

1 June 2020

Associated British Foods plc

Covid-19 Update – Re-opening of Primark Stores and Improved Group Cash Flow

Associated British Foods plc, the diversified international food, ingredients and retail group, is issuing the following statement which includes the likely timetable for the re-opening of Primark stores, early trading indicators from the recently re-opened stores which have been both reassuring and encouraging, and a group forecast with an improved cash flow.

The group trading update scheduled for 2 July will include Primark sales which will be informed by trading in stores soon to re-open and an additional four weeks of data.

Primark stores

As a result of the rapid spread of Covid-19 in our markets, all Primark stores were closed over a 12-day period from 11 March. As previously advised, this resulted in a loss of sales of approximately £650m for every month that all stores were closed.

We took a number of actions in Primark to substantially reduce the cash outflow resulting from this loss of sales. These mainly comprised cancellation of future orders for goods where the handover date from the supplier was after 17 April and a range of measures to reduce operating overhead while the stores are closed. The most significant contributor to the reduction in overheads has been access to government employment retention schemes across Europe, assisted by a temporary voluntary reduction in salaries for all Primark employees not covered by a government scheme. We continue to make progress in our discussions with landlords to renegotiate some of the terms in our lease arrangements. In April and May, we exceeded our previously advised estimate of a 50 percent reduction in Primark overheads.

As European governments have begun to ease restrictions on clothing retailing we have been able to re-open stores. Safety has been our highest priority in our detailed preparations to welcome our customers and employees back to stores. We are following government safety advice in all markets. Importantly, we will apply the valuable experience gained from more than 100 stores which are already open as we open the remainder of our estate, including stores across the UK. Social distancing protocols, hand sanitiser stations, perspex screens at tills and additional cleaning of high frequency touch points in the store are among the measures we are implementing. Personal protection, including masks and gloves, are being made available to all employees. These measures are designed to safeguard the health and wellbeing of everyone in store and to instil confidence in the store environment. Feedback from customers and employees in those markets where the stores are open has been positive.

The table below sets out those Primark stores that have already re-opened, those with a confirmed re-opening date and expected dates for the remaining stores where we still await confirmation.

As at today, Primark is trading in 112 stores which represent 34 percent of our total selling space. Primark is now working to re-open all its stores in England on 15 June, following the recent announcement by the UK Government. At that date we expect to be operating from 281 stores representing 79 percent of total selling space. We await further guidance for the stores in Northern Ireland, Wales and Scotland and anticipate openings in late June.

By 15 June, we will also have opened three new stores which were originally planned for opening in our financial third quarter: Mons in Belgium and Gropius in Berlin, Germany have already opened; and a store in the Trafford Centre, Manchester in the UK will open on 15 June. When the remainder of our stores are re-opened, we will then be trading from 15.9m square feet of retail selling space across 378 stores.

Status	Country	Re opening Date	Stores		Space m sqft	
Opened						
	Austria	4 May	5		0.2	
	Netherlands	6 May	20		1.0	
	Belgium	11 May	8		0.4	
	Italy	18 May	5		0.3	
	Germany	15-19 May	32		1.8	
	Slovenia	18 May	1		0.0	
	France	22-30 May	9		0.5	
	Spain	28 May	25		1.0	
	US	22 May	1		0.0	
	Portugal	1 June	6		0.2	
At 1 June	Subtotal		112	30%	5.5	34%
	England	15 June inc Trafford	153	40%	6.3	40%
	Spain	by 4 June	10		0.4	
	France	5 June	6		0.3	
By 15 June	Subtotal		281	74%	12.5	79%
	ROI	June - August phased	36		1.1	
Known dates	Subtotal		317	84%	13.6	85%
Balance						
	US	Expected late June	8		0.4	
	Portugal	"	4		0.1	
	Scotland, Wales, NI	"	37		1.2	
	Spain	"	12		0.5	
	Total		378	100%	15.9	100%

At the start of the re-opening of stores, Primark had £1.5bn of stock on hand, and had also made commitment to our suppliers for a further £0.4bn of stock. This compares to a typical stockholding of £0.9bn. This higher level of stock is due to having taken possession of all finished goods in transit at the time our stores closed and a further commitment to our suppliers to take all products that were planned for handover by 17 April, both finished and in production.

