Financial review

Group performance

Group revenue was £19.8bn, 15% ahead of last year at constant currency, with sales growth in each of our businesses, benefitting from the build of price increases taken to offset inflation. However, as expected, adjusted operating profit margin declined, from 8.4% last year to 7.7% this year as a result of the overall inflation. The Group generated an adjusted operating profit of £1,513m, an increase of 5% at actual rates ahead of last year, a strong result given the scale of input cost increases.

Statutory operating profit for the Group of £1,383m was 17% ahead, after charging exceptional items of £109m (2022 – £206m).

For the full year the average rates used to translate the income statement resulted in a translation gain of £17m, primarily driven by the strengthening of the US dollar, particularly in the first half compared to the first half of 2022. The weakness of sterling against some of our trading currencies also drove a benefit on translation of our non-sterling earnings.

Segmental summary

	Revenue			Adjusted operating profit		
At actual rates	2023 £m	2022 £m	Change %	2023 £m	2022 £m	Change %
Grocery	**4,198**	3,735	+12.4	**448**	399	+12.3
Ingredients	**2,157**	1,827	+18.1	**214**	159	+34.6
Agriculture	**1,840**	1,722	+6.9	**41**	47	-12.8
Sugar	**2,547**	2,016	+26.3	**169**	162	+4.3
Retail	**9,008**	7,697	+17.0	**735**	756	-2.8
Central	**–**	–	–	**(94)**	(88)	-6.8
	19,750	16,997	+16.2	**1,513**	1,435	+5.4

The segmental analysis by division is set out in the operating reviews. The segmental analysis by geography is set out in note 1 on page 140. Of note is the increase in adjusted operating profit in North America which is driven by the success of our Grocery and Ingredients' businesses there.

Adjusted earnings per share

	2023 £m	2022 £m	Change %
Adjusted operating profit	**1,513**	1,435	+5.4
Net finance income/(expense) before lease interest	**11**	(11)	+200.0
Other financial income	**40**	13	+207.7
Lease interest	**(91)**	(81)	-12.3
Adjusted profit before tax	**1,473**	1,356	+8.6
Taxation on adjusted profit	**(346)**	(302)	-14.6
Adjusted profit after tax	**1,127**	1,054	+6.9
Adjusted earnings attributable to equity shareholders	**1,103**	1,034	+6.7
Adjusted earnings per share (in pence)	**141.8p**	131.1p	+8.2

Net finance income and other financial income

Finance income increased as a result of higher interest rates earned on our cash deposits. Other financial income increased this year as a consequence of the higher surplus in the Group's UK defined benefit pension scheme at the beginning of the financial year. Lease interest increased during the year because of more leases being entered into from our continued store expansion programme, particularly in the US, Italy and France.

As a result, on an adjusted basis, profit before tax was up 8.6%, to £1,473m.

Taxation

This year's tax charge on the adjusted operating profit before tax was £346m, with an increase in adjusted effective tax rate to 23.5% from 22.2% last year. This rate includes the impact on the blended tax rate for the full year of the increase in UK corporation tax rate from 19% to 25% in April 2023.

The Group is exposed to a range of uncertain tax positions. The provision at the financial year end for these tax positions was £55m (2022 – £102m). The reduction in the provision is due to the conclusion of UK tax audits covering several businesses and years. This reduction in the provision between last financial and this financial year was due to partial utilisation and also translated into a one-off benefit to the effective tax rate for the year.

We expect the Group's effective tax rate in 2024 to be broadly in line with 2023. This includes the full year impact of the increase in the UK corporation tax rate in April 2023 and changes to the mix of profits by jurisdiction.

Adjusted earnings per share increased by 8.2% to a record 141.8p per share. This increase follows from the higher adjusted profit and the higher financial income, more than offsetting the slightly higher adjusted effective tax rate. The adjusted earnings per share also benefit from the reduction in weighted average number of shares, from 789 million for 2022 to 778 million for 2023, as a result of the buyback programme.

