7 September 2020

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 full year results for the 52 weeks to 12 September 2020, which are scheduled to be announced on 3 November 2020.

Trading performance

Trading in the fourth quarter in both our food businesses and Primark exceeded our expectations. Grocery benefited from a continuation of increased retail sales volumes in our key markets of the US, Europe and Australia. Increased demand for yeast and bakery ingredients, particularly across the Americas and China, delivered higher sales for Ingredients. As expected Sugar will deliver a much improved profit year on year. All Primark stores reopened during May, June and July and trading during the fourth quarter has been strong. In the latest four-week UK market data for sales in all channels Primark achieved our highest ever value and volume shares for this time of year.

For the full year we expect a very strong increase in the aggregate adjusted operating profit for our Sugar, Grocery, Agriculture and Ingredients businesses over last year. This will be driven by increases in each division with particularly strong increases in Sugar and Grocery. Adjusted operating profit for Primark on an IFRS16 basis, excluding exceptional charges, is now expected to be at least at the top end of the £300-350m range previously advised compared to £913m reported for the last financial year.

Net interest expense and lease interest will be in line with last year, on an IFRS16 pro forma basis, and other financial income will be lower than in 2019 as previously explained. The full year effective tax rate for the group is expected to be in the region of 30% due to the much lower taxable profit in the UK and Ireland this year.

We expect adjusted earnings per share to be significantly below last year as a result of the decline in Primark's profit due to the store closures and the ongoing impacts on customer demand caused by COVID-19.

Net cash

Our expectation is that the year-end net cash balance, before lease liabilities, will now be some £1.3bn. The improvement since our last trading update is primarily driven by a reduction in working capital in Primark and in particular its inventory levels. Lower food inventory levels, higher group operating profit and reduced capital spend also contributed.

We fully repaid the group's Revolving Credit Facility of £1.1bn in August. An extension of the maturity date of this facility to July 2023 has been agreed with all our relationship banks.

Grocery

Grocery revenues will be ahead of last year with growth in Twinings, UK Grocery, ACH and George Weston Foods in Australia. Second half revenue growth was stronger driven by increased retail demand as a result of COVID-19. These revenues will be held back by lower Ovaltine sales and the expected decline in Allied Bakeries. Adjusted operating profit will be significantly ahead with volume-driven margin gains in ACH, Twinings, George Weston Foods and UK Grocery more than offsetting a one-time non-cash write-down of assets in Allied Bakeries of £15m.

Twinings made good progress this year with volume growth in black tea and infusions in each of its major markets. Sales of Ovaltine were however held back by the impact of COVID-19 on impulse sales, particularly in Thailand and Vietnam. Overall margins improved and also benefited from a full year of production efficiencies following the closure of the Chinese tea factory last year.

Allied Bakeries revenues declined this year following the termination of our largest private label bread contract earlier in the financial year. However cost reductions and a COVID-19 related uplift in sales resulted in an improved underlying operating result. Following the previously announced loss of the Co-op contract the carrying values of some of our distribution assets have been reviewed resulting in a one-time charge of £15m. We have now received £30m for the insurance claim relating to the fire in February at our Speedibake Wakefield factory which will more than offset the exceptional charge of £25m recognised at the half year.

Although Westmill and AB Sports Nutrition have seen sales and profit declines due to the reduction in foodservice activity and sports events respectively, Silver Spoon, Jordans, Dorset Cereals, Ryvita and AB World Foods all benefited from significant increases in consumer demand in the second half.

Acetum delivered growth with increased demand for balsamic vinegar in North America. ACH, including Anthony's Goods, the supplier of high quality natural and organic food products, has performed extremely strongly this year driven by increased demand for homebaking products. George Weston Foods has delivered excellent sales growth and margin improvement, with strong sales of bread and breakfast goods more than offsetting weaker foodservice sales of meat products. Yumi's has seen continued strong sales growth and the launch of a new "veggie burger" has been well received.

Sugar

AB Sugar revenue will be ahead of last year. Adjusted operating profit will be well ahead, driven by the benefit of the strong recovery in EU sugar prices which will more than offset much lower profits at Illovo.

EU sugar prices increased this year with a reduction in stocks following lower EU sugar production in the last two campaigns. Looking ahead, estimates for EU sugar production in the upcoming campaign are lower than this year due to reduced yields following difficult weather conditions and the prevalence of virus yellows disease in the beet. Following a sharp price decline in April there has been some recovery in the world sugar price reflecting higher commodity crude oil prices. Our UK and Spanish businesses have continued to contract sales for next year at prices in line with our expectations.

In the UK, sugar production of 1.19 million tonnes was ahead of last year with a strong operating performance by the factories overcoming a prolonged campaign as a result of adverse weather. With the higher sales price and some improvement in sales volume the profitability of British Sugar improved significantly. With lower yields sugar production next year is expected to be below this year.

