

**Associated  
British Foods  
plc**



Review of annual  
results for  
52 weeks ended  
14 September 2019



# Financial Highlights

<b>Group revenue</b>	<b>up 2%</b>	<b>£15.8bn</b>
<b>Adjusted operating profit</b>	<b>up 1%</b>	<b>£1,421m</b>
<b>Adjusted profit before tax</b>	<b>up 2%</b>	<b>£1,406m</b>
<b>Adjusted earnings per share</b>	<b>up 2%</b>	<b>137.5p</b>
<b>Dividends per share</b>	<b>up 3%</b>	<b>46.35p</b>
<b>Gross investment</b>		<b>£837m</b>
<b>Net cash</b>		<b>£936m</b>



# Business Highlights

- Grocery and Primark profit growth more than offset Sugar decline
- Grocery
  - Twinings Ovaltine strong underlying growth
  - margin ahead in Australia, ACH and Acetum
- AB Sugar
  - low contracted European prices
  - efficiency improvements continue
- more challenging year for Agriculture and Ingredients
- Primark
  - strong trading in UK, Spain, France, Italy and US
  - margin increase
- strong cash flow

# Income Statement

£m	2019	2018	Change	
			actual fx	constant fx
Revenue	15,824	15,574	+2%	+2%
Operating costs before exceptional items	(14,524)	(14,290)		
Exceptional items	(79)	-		
Share of joint ventures and associates	57	54		
Profits less losses on disposal of non-current assets	4	6		
Operating profit	1,282	1,344		
Adjusted operating profit	1,421	1,404	+1%	+1%
Profits less losses on disposal of non-current assets	4	6		
Amortisation of non-operating intangibles	(47)	(41)		
Acquired inventory fair value adjustments	(15)	(23)		
Transaction costs	(2)	(2)		
Exceptional items	(79)	-		

# Income Statement

£m	2019	2018	Change
Operating profit	1,282	1,344	-5%
Loss on sale and closure of businesses	(94)	(34)	
Net interest expense	(27)	(35)	
Other financial income	12	4	
Profit before tax	1,173	1,279	-8%
Tax	(277)	(257)	
Profit after tax	896	1,022	
Non-controlling interests	(18)	(15)	
Attributable to equity shareholders	878	1,007	
Adjusted profit before tax	1,406	1,373	+2%

# Tax

£m	2019		2018	
Adjusted charge	302	21.5%	292	21.3%
Credit on exceptional items	(12)		-	
Credit on intangible amortisation	(10)		(29)	
Credit on acquired inventory fair value adjustments	(4)		(6)	
Charge on transaction costs, disposal of businesses and fixed assets	1		-	
Reported charge	<u>277</u>	23.6%	<u>257</u>	20.1%

# Earnings and Dividends Per Share

	2019	2018	Change
Adjusted earnings per share	137.5p	134.9p	+2%
Earnings per share	111.1p	127.5p	-13%
Dividends per share	46.35p	45.0p	+3%

# Balance Sheet

£m	2019	2018
Intangible assets (including goodwill)	1,681	1,632
PP&E and other non-current assets	6,095	6,063
Working capital	995	825
Biological assets – current	84	84
Current tax	(139)	(106)
Net cash	936	614
Other net financial assets	47	80
Deferred tax	(101)	(191)
Provisions	(118)	(140)
Net pension asset	33	435
Net assets classified as held for sale	37	-
Net assets	<u>9,550</u>	<u>9,296</u>
Equity shareholders' funds	9,452	9,211
Non-controlling interests	98	85
	<u>9,550</u>	<u>9,296</u>

# Cash Flow

£m	2019	2018
Adjusted operating profit (before joint ventures and associates)	1,362	1,347
Depreciation and amortisation of operating intangibles	567	536
Working capital	(140)	(153)
Provisions	(28)	(30)
Capital expenditure - Primark	(355)	(434)
- Food	(325)	(353)
Purchase of intangibles	(57)	(81)
Sale of property, plant and equipment	12	23
Tax	(269)	(297)
Net interest and other income	(23)	(40)
Pension costs less contributions	(10)	4
Dividends received from joint ventures and associates	52	42
Other	2	(7)
Free cash flow	788	557
Dividends paid (including non-controlling interests)	(362)	(331)
(Acquisitions)/disposals	(79)	(207)
Net cash flow before financing	347	19

