5 July 2018

Associated British Foods plc
Trading update

Associated British Foods plc today issues a trading update for the 40 weeks to 23 June 2018 which summarises the significant trading developments since the last market update.

Trading performance

The revenue momentum of the first half continued in the third quarter and group revenue from continuing businesses for the 40 weeks ended 23 June 2018 was 3% ahead of the same period last year at constant currency and 2% ahead at actual exchange rates. Excluding Sugar, sales growth from continuing businesses was 6% ahead of last year at constant currency and 5% ahead at actual exchange rates.

For the full year we expect good profit growth in Grocery, Agriculture and Ingredients. Compared to our previous expectation, we now expect a reduced profit from AB Sugar as a consequence of lower EU sugar prices and an increased profit from Primark driven by higher margins. As a result, our full year outlook for the group is unchanged with progress expected in adjusted operating profit and adjusted earnings per share.

References to growth in the following commentary are based on constant currency.

Grocery

Our grocery businesses delivered revenue growth in the quarter of 4% with the benefit of the Acetum business acquired in October 2017 and good progress at ACH in the US. For the full year, operating margins are expected to increase with further margin improvement at George Weston Foods and continued growth at Twinings Ovaltine.

Sugar

AB Sugar's revenue was down 17% in the quarter which, as expected, was entirely the result of significantly lower EU prices which adversely affected our UK and Spanish businesses.

EU sugar prices are continuing to decline driven by low world sugar prices and excess supply following very high sugar production in the EU last year. For our next financial year, this level of EU sugar prices would represent a substantial reduction compared to those achieved this year. As a result, our expectations for sales and profit at AB Sugar, both for this financial year and next, are lower than previously expected.

In the UK, the late, cold, spring delayed sugar beet planting by some weeks but with the warm weather that followed, crops have become well established. In Spain, progress of the crop is good and in China, the campaign ended well with an operating result ahead of last year. At Illovo, weather conditions have been generally more favourable than last year and sugar production has also benefited from improved management of irrigation and crops. However, poor sugar content in the cane in Zambia led to some shortfall in sugar production there.

Ingredients

Revenue in the third quarter was 4% ahead of last year driven by ABF Ingredients. Of particular note was the continued strong growth in enzymes with sales to the bakery, detergent and other technical markets contributing.

Agriculture

Revenue growth in the third quarter at AB Agri remained strong, at 12% ahead of last year, with the benefit of the larger UK sugar beet crop on feed volumes. Good progress was made in Speciality Nutrition, proteins and in China feed. Volumes at AB Vista were driven by higher sales in Europe and North America. Trading at Frontier was held back by adverse spring weather in the UK reducing demand for crop protection products and by weaker margins in grain trading.

Retail

Sales at Primark in the year to date were 6% ahead of last year at constant currency and 7% ahead at actual exchange rates, driven by increased retail selling space. This growth is marginally lower than the performance delivered in the first half and reflects the later phasing of space growth this year.

Like-for-like sales in the quarter improved on those for the first half of the year driven by better trading across the eurozone. Sales from our first four stores in Italy continued to be very strong. The UK business performed well and delivered growth in like-for-like sales. This growth built on the strong comparative performance in the same period last year, but was lower than that achieved in the first half. We are encouraged by the trading in the resized stores at Freehold and Danbury in the US.

Operating margin in the first half was 9.8% and compared to 10% in the same period last year with better buying virtually offsetting the adverse effect of the US dollar exchange rate on purchases. We expect margin in the second half to be well ahead of the first half and last year with the continued benefit of better buying and also the beneficial effect of the weakening of the US dollar exchange rate on purchases. Stock has been tightly managed and markdowns, although higher than the very low level achieved last year, will be better than previously expected and as a result, the profit from Primark will now be higher than expected.

Retail selling space increased by a net 0.8 million sq ft since the beginning of the financial year. At 23 June 2018, 358 stores were trading from 14.7 million sq ft of retail selling space which compared to 13.6 million sq ft a year ago. The third quarter was an active period with 0.4 million sq ft of space added, mostly at the end of the period. Seven new stores opened: Munich in Germany, Metz in France, Antwerp in Belgium, Valencia in Spain, Tilburg in the Netherlands, Burnley in the UK and in the Westfield London shopping centre at White City. A small store at Lisnagelvin, Londonderry, in Northern Ireland was closed and selling space in the US stores in Freehold and Danbury was reduced.

We expect to add a further 0.1 million sq ft of selling space by the end of this financial year, with a new store in Brooklyn, our ninth store in the US, and a relocation to a larger store at Islazul Madrid. The opening of new stores at Toulouse in France and Ingolstadt in Germany have been delayed and are now expected early in the next financial year. As a result of these delays and changes in selling space, the increase in net retail selling space for this financial year is now expected to be 0.9 million sq ft.

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