Investing for tomorrow Delivering today

Chairman's statement

The Group performed very well in the financial year despite significant inflationary and other macro-economic pressures.

Group revenue increased to £19.8bn, 16% higher than the previous year at actual exchange rates and 15% higher at constant currency. This increase in revenue was largely due to price increases negotiated across different businesses to mitigate high levels of inflation. As the financial year progressed, we saw the rate of inflation ease.

Year-on-year performance in our Grocery and Ingredients divisions was strong while Sugar delivered higher sales and resilient profits in the face of difficult growing conditions in Europe. Retail revenue was very good, driven by our like-for-like performance and selling space expansion. At the start of the year we decided not to recover through pricing all the inflation in Primark's input costs, and Primark adjusted operating profit fell by 3% year-on-year.

Group adjusted operating profit rose to £1,513m, an increase over the previous year of 5% at actual exchange rates and 4% at constant currency. Adjusted profit before tax rose 9% to £1,473m and adjusted earnings per share increased by 8% to 141.8p.

Gross investment stepped up to £1.2bn in the financial year reflecting the many strategic investments made in our Grocery, Ingredients and Sugar divisions as well as a step-up in the store and technology roll-out in Primark. We made a number of small acquisitions for a total cash payment of £94m, in particular in our Agriculture division to expand the strength and breadth of our offer to the dairy sector.

Capital structure and shareholder returns

Our capital allocation policy is for the Group's financial leverage, expressed as the ratio of total net debt to adjusted EBITDA, to be well under 1.5 times, whilst financial leverage consistently below 1.0 times may indicate a surplus capital position. Surplus capital may be returned to shareholders by special dividends or share buybacks, subject to the Board's discretion.

During the financial year we executed £446m of a £500m share buyback programme with the remaining amount being completed recently. At the end of the financial year the financial leverage ratio was just under 1.0 times. The Group continues to prioritise investment in its businesses, and we expect to increase spend in each of the next few years to slightly above last year's level. Nevertheless, given the outlook for the Group, the strength of the balance sheet and the underlying cash generation of the business, the Board has decided to continue to return additional capital to shareholders. Therefore, the Group will continue with a buyback programme, targeting an additional amount of £500m over the next 12 months. In addition, the Group is declaring a special dividend of 12.7p per share.

The Board is proposing a final dividend of 33.1p per share which together with the special dividend will be paid on 12 January 2024 to shareholders on the register on 15 December 2023. Taken with the interim dividend of 14.2p a share, the aggregate total dividend equates to 60.0p per share, 37% higher than the total dividend of 43.7p per share in 2022.

Our commitment to good business

Our businesses aim to make a lasting contribution to society by following our Group values of respecting everyone's dignity, acting with integrity, progressing through collaboration and delivering with rigour. The Group operates a devolved business model which gives the businesses considerable autonomy, but the Board has ultimate responsibility for overseeing responsible business practices across the Group. This year we continued to make good progress in our environmental initiatives in particular with significant investments in decarbonisation of Sugar, in water and effluent projects in Ingredients, and at Primark which progressed a number of initiatives under the Primark Cares programme including an increase in the proportion of recycled or more sustainably sourced materials used in our clothing.

Board

There have been several important changes to the Board this year. We welcomed Eoin Tonge as a director in February 2023, succeeding John Bason as Finance Director in April 2023. Dame Heather Rabbatts became Senior Independent Director and Graham Allan became Chair of the Remuneration Committee in May 2023. Ruth Cairnie stepped down on 31 August 2023 after nine years on the Board. Ruth made a terrific contribution to our Board deliberations, and she leaves with our grateful thanks.

We have also welcomed Annie Murphy and Kumsal Bayazit as new non-executive directors. Annie joined from 6 September 2023 and Kumsal will be joining from 1 December 2023. They bring a wealth of relevant experience in different areas to the Board and I very much look forward to working with them.

Looking ahead

Whilst the environment is still challenging for the consumer, inflationary pressures have eased and there is less volatility than there was 12 months ago. The Group is well positioned as a result.

At Primark, we believe our trading performance demonstrates the enduring strength of our appeal to customers across all markets. We continue to invest in both our existing store estate and in new stores and in our digital infrastructure. We expect further growth in sales next year driven by new selling space expansion of some 1 million sq ft and modest levels of like-for-like sales growth. This like-for-like growth will be underpinned by our value proposition, our product relevance and stretch, our increasingly effective digital platform and some limited pricing. Lower material costs and lower freight costs should result in a substantial recovery in gross margin and overall we expect Primark adjusted operating profit margin to recover strongly. At this early stage we believe that the adjusted operating profit margin will be above 10% with further improvement dependent on levels of consumer demand.

In our food businesses, we expect stability across our Grocery division as inflation recedes and as we step up our investment in marketing in our international brands. In Ingredients we anticipate a modest decline in sales and profit as we consolidate following a year of very strong growth and we invest to enhance capabilities. We expect Agriculture to move forward as markets improve and it integrates and leverages the acquisitions of the last two years. We continue to expect the broader Sugar portfolio to deliver a substantial improvement in profitability in this new financial year, driven by a marked improvement in the performance of British Sugar with an anticipated better UK sugar beet crop, and a significant reduction in losses at Vivergo.

Strong cash generation will be driven by higher profitability, lower working capital, lower levels of cash tax payable and pension contributions, partially offset by higher capital investment. We look forward to a year of meaningful progress.

Michael McLintock
Chairman