# Segmental Analysis

## By business

	Revenue		Profit		Margin		ROCE	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 %	2018 %	2019 %	2018 %
Grocery	3,521	3,420	380	335	10.8	9.8	27.4	25.9
Sugar	1,608	1,730	26	123	1.6	7.1	1.6	7.5
Agriculture	1,385	1,350	42	59	3.0	4.4	10.7	15.7
Ingredients	1,515	1,459	136	143	9.0	9.8	15.9	18.1
Retail	7,792	7,477	913	843	11.7	11.3	28.9	28.2
Central costs			(76)	(64)				
Continuing businesses	15,821	15,436	1,421	1,439	9.0	9.3	19.2	20.6
Disposed/closed businesses	3	138		(35)				
<b>Total</b>	<b>15,824</b>	<b>15,574</b>	<b>1,421</b>	<b>1,404</b>	<b>9.0</b>	<b>9.0</b>	<b>19.3</b>	<b>20.1</b>



# Segmental Analysis

## By geography

	Revenue		Profit		Margin	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 %	2018 %
United Kingdom	5,971	5,863	476	557	8.0	9.5
Europe & Africa	5,992	5,851	589	528	9.8	9.0
The Americas	1,609	1,525	237	206	14.7	13.5
Asia Pacific	2,249	2,197	119	148	5.3	6.7
Continuing businesses	15,821	15,436	1,421	1,439	9.0	9.3
Disposed/closed businesses	3	138		(35)		
Total	15,824	15,574	1,421	1,404	9.0	9.0

# IFRS 16 Leases

- adopted in 2020 financial year, modified retrospective approach
- no effect on net cash flows or business model
- lease liability of £3.6bn
  - predominantly relates to Primark
  - 271 of 373 stores are leaseholds
  - includes reasonably certain renewals
- Primark metrics
  - margin increases from 11.7% to 12.5%
  - ROCE decreases from 29% to 15%
- adjusted EPS reduces by 2%

# IFRS 16 Balance Sheet

<b>£bn</b>	<b>As reported</b>	<b>Right-of-use assets</b>	<b>Lease liabilities</b>	<b>Lease incentives &amp; prepayments</b>	<b>Other</b>	<b>IFRS 16 pro-forma</b>
Non-current assets	8.2	3.1				11.3
Working capital	1.0			0.2		1.2
Net cash/(debt)	0.9		(3.6)			(2.7)
Other	(0.5)				0.1	(0.4)
Net assets	9.6	3.1	(3.6)	0.2	0.1	9.4

# IFRS 16 Income Statement and Metrics

£m	As reported	Add back rent	Deduct depreciation	Deduct lease interest	Total impact	IFRS 16 pro-forma
Food	508	45	(40)	-	5	513
Primark	913	284	(225)	-	59	972
Adjusted operating profit	1,421	329	(265)	-	64	1,485
Interest & other financial income	(15)			(90)	(90)	(105)
Adjusted profit before tax	1,406			(90)	(26)	1,380
Adjusted EPS	137.5p				(2.7p)	134.8p
Primark margin	11.7%				0.8%	12.5%
Primark ROCE	29%				(14%)	15%

# Grocery

		2019	2018	Change	
				actual fx	constant fx
<b>Revenue</b>	£m	3,521	3,420	+3%	+2%
<b>Operating profit</b>	£m	380	335	+13%	+10%
<b>Margin</b>		10.8%	9.8%		
<b>ROCE</b>		27.4%	25.9%		

- excellent underlying profit growth of 14%
- Twinings Ovaltine continued growth
- acquisitions of Yumi's and Anthony's Goods
- significant margin improvements in George Weston Foods, ACH and Acetum
- major capital investments in Twinings, Ryvita and Westmill
- some price increases and cost reduction at Allied Bakeries

