4 July 2019

Associated British Foods plc
Trading update

Associated British Foods plc today issues a trading update for the 40 weeks to 22 June 2019 which summarises the significant trading developments since the last market update.

Trading performance

Group revenue from continuing businesses for the 40 weeks ended 22 June 2019 was 3% ahead of the same period last year at constant currency and 2% at actual exchange rates. Excluding sugar, sales growth from continuing businesses was 4% ahead at both constant currency and at actual exchange rates.

For the full year we expect good profit growth in Primark and, on an underlying basis, in Grocery. We continue to expect that the full year profit decline in Sugar has been reflected in the first half. Our full year outlook for the group is unchanged, with adjusted earnings per share expected to be in line with last year.

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

Grocery

Revenue in Grocery for the third quarter was 1% ahead of last year. Operating profit margin for the full year is expected to be ahead with good trading in Twinings Ovaltine, Acetum, AB World Foods, ACH in the US and George Weston Foods.

We continue to take action to reduce the cost base at Allied Bakeries and have undertaken a detailed review of our network to optimise production capacity and locations, and routes to market. Last month we announced our proposal to relocate our bakery operations from Cardiff to our other facilities in the UK, the costs of which have been included in our full year outlook for adjusted operating profit.

Sