels in the same period two years ago. Like-for-like sales were 11% below.

Operating profit margin in the period was ahead of our expectations and is expected to be over 10% at the half year. This reflects a recovery in sales densities over the same period last year. The effect of inflationary pressure on raw materials and supply chain in this first quarter has been broadly mitigated by a favourable US dollar exchange rate compared to last year and a reduction in store operating costs and overheads. We are proposing to simplify our in-store UK retail management structure as part of our ongoing programme to improve the efficiency of our store retail operations.

The pressure of disruption to the supply chain we experienced in the autumn has alleviated although we are still experiencing some delays in dispatch at ports of origin and we expect longer shipping times to continue for some time.

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 on 8 January 2022 we were trading from 401 stores and 17.0 million sq ft of retail space, which compared to 16.5 million sq ft a year ago. Three new stores were opened in the period: Catania in Sicily, Italy, and Vigo and Girona 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 are making good progress with new store signings in line with our ambition to grow our store estate with a particular focus on the major markets of the US, France, Italy and Iberia. Since the start of the financial year, we have signed a number of leases including a new store in the centre of Bucharest, our first in Romania, which, with Slovakia, will take Primark into 16 markets.

Trading outlook

In our Grocery, Sugar, Ingredients and Agriculture businesses we have seen an escalation in the cost of energy, logistics and commodities. We have been implementing plans to offset these through operational cost savings and, where necessary, the implementation of price increases. We expect an increase in the adjusted operating profit for Sugar. We expect reduced adjusted operating profit margins in Grocery and Ingredients at the half year, due to phasing in fully recovering cost but a recovery in the run rate of these margins by the financial year end.

Primark's like-for-like sales to date improved on the fourth quarter of our last financial year and delivered a strong operating profit margin. Our stores are open, although trading is being impacted by lower footfall as a result of the rapid rise in Omicron cases in recent weeks. It is difficult to predict future trading conditions with certainty, but we have seen an encouraging improvement in footfall in the UK and Ireland as the disruption from Omicron reduces. Looking ahead, we expect Primark sales from now to April to be significantly better than sales in the comparable period in the last financial year, when the estate was largely closed.

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, as previously advised.

Taking these factors into account, our outlook for the Group is unchanged, with significant progress, at both the half and full year, in adjusted operating profit and adjusted earnings per share for the Group.

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.
- The ESG investor presentations made last year are available on our website. A further briefing is planned for May on the environmental factors that are most material for the Group.

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