# Grocery

		2019	2018
Revenue	£m	3,521	3,420
Operating profit	£m	380	335

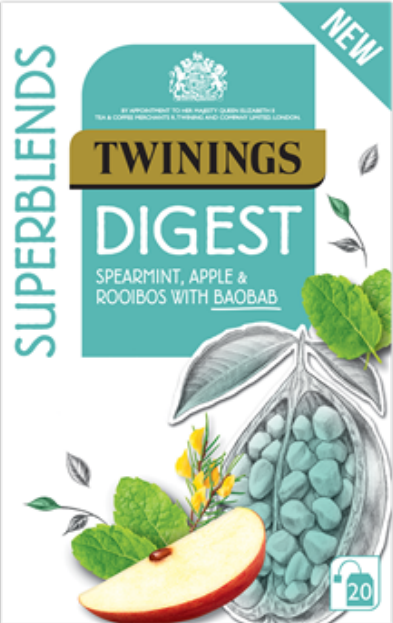
- Twinings Ovaltine – strong underlying profit and margin growth
- Twinings
  - Cold In'fuse, creating a new category
  - development of herbal teas
- Ovaltine
  - new product launches
- supply chain investment
  - transfer of tea production from China to Poland



# Cold In'fuse



# Superblends





# Ovomaltine confectionery in Brazil





## Falafels



## Veggie Bites





# Anthony's Goods



- California-based blender and online marketer of speciality baking ingredients
- will complement existing baking ingredients offering
- fast growing brand with category top-selling items on Amazon

# Grocery

		2019	2018
Revenue	£m	3,521	3,420
Operating profit	£m	380	335

## ■ Acetum

- strong financial performance
- lower grape must prices
- Mazzetti launch in UK and US
- brand strategy and positioning work done



# Grocery

		2019	2018
Revenue	£m	3,521	3,420
Operating profit	£m	380	335

- George Weston Foods
  - excellent margin and profit growth
  - commodity procurement gains
  - Tip Top sales up





# Tip Top - The One



# Grocery

		2019	2018
Revenue	£m	3,521	3,420
Operating profit	£m	380	335

## ■ North America

- excellent margin improvement
- further market share gains for Mazola
- acquisition of Anthony's Goods in September 2019



# Grocery

		2019	2018
Revenue	£m	3,521	3,420
Operating profit	£m	380	335

- AB World Foods
  - strong growth in UK and internationally
  - record year for Patak's and Blue Dragon





# Capital investment



# Grocery

		2019	2018
<b>Revenue</b>	£m	3,521	3,420
<b>Operating profit</b>	£m	380	335

## ■ Allied Bakeries

- some price increases
- termination of largest private label contract
- closure of Cardiff bakery
- work to further reduce cost base continues

# Grocery

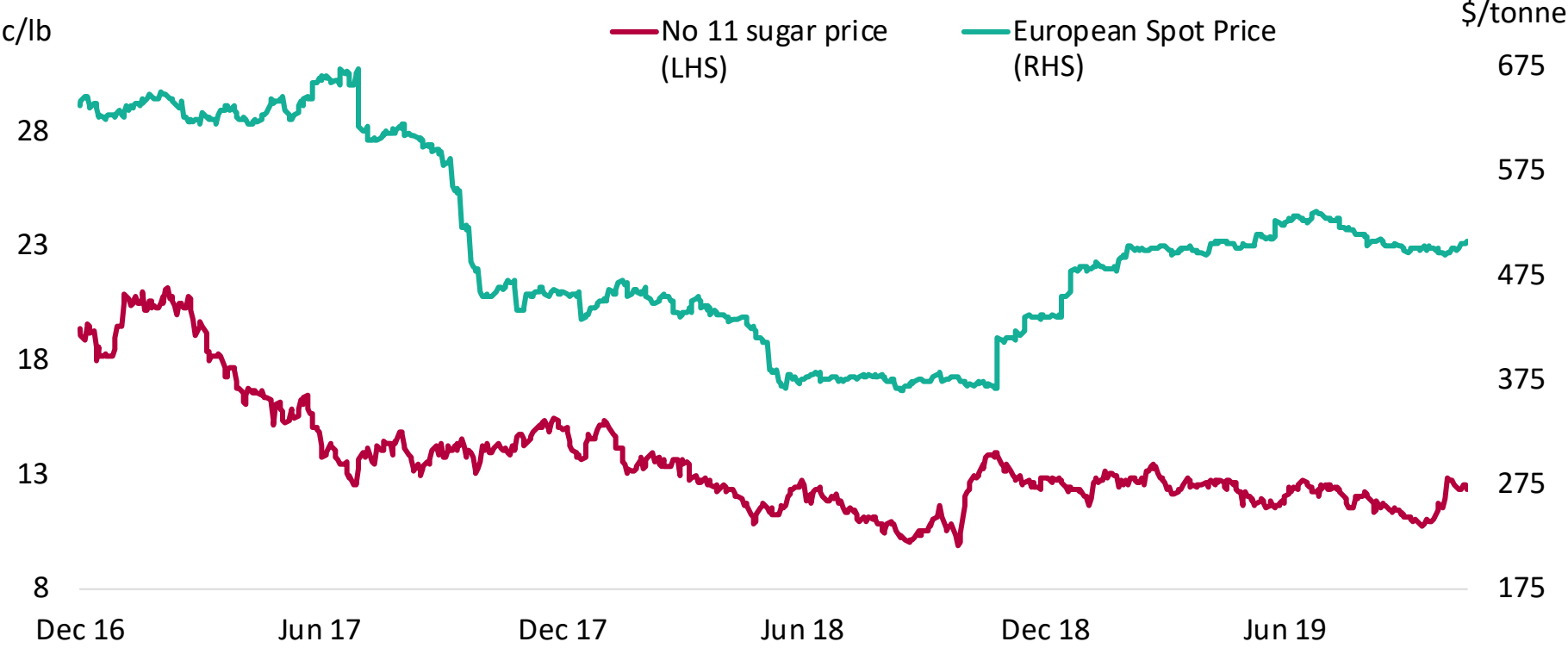
		2019	2018	2017	2016	2015
Continuing businesses						
<b>Revenue</b>	£m	3,521	3,420	3,381	3,097	3,177
<b>Operating profit</b>	£m	380	335	303	294	285

# Sugar

		2019	2018	Change	
Continuing businesses				actual fx	constant fx
<b>Revenue</b>	£m	1,608	1,730	-7%	-5%
<b>Operating profit</b>	£m	26	123	-79%	-78%
<b>Margin</b>		1.6%	7.1%		
<b>ROCE</b>		1.6%	7.5%		

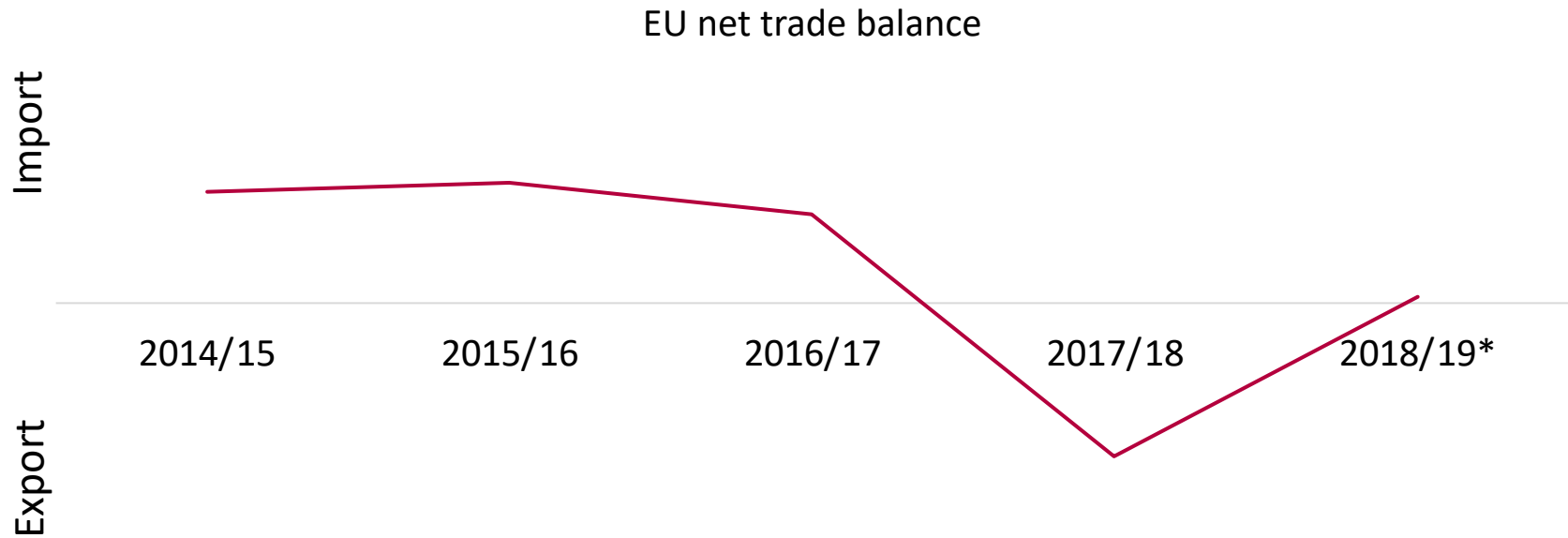
- low EU sugar prices impacted UK and Spain
- Illovo continues to be highly profitable
- material benefit next year from increased EU sugar prices
- significant cost reductions in all businesses continue
- poor beet quality in China

