25 February 2013

Associated British Foods plc

Pre Close Period Trading Update

Associated British Foods plc issues the following update prior to entering the close period for its interim results to 2 March 2013 which are scheduled to be announced on 23 April 2013.

The interim results for the group will be ahead of our expectations at the start of the year. Adjusted operating profit will be higher than last year driven by an outstanding performance from Primark. Net financing costs in the first half will benefit from a strong cash flow and lower net debt during the period. Earnings per share for the first half will be substantially ahead of last year. Our expectation for the full year is unchanged and earnings growth for the full year will therefore be heavily weighted towards the first half.

Cash flow and funding

Operating cash flow for the half year is expected to be stronger than last year with higher profits, lower capital expenditure, and a lower working capital outflow than is traditionally the case in the first half benefiting from the higher sales and good stock management at Primark. As previously indicated, capital expenditure in the food businesses for the full year is expected to be lower than last year although investment in new store development for Primark is likely to be similar. Net debt at the half year is expected to be more than £0.3bn lower than a year ago at some £1.25bn.

Sugar

Profit from Sugar in the first half will be lower than last year with an improvement at Illovo more than offset by a decline in China and a non-cash charge for the mothballing of our two smallest beet sugar factories in north China.

UK revenues were ahead of last year with higher sales volumes compared with last year's abnormally low level at the beginning of the financial year, and marginally higher sugar prices. Poor growing conditions during 2012 resulted in a lower beet yield and sugar content. As a consequence, the UK campaign started later and factory throughput has been lower to allow for a slower filtration process. Sugar production for the current year is now estimated to be 1.15 million tonnes compared with last year's 1.32 million tonnes. Profit for the full year is expected to be lower as a consequence of the lower production, a higher beet cost and a weaker euro in the first half. Production has now started at the Vivergo bioethanol plant in Hull.

In Spain, delayed planting in the south is expected to reduce the size of the southern crop and heavy rains will extend the campaign in the north into March. We nevertheless expect to achieve overall quota sugar production volume in the current financial year. Profit will be lower due to a higher beet cost and this year's sales including a higher proportion of lower-margin, refined cane sugar.

Revenues at Illovo benefited from higher production volumes with increased cane yields and sugar content, particularly in South Africa. Campaigns were extended in Zambia and Swaziland where the recently expanded plants operated well. As a result we expect profit at the half year to be ahead of last year.

Sales volumes in China were unusually low last year and, as a result, this year's revenues will be ahead despite deteriorating prices. A larger cane crop is expected to increase southern sugar production volumes ahead of last year. Sugar production in the north is expected to be in line with that achieved last year, with the new Zhangbei factory fully commissioned in time for the new season. As a result of much lower sugar prices our operations in China will be loss-making this year. It is anticipated that sugar prices will continue at this level for some time and we have sought to reduce our cost base. At the end of this campaign the small beet factories at Wangkui and Baolongshan have been mothballed and a non-cash charge of £22m has been taken in the period to write down the value of the associated assets.

Agriculture

Revenue in the first half will be ahead of last year driven by UK feed sales and AB Vista. With limited alternatives available to farmers, demand for sugar beet feed in the UK was high in the period but sales for the rest of the year will be constrained by the smaller UK beet crop. AB Vista's feed enzyme business continued to make good progress, particularly in North America, supported by the success of the recently launched Quantum Blue. China revenues were below last year, with shortfalls resulting from lower demand for pig and poultry feed, and Frontier traded at similar levels to last year. First half profit is expected to show further progress.

Grocery

Revenue in the first half is expected to be level with last year and profit will be substantially improved benefiting from the non-recurrence of restructuring costs in George Weston Foods in Australia and Allied Bakeries.

Twinings Ovaltine again performed well with some good market share gains. Production efficiencies at the new tea factory in Poland and cost reduction initiatives in the Ovaltine plant in Switzerland drove further improvement in operating profit. The UK bread market remained highly competitive. The worst UK harvest of recent years resulted in low volumes of wheat which was also of inferior quality but Allied Bakeries continued to produce high quality bread and recovered the higher cost through price increases. The new bread plant at Stockport has been operational since September and work is on track to commission the new plant at Walthamstow in early summer.

Trading at George Weston Foods in Australia met our expectations in the first half. Price increases have been secured for Tip Top bread but the market continued to be difficult with a high level of in-store bakery promotions. Progress was made in the Don KRC meat business with higher production and sales volumes and improved cost control and customer service. Revenue at ACH is expected to be level with last year.

Ingredients

Revenue in the first half is expected to be in line with last year although 6% higher at constant currency. Changes in exchange rates had no material effect on profit from trading which was in line with last year.

Following the difficulties experienced by the yeast business last year, the performance this period has seen some stabilisation although the market remains competitive. Yeast quality and productivity in China has improved and there was some reduction in molasses costs. The new yeast manufacturing facility in Mexico is currently being commissioned with first sales expected in the spring. With the opening of this new facility, a review of dry yeast capacity will lead to some rationalisation. Good progress was made in bakery ingredients' sales and margins.

At ABF Ingredients, further growth was achieved in bakery, feed and speciality enzymes driven by new products launched last year. Sales of extruded grain products were well ahead of last year and strong dairy markets contributed to good results in whey proteins and lactose. The yeast extracts plant in China continued to make good operational progress.

Retail

Sales at Primark in the first half were exceptionally strong and are expected to be 23% ahead of the same period last year and 25% ahead at constant currency. This was driven by very strong like-for-like sales growth, a substantial increase in retail selling space and superior sales densities in the larger new stores. Like-for-like growth of 7% benefited from comparison with weak sales during the unseasonably warm autumn of 2011 and good trading over the Christmas period.

Operating profit margin was much higher than in the same period last year, reflecting the benefit of lower cotton prices and better trading. No further margin benefit from lower cotton prices is expected in the second half.

This was an extremely active period for new store openings. Retail selling space has increased by 0.7 million sq ft since the last financial year end, and by 1.0 million sq ft, or 13%, since the 2012 half year. At 2 March 2013, we expect to be trading from 257 stores and 8.9 million sq ft of selling space. We opened 15 new stores in the period including six in Spain and four in the UK including our second store on London's Oxford Street, with 82,000 sq ft of selling space. Two new stores were opened in Germany including one in Frankfurt's Zeil, one of the country's premier shopping locations. We opened our first two stores in Austria and a further store in the Netherlands. We also relocated our store in Sunderland to a larger site, and completed the refurbishment and extension of our flagship store on Mary Street in Dublin.

This pace of store openings will not continue for the remainder of this financial year but we expect it to pick up again in the next financial year. We expect to add a further 100,000 sq ft of space this year mainly comprising the completion of the extensions of our Newcastle and Manchester stores. Capital expenditure on new stores and refits for the full year is expected to be similar to last year.

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