Our sourcing team has recognised the impact that Covid-19 and the subsequent reduction in orders has had on the garment supply industry and its employees. The team has maintained frequent and direct contact with each of our suppliers. We recently established a fund to ensure that the labour element of certain product finished and in production for Primark in the most vulnerable countries was paid to those workers. To date, we have made initial payments, totalling some £10m. Importantly, following clarification of the timing of store re-openings, we want to ensure that our stores will offer exciting seasonal product for Autumn Winter and we are now placing substantial orders for this seasonal stock with our suppliers.

The excess stock on hand mainly comprises everyday continuity, non-fashion and non-seasonal, ranges and some excess Spring Summer stock. The nature of the continuity stock will allow it to be sold in the normal course of business, albeit at a later date and without the need for special discounting beyond our normal practices. The buying team has conducted a detailed review of the Spring Summer stock on hand and has earmarked certain products to be held in storage for sale in

Spring Summer 2021. ABF remains well positioned to fund and manage the increased working capital. We will continue our policy of offering the best everyday low prices and will seek to avoid any markdown on excess stock.

Trading in our re-opened stores has been both reassuring and encouraging, with customer queues outside most stores and, once in store, spending on larger basket sizes. However, the trading results since re-opening were delivered over a very short period, will have been influenced by a number of specific factors, and may not be indicative of a long term pattern. Cumulative sales since re-opening, on a like-for-like basis, were down on the same period last year in aggregate. For a number of stores, sales were ahead of last year. A good number of our regional stores are performing well and only four stores had initial sales below 50 percent of last year. This included Damrak in the centre of Amsterdam and our store in Alexanderplatz, Berlin. Both of these stores are in the centre of big cities and are suffering from the current absence of tourism and much lower commuter footfall.

Consumer demand has been strong for children's, leisure and night wear, along with summer products such as shorts and t-shirts, reflecting good weather in markets where we are trading.

Primark stores pre Covid-19 had a wide range of aggregate sales densities, with significant variations in each store during a day and between days of the week. Compliance with the requirement to ensure social distancing in our stores has put an effective maximum on the hourly footfall for every store. For those stores with low sales densities, the social distancing maximum will not restrict the sales densities previously achieved, even at peak times. For those stores with sales densities around the average, this maximum footfall will restrict sales densities at peak trading times, but we expect some change in consumer behaviour to help mitigate this effect. However, as long as social distancing is required, we expect it to restrict the capacity of our busiest stores from achieving their aggregate pre Covid-19 sales densities. The extent of that effect will depend on the social distancing rules adopted in each country and finding safe operational solutions to improve customer flow, particularly at checkout which has already been identified as a bottleneck. Our initial view is that the implementation of social distancing could only affect sales to some extent in the higher density stores, which represented some 10-20 percent of pre Covid-19 total Primark sales.

Food businesses

We have maintained production at all of our food business facilities, despite the operational challenges arising from Covid-19. This has ensured the continued supply of essential products for the food, animal feed and pharmaceutical supply chains.

Grocery operating profit will be ahead of our previous expectations with stronger sales of branded products sold through the retail channel, more than offsetting weaker sales in food service. However, we now expect a lower profit at AB Sugar following further disappointing performance at Illovo.

The aggregate operating profit for the group's food businesses is expected to be in line with previous guidance.

Group cashflow forecast

Our review at the half year of the cash flow forecast for the coming year evidenced the group's strong cash liquidity, with considerable financial headroom. The cash flow forecast at that time was based on the conservative assumption that all Primark stores would not re-open until September. The current schedule advances the re-openings by some months and should deliver a much improved cash flow from trading in the second half of this financial year.

It remains too early to resume earnings guidance for the remainder of the current financial year.

For further enquiries please contact:

Associated British Foods

John Bason
Catherine Hicks

Tel: +44 20 7399 6545
Tel: +44 7974 982 441

Citigate Dewe Rogerson

Chris Barrie
Jos Bieneman

Tel: +44 7968 727 289
Tel: +44 7834 336 650