# Sugar price



- low world prices
- European spot price materially improved from late 2018

# EU sugar



2019/20 - reduced crop area, lower opening stock, higher EU price premium for 2020

\*Source: European Commission (data to end of July 2019)

# Illovo

- good profit performance in year of low world prices
- increasingly a brand and distribution led business
- significant cost initiatives



Zambia



Malawi

# Cost leadership

- track record in delivering sustainable cost improvement
  - beet price in Spain
  - British Sugar overhead reduction
  - payment for sugar content in China
- substantial further opportunity from initiatives currently underway
- co-product development



# Co-products

## ■ increased contribution to profit

- animal feed
- electricity
- biogas
- bioethanol
- liquid CO<sub>2</sub>
- topsoil
- fertiliser
- betaine
- furfural
- pharmaceutical cannabis



Electricity, British Sugar and Illovo



Bioethanol, British Sugar



Biogas, British Sugar



Pharma cannabis, British Sugar

# Agriculture

		2019	2018	Change	
Continuing businesses				actual fx	constant fx
<b>Revenue</b>	£m	1,385	1,350	+3%	+2%
<b>Operating profit</b>	£m	42	59	-29%	-30%
<b>Margin</b>		3.0%	4.4%		
<b>ROCE</b>		10.7%	15.7%		

- AB Vista profit in line, more competitive feed enzyme market
- lower co-product volumes
  - smaller UK sugar beet crop
  - Vivergo closure
- lower margins in compound feed

# Ingredients

		2019	2018	Change	
Continuing businesses				actual fx	constant fx
<b>Revenue</b>	£m	1,515	1,459	+4%	+4%
<b>Operating profit</b>	£m	136	143	-5%	-6%
<b>Margin</b>		9.0%	9.8%		
<b>ROCE</b>		15.9%	18.1%		

- AB Mauri

- trading

- strong performance in the US
    - weak economy and hyperinflation in Argentina

- business development

- investment in non-dairy whipped creamer in Brazil
    - series of bolt-on acquisitions
    - joint venture with Wilmar in China

# Ingredients

		2019	2018	Change	
Continuing businesses				actual fx	constant fx
<b>Revenue</b>	£m	1,515	1,459	+4%	+4%
<b>Operating profit</b>	£m	136	143	-5%	-6%
<b>Margin</b>		9.0%	9.8%		
<b>ROCE</b>		15.9%	18.1%		

## ■ ABF Ingredients

- growth in food and bakery enzymes
- higher sales of yeast extracts in food and health markets
- pharma excipients and plant protein crisps well ahead





EYS  
REET

SECRET POSSESSION

€3

PENNEYS

ORANGE  
Red/White  
€1.50  
Penneys

€1.50

5





# Retail

		2019	2018	Change	
				actual fx	constant fx
<b>Revenue</b>	£m	7,792	7,477	+4%	+4%
<b>Operating profit</b>	£m	913	843	+8%	+8%
<b>Margin</b>		11.7%	11.3%		
<b>ROCE</b>		28.9%	28.2%		

- operating profit up 8% to £913m
- strong trading in UK, Spain, France, Italy and US
- margin improvement
  - no currency effect
  - reduced markdown
    - on-trend ranges
    - tight stock control
  - cost reduction
    - consolidation of buying offices
    - focus on store efficiency
- 0.8m sq ft net selling space added – first entry into Eastern Europe
- like-for-like sales down 2%

# UK and Ireland

- strong customer loyalty in home market
  - 50th year of trading
- UK trading
  - extended volume leadership
  - sales up 2.5%
  - like-for-like sales down 1%, outperforming a weak market
- new stores
  - Birmingham, Bluewater, Milton Keynes, Hastings
- ongoing development of customer proposition
  - experiential offering



Birmingham



# Birmingham



# Experiential retailing



Central Perk Café, Manchester



# Iberia, France and Italy

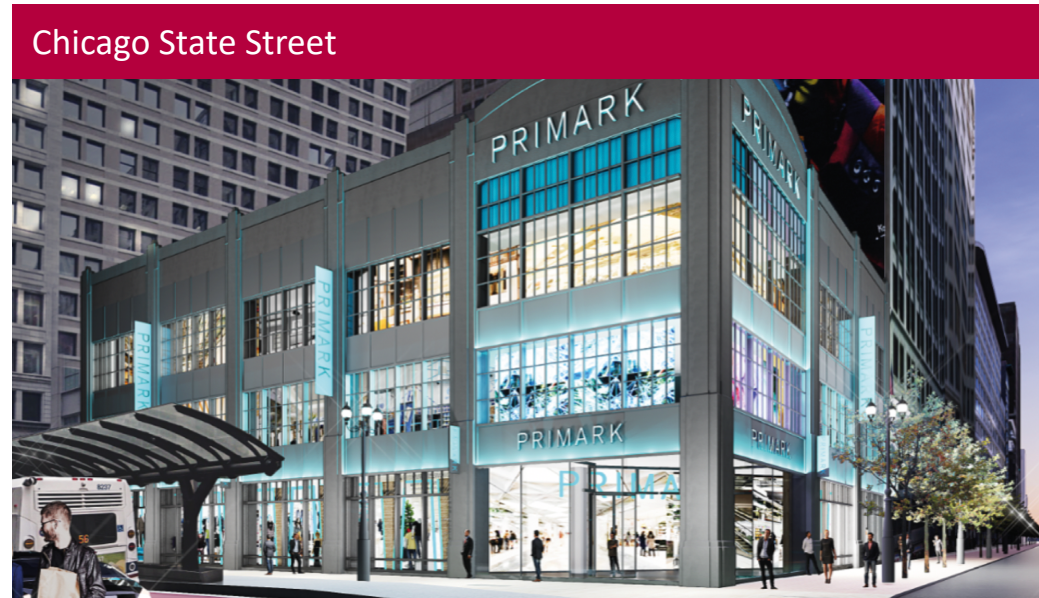
- 28% of total business sales
- sales well ahead, like-for-like growth in all markets
- Spain and Portugal
  - 56 stores, 4 to open in 2020
  - commenced rollout of experiential retail offer
  - significant further growth opportunities in a range of markets
- France
  - 15 stores, 5 to open in 2020
  - excellent performance despite Gilets Jaunes
- Italy
  - 4 stores, 2 to open in 2020
  - very strong trading
  - strong medium-term pipeline for new stores

# Seville Lagoh



# US

- strong sales growth
  - like-for-like growth
  - Brooklyn excellent
- much reduced operating loss
- profitable store model
  - successful downsizing of three stores
  - development of good leadership
  - understand our US customer
  - right product
- confidence to expand
  - 4 new stores announced
  - more stores in pipeline
- available warehouse capacity



# Central and Eastern Europe

- significant opportunity
  - large population
  - high brand awareness
  - differentiated offer
- first store in Slovenia opened in June 2019, exceeding sales expectations
- first store in Poland (Warsaw) to open in 2020
- first store signed in Czech Republic (Prague)



Ljubljana, Slovenia

# Germany

- we understand the problem
  - ranges inadequately tailored to market
  - failure to communicate ranges
  - failure to correct misconceptions of supply chain ethics and sustainability
  - inadequate store standards
  - some stores too big
  
- actions
  - new managing director, strengthened team
  - local marketing campaigns underway
  - overweighting sustainable cotton
  - trialling new store configurations
  - store efficiency
  - selected store re-sizing underway



## Top selling lines from 2019



Floral Midi Dress  
£15/€18/\$20



Broidery Blouse  
£14/€17/\$19



Textured Midi Dress  
£15/€18/\$20



# Autumn/Winter 2019

Slouchy Caramel Coat

£30/€35/\$40



Brushed Crew Jumper

£6/€8/\$10



Guncheck Jacket

£20/€25/\$32

Guncheck Paperbag Trouser

£13/€15/\$18



# Licensed products



Friends  
TV



Toy Story  
Film



Fortnite  
Gaming



# Kidswear



Baby Disney



Lion King



Minecraft



L.O.L SURPRISE!



Girls Partywear



Xmas Jumpers



# Christmas gifting 2019

## Harry Potter Advent Calendar



## Disney Gifting



## Famjams

# Health and Beauty



- fastest-growing department
- collaborated with influencers on new ranges
- licensed Disney ranges
- social media engagement
- nail and eyelash bars being rolled out



Jena Frumes range – CFI & vegan accredited



Disney facemasks



# Sustainable products

## ■ sustainable cotton

- product offering now includes denim, nightwear, bedding and towels
- fivefold increase to 160k farmers in India, Pakistan and now China
- cotton traceable from farm to store

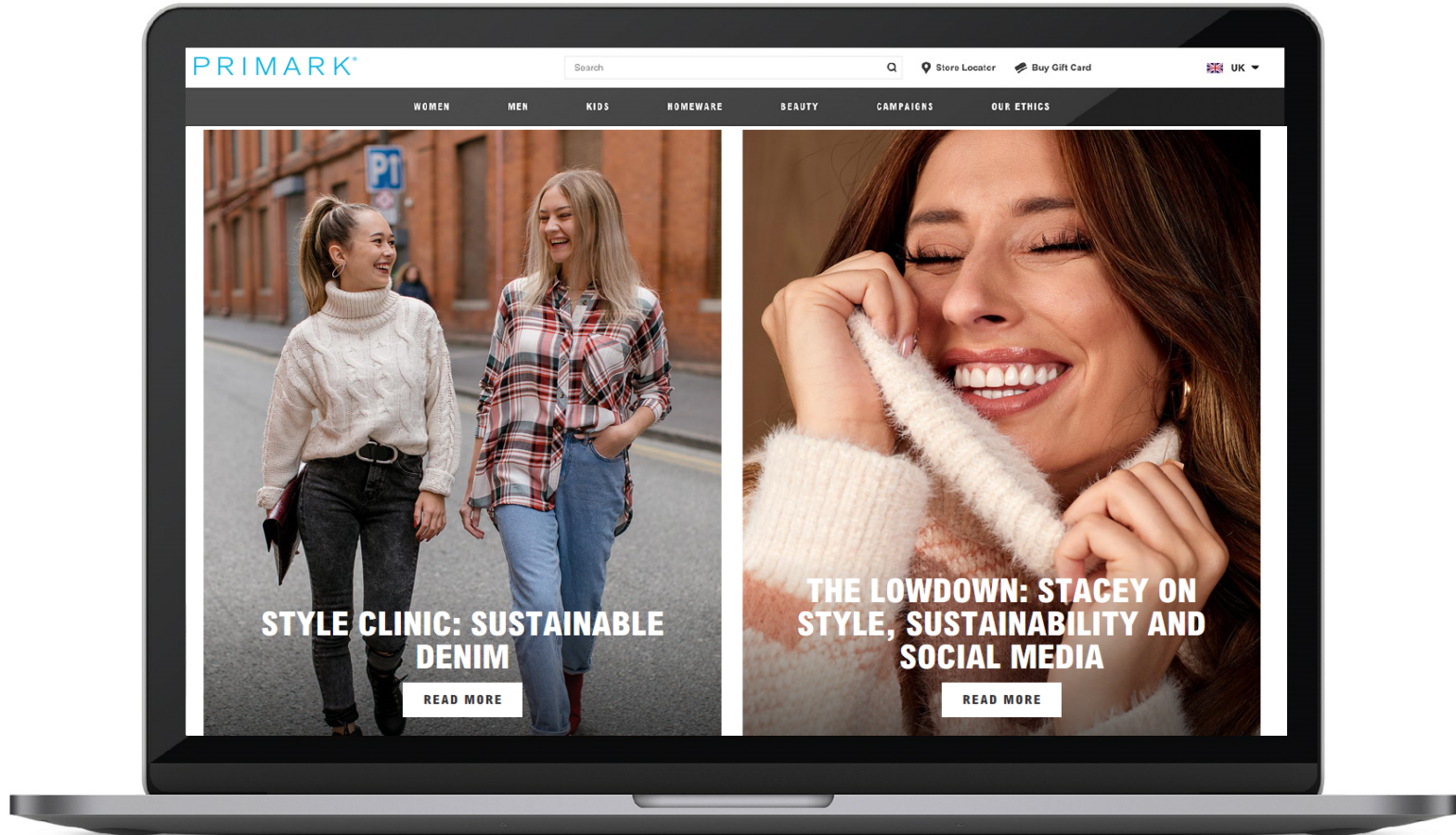
## ■ own brand cosmetics cruelty free

- leaping bunny accreditation

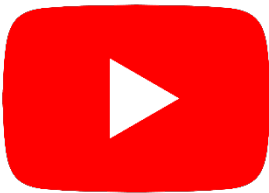




# New website launched



# Social media – 20 million followers



35k

42k

137k

243k

4.0m

5.8m

9.3m

# 2019 collaborations



**Kem**

UK & ROI



**Stacey**

UK & ROI



**Viktoria & Sarina**

Germany & Austria



**Dulceida**

Spain

## Selling space expansion this year

	2019		2018	
	# of stores	sq ft 000	# of stores	sq ft 000
UK	189	7,449	185	7,125
Spain	46	1,850	45	1,764
Germany	30	1,830	27	1,686
Republic of Ireland	37	1,085	37	1,087
Netherlands	20	971	19	902
France	15	776	13	649
USA	9	470	9	507
Belgium	7	372	6	292
Portugal	10	348	10	348
Austria	5	242	5	242
Italy	4	203	4	203
Slovenia	1	46	-	-
	<b>373</b>	<b>15,642</b>	<b>360</b>	<b>14,805</b>

# Selling space expansion next year

- 1 million sq ft of net additional selling space
- significant stores:
  - UK                      Trafford Centre
  - Spain                    Seville Lagoh, Espacio León, Barcelona Cugat, Barcelona Plaza de Cataluña
  - France                    Lens, Strasbourg, Paris Thiais, Paris Plaisir, Calais Cité Europe
  - Italy                      Milan Fiordaliso, Rome Maximo
  - US                        American Dream, Sawgrass Mills
  - Poland                    Warsaw
  - Germany                Kiel, Berlin Gropius

# Primark summary

- good year for profit growth
- UK outperformance
- proposition development
- German problems being addressed
- expansion
  - current level of selling space addition to continue
  - major existing markets: Spain, Italy, France and US
  - entry into Central and Eastern Europe including Poland



## In summary

- Grocery and Primark profit growth more than offset sugar decline
- Grocery
  - Twinings Ovaltine strong underlying growth
  - margin ahead in Australia, ACH and Acetum
- AB Sugar
  - low contracted European prices
  - efficiency improvements continue
- more challenging year for Agriculture and Ingredients
- Primark
  - strong trading in UK, Spain, France, Italy and US
  - margin increase
- strong cash flow

# Outlook

- well positioned
- another year of strong profit and margin growth in Grocery
- AB Sugar will benefit materially from increased EU sugar prices and cost reduction
- Primark
  - selling space expansion
  - small margin reduction
- progress in adjusted earnings per share



# Exchange rates

Average rates used to translate the income statement	2019	2018
US\$	1.28	1.35
euro	1.13	1.13
South African rand	18.32	17.52
Australian \$	1.81	1.76

Closing rates used to translate the balance sheet	2019	2018
US\$	1.25	1.31
euro	1.12	1.12
South African rand	18.08	19.46
Australian \$	1.81	1.82



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## Notes

Adjusted operating profit is shown before the amortisation of non-operating intangibles, profits less losses on the disposal of non-current assets, transaction costs, amortisation of acquired inventory fair value adjustments and exceptional items. These items, together with profits less losses on the sale and closure of businesses, are excluded from adjusted profit before tax and adjusted earnings per share. Constant currency is derived by translating the 2018 results at 2019 average exchange rates, except for countries where consumer price inflation has escalated to extreme levels, in which case actual rates are used. References to underlying profit for Twinings Ovaltine and Grocery exclude a £12m charge in 2019 in respect of the closure of the Twinings tea factory in Jinqiao, China.