Basic earnings per share

	2023 £m	2022 £m	Change %
Adjusted profit before tax	**1,473**	1,356	+8.6
Acquired inventory fair value adjustments	**(3)**	(5)	
Amortisation of non-operating intangibles	**(41)**	(47)	
Exceptional items	**(109)**	(206)	
Profits less losses on sale and closure of businesses	**(3)**	(23)	
Profits less losses on disposal of non-current assets	**28**	7	
Transaction costs	**(5)**	(6)	
Profit before tax	**1,340**	1,076	+24.5
Taxation	**(272)**	(356)	+23.6
Profit after tax	**1,068**	720	+48.3
Earnings attributable to equity shareholders	**1,044**	700	+49.1
Basic earnings per share (in pence)	**134.2p**	88.6p	+51.5

Profit before tax of £1,340m was 24.5% ahead of last year, benefitting from the lower level of exceptional items in 2023.

Exceptional items

	2023 £m	2022 £m
Grocery – Impairment	**41**	–
Sugar – Impairments	**50**	–
Retail – Impairments, rightsizing and fair value writedowns	**18**	206
	109	206

The income statement this year included a non-cash exceptional impairment charge of £109m. In Grocery, the Don business has been impacted by inflationary pressures, a surplus supply of fresh pork in the market, labour constraints, equipment reliability causing production shortfalls and additional transportation costs following the unforeseen liquidation of its distribution partner. As a result we recognised impairment write-downs of £39m against property, plant and equipment, £1m against right-of-use assets and £1m against intangible assets.

In Sugar, the China Sugar North business recognised a £15m impairment write-down against property, plant and equipment. This business was held for sale in the previous year but that process was halted in the second half of the year. Due to severe flooding in Mozambique, the related damage to the sugar crop fields and the inability to plant for the foreseeable future Illovo Mozambique recognised £25m impairment write-downs against property, plant and equipment, £7m against current biological assets, £2m of personnel costs and £1m write-down against inventory.

In Retail, the German Primark portfolio recognised exceptional impairment charges relating to stores that were impaired in the previous year: £13m as a result of additional right-of-use assets being recognised due to rent indexation adjustments on right-of-use assets that were impaired, a further £5m non-cash exceptional charge for the right-sizing of four stores and the fair value write-down of a store.

The prior year exceptional impairment charge of £206m comprised non-cash write-downs of assets in Primark Germany, £72m against property plant and equipment and £134m against right-of-use assets.

Total tax charge for the year was £272m. This includes the positive benefit of deferred tax on exceptional items from the prior year, when a £63m exceptional charge was included in the Group's total tax charge reflecting the de-recognition of the deferred tax assets relating to Primark Germany. A significant proportion of that asset had been deemed to be irrecoverable and was written off as an exceptional tax charge last year. As a result of further work undertaken this year it has been determined that more of this deferred tax asset is recoverable and so, an exceptional non-cash tax credit of £58m was recognised in the first half.

Earnings attributable to equity shareholders were £1,044m and basic earnings per share were 134.2p, 52% ahead of last year.

Cash flow

	2023 £m	2022 £m
Adjusted EBITDA	**2,361**	2,261
Repayment of lease liabilities net of incentives received	**(246)**	(275)
Working capital	**(216)**	(729)
Capital expenditure	**(1,073)**	(769)
Purchase of subsidiaries, joint ventures and associates	**(94)**	(154)
Sale of subsidiaries, joint ventures and associates	**4**	–
Net interest paid	**(74)**	(97)
Taxation	**(341)**	(304)
Share of adjusted profit after tax from joint ventures and associates	**(127)**	(112)
Dividends received from joint ventures and associates	**107**	93
Other	**(32)**	2
Free cash flow	**269**	(84)
Share buyback	**(448)**	–
Dividends	**(345)**	(380)
Movement in loans and current asset investments	**(10)**	196
Cash flow	**(534)**	(268)

There was free cash inflow in the year totalling £269m as a result of the operating profit generated by the Group, despite cash outflows driven by higher capital expenditure than the prior year and a working capital outflow.

The capital expenditure increase was driven by the number of large capital projects and a step up following low levels of the last few years. The increase of the investment in our food businesses primarily relates to projects to build capacity. In Primark the increase reflects the acceleration of our new store programme and expenditure to expand our capabilities in warehouse automation and technology. We expect this higher level of investment to continue over the medium term.

The main factors driving the increase in working capital were twofold: the impact of inflation across all our food businesses and higher inventories, particularly in our Sugar and Primark businesses. As a reminder Primark inventories a year ago were too low and reflected the logistics and supply chain difficulties experienced in the prior year. We do expect a working capital inflow in 2024 as Primark inventory levels normalise.

Cash tax increased in the year driven by the increase in profit before tax. We expect a reduced level of cash tax in 2024 due to the reallocation of historic overpayments and favourable settlements of historical enquiries and returns.

There was cash outflow of £448m for our share buyback programme, with the remainder of the £500m programme completed after the year end. We also paid £345m for total dividends in this financial year, which reflects the final 2022 dividend and interim 2023 dividend. The £380m paid in the prior year included a special dividend that was declared in respect of the 2021 financial year.

Acquisitions and disposals

The spend on acquisitions this financial year was £94m. The most significant of these were the acquisitions of National Milk Records, Kite Consulting and Advance Sourcing in Agriculture.

For disposals, a non-cash provision of £6m was included in profit less losses on sale and closure of business in respect of Illovo's investment in Gledhow.

Financing and liquidity

	2023 £m	2022 £m
Short-term loans	**(99)**	(31)
Long-term loans	**(394)**	(480)
Lease liabilities	**(3,160)**	(3,252)
Total debt	**(3,653)**	(3,763)
Cash at bank and in hand, cash equivalents and overdrafts	**1,388**	1,995
Current asset investments	**–**	4
Total net debt	**(2,265)**	(1,764)
Leverage ratio	**0.96**	0.78

At 16 September 2023, the Group held cash balances of £1,388m. In addition, the Group has an undrawn Revolving Credit Facility (RCF) for £1.5bn. This facility is free from performance covenants and was extended in June 2023 for a further year, bringing the maturity to 2028. Our £400m bond, launched last year, at 2.5% is due in 2034, and our final $100m Private Placement notes are due in March 2024.

Total liquidity at year end was £2.7bn, comprising the £1.5bn of cash, less £0.2bn of short-term loans and overdrafts and £0.1bn of inaccessible cash, plus the £1.5bn RCF. This compares to £3.4bn at the end of 2022.

Pensions

The Group's defined benefit pension schemes aggregate surplus increased by 5% to £1,377m at year end compared to last year's £1,314m. The UK scheme, which accounts for around 90% of the Group's gross pension assets was in surplus by £1,397m (2022 – £1,366m). A significant increase in the pension surplus in the prior year was driven by an increase in bond yields reducing liabilities. Details of the assumptions made in the current and previous year are disclosed in note 12 of the financial statements together with the bases on which those assumptions have been made.

The charge for the year for the Group's defined contribution schemes, which was equal to the contributions made, amounted to £95m (2022 – £87m). This compared with the cash contribution to the defined benefit schemes of £36m (2022 – £36m).

The most recent triennial actuarial valuation of the UK scheme was carried out as of 5 April 2023. This last valuation showed a funding surplus of £1,013m. This is a clear improvement on the previous valuation undertaken at 5 April 2020, which showed a deficit of £302m. As agreed with the trustees in September, as a result of this significant increase in the surplus, the Group will receive a cash flow benefit of approximately £70m per year from the abatement of UK employer pension contributions on both the defined benefit and defined contribution schemes. This will take effect from the start of the new financial year.

Dividend and shareholder returns

We announced a share buyback programme of £500m in November 2022. In the financial year we purchased 23.7 million shares for £446m and the shares bought back were cancelled. At the end of the financial year we had 765 million ordinary shares in issue. The weighted average number of shares for the year was 778 million which compared to 789 million for the last financial year. This share buyback has resulted in a positive impact on our reported adjusted earnings per share of 1.8p. Since the financial year end, a further 2.8 million shares were purchased, completing the total £500m buyback programme. The Group has announced the continuation of a buyback programme, targeting an additional amount of £500m over the next 12 months.

This year the Board declared an interim dividend of 14.2p per share (2022 – 13.8p), an increase of 3% compared to prior year. The Board is proposing a final dividend of 33.1p per share. It is also declaring a special dividend of 12.7p per share to be paid as a second interim dividend. Taken with the first interim dividend of 14.2p per share, the aggregate total dividend for the year is 60.0p per share, 37% higher than the total dividend of 43.7p in 2022, which comprised an interim dividend of 13.8p, and a final dividend of 29.9p.

Eoin Tonge
Finance Director