The operating performance in Spain improved significantly and the business is now expected to deliver a breakeven operating result. This was delivered by higher sales prices, lower beet costs and a significant reduction in operating costs.

Sugar production at Illovo is expected to be in line with last year at 1.63 million tonnes, but lower than expected with production at the end of the 19/20 season curtailed by the early onset of the rainy season. Illovo is expected to deliver a much reduced profit. Domestic South African market volumes reduced this year by some 10% following the recent introduction of a sugar tax and we expect volumes to continue at these lower levels. The operating profit in Malawi was impacted by lower sales volumes this year but plans are in place to deliver an improvement next year. Export sales across southern Africa have been limited by COVID-19 restrictions on cross-border traffic between countries and on port capacity. The full year profit will include a £10m charge for restructuring which is expected to deliver benefits in the next financial year.

In China a return to normal yields after a very poor crop last year and higher sugar sales prices resulted in a much improved operating result. Further progress is expected next year with a larger crop area and the benefit of some 80% of grower contract payments now linked to beet sugar content.

Agriculture

AB Agri will deliver an increase in adjusted operating profit. Sales and profit at AB Vista, our feed enzymes business, will be strongly ahead of last year, with good sales growth in the Americas and the first full year of sales from Signis, our innovative animal digestion aid. Our UK feed businesses have seen lower sales due to high forage availability and reduced foodservice demand for milk and poultry meat as a result of COVID-19. Our European feed businesses in Spain and Denmark have seen good sales and profit growth, while profits in our Chinese feed business benefited from lower raw material prices and tight cost control. Frontier's result is below last year with sales of crop inputs impacted by unfavourable weather in the autumn and spring.

Ingredients

Ingredients revenues and operating profit are now expected to be ahead of last year.

AB Mauri responded quickly to higher demand for yeast and bakery ingredients with increased production capacity. Retail demand for yeast was particularly strong and sales of non-dairy toppings in Brazil were well ahead. Sales growth was particularly strong in the Americas and China.

Our proposed yeast and bakery ingredients joint venture in China with Wilmar International received regulatory approval in April and the transaction is expected to complete early in the next financial year. Construction of the major new yeast plant in northern China is well underway.

ABF Ingredients revenues are expected to be in line with last year. Our enzymes business delivered very strong sales growth and our yeast extracts and seasoning powders business made good progress in the food and health markets. These gains were however offset by lower volumes as a result of increased competition for Abitec and also reduced demand for protein bars at PGPI during COVID-19 lockdowns.

Retail

All Primark stores reopened in May, June and July. Since reopening we have traded strongly, attracting customers with our value-for-money offering and a welcoming and safe store environment. Cumulative sales since reopening to the year-end are expected to be £2bn and our adjusted operating profit on an IFRS16 basis for the year, before exceptional items, is now expected to be at least at the top end of the previously advised £300-350m range.

Total customer spend on clothing, footwear and accessories in our markets has been impacted by COVID-19. It has been recovering from a low point in April and the rate accelerated with the reopening of stores.

Since reopening we have seen increasing numbers of transactions driven by footfall. The average basket size was initially significantly higher than last year, reflecting some pent-up demand, and while this outperformance has reduced in recent weeks it remains higher than a year ago. We have continued our policy of offering the best prices, and markdowns for the period since reopening have been low.

Compared to pre-COVID-19, sales performance since reopening has in aggregate been reassuring and encouraging. By store the performance has varied, reflecting the current circumstances of our customers including increased home working, less commuting and much less tourism. Sales at our stores in retail parks are higher than a year ago. Shopping centre and regional high street stores are broadly in line with last year and large destination city centre stores, which are heavily reliant on tourism and commuters, have seen a significant decline in footfall. Our 16 largest destination city centre stores contributed 13% of total sales pre-COVID-19 and 8% of sales after reopening.

We are prioritising the health and wellbeing of everyone in store and have received positive feedback from our customers about the safety measures in place and the welcoming store environment. We are working constantly to optimise the implementation of in-store safety measures and have recently installed additional dividers at the tills in our 250 busiest stores which has enabled more tills to be opened and has reduced queues.

In the UK sales since reopening are expected to be 12% lower on a like-for-like basis and if the four large UK destination city centre stores are excluded the decline is 5%. After a period of store closure we are encouraged by the strength of our sales. In the latest four-week UK market data for sales in all channels Primark achieved our highest ever value and volume shares for this time of year.

Sales in Europe are expected to be 17% lower on a like-for-like basis, reflecting increased public health restrictions, particularly in Spain and Portugal. Excluding our 11 destination city centre stores like-for-like sales are down 13%.

Sales in the US are expected to be 9% lower on a like-for-like basis and are 2% ahead excluding our Boston destination city centre store.

At the half year we recognised an exceptional charge of £284m against inventory on hand and yet to be delivered. The earlier than expected reopening of the stores and stronger than expected trading over the summer has allowed us to sell the stock in store and a significant proportion of the stock on hand. As a result the book value of spring/summer inventory that will be carried into next year is now expected to be only some £150m and total year-end inventory levels will be much lower. The cash generated by the sale of this stock on hand is the major contributor to our better net cash balance at the year-end. We will review both our stocks on hand and our commitments at the year-end and expect this to result in a significant reduction in the exceptional charge.

Current orders being placed are benefiting from recent weakness in the US dollar.

In July Primark announced the rollout of its UK recycling programme, inviting customers to donate their pre-loved clothes, textiles, footwear and bags from any brand. Collection boxes are now available in all Primark's UK stores and donated items will be reused, recycled or repurposed, with nothing going to landfill. Profit from the scheme will go to UNICEF, Primark's global charity partner, in support of its education programmes for vulnerable children around the world.

The store opening programme planned for the second half of this year has been delayed by restrictions on access to complete the fit-out of our stores. Nevertheless, since our last trading statement a further three stores have been opened: Plaisir and Belle Épine in Paris, France and

Warsaw, Poland. Initial trading in these stores has been very strong, particularly in Warsaw. Following the opening of our new store in Strasbourg, France tomorrow this will bring the total estate to 384 stores trading from 16.2m sq ft of space compared to 15.6m sq ft a year ago.

The stores added this year are as follows:

Country	Store
Belgium	Mons
France	Lens Noyelles
	Paris Belle Épine
	Paris Plaisir
	Strasbourg
Germany	Kiel
	Berlin Gropius Passagen
Italy	Milan Fiordaliso
Poland	Warsaw Galeria Mlocincy
Spain	Seville Lagoh
	Barcelona Plaza de Cataluña
UK	Manchester Trafford Centre

We closed our small store in Rathfarnham in Ireland and relocated three other stores. Following the benefits seen from the successful downsizing of three stores in the US and three stores in Germany we have plans for a further five stores and we expect to recognise a one-time non-cash asset write-down as an exceptional charge in the year-end results.

In the next financial year, our current plans are to add a net 0.7m sq ft of additional selling space. We expect to open 14 new stores with four in Spain; three in the US; two in Italy; and one each in the UK, France, Netherlands and Poland as well as our first store in Czechia, Prague.

Business contingency plans

There is uncertainty about the possibility of further public health measures in response to COVID-19 that could restrict our ability to trade. Over the past six months we have developed a flexible set of responses and are ready to deploy these as required.

Our businesses have completed all practical preparations should the UK exit the Brexit transition period with or without a trade deal. Primark operates largely discrete supply chains for its stores in each of the UK, US and Europe and the group's food production is largely aligned with the end market. As a result there is relatively little group cross-border trading between the UK and the EU. Contingency plans are in place should some of our businesses experience disruption.

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Notes

Like-for-like sales

The like-for-like sales measure represents the change in sales at constant currency in our retail stores which have been open for at least one year. It excludes the first year of sales of new stores, the sales of stores closed in the period and one year of sales of stores where there has been a change to the selling space. It is measured against the comparable trading days last year.

Exceptional items

Exceptional items are defined as items of income and expenditure which are material and unusual in nature and are considered to be of such significance that they require separate disclosure on the face of an income statement.

Adjusted profit and earnings measures

Adjusted operating profit is stated before amortisation of non-operating intangibles, transaction costs, amortisation of fair value adjustments made to acquired inventory, profits less losses on disposal of non-current assets and exceptional items. Adjusted profit before tax is stated before amortisation of non-operating intangibles, transaction costs, amortisation of fair value adjustments made to acquired inventory, profits less losses on disposal of non-current assets, exceptional items and profits less losses on sale and closure of businesses.

Adjusted earnings and adjusted earnings per share are stated before amortisation of non-operating intangibles, transaction costs, amortisation of fair value adjustments made to acquired inventory, profits less losses on disposal of non-current assets, exceptional items and profits less losses on sale and closure of businesses together with the related tax effect.

Items as defined above which arise in the group's joint ventures and associates are also treated as adjusting items for the purposes of adjusted operating profit and adjusted profit before tax.

Constant currency

Constant currency is derived by translating the prior year results at current year average exchange rates, except for countries where consumer price inflation (CPI) has escalated to extreme levels, in which case actual exchange rates are used. There are currently two countries where the group has operations which are experiencing extreme levels of CPI – Argentina and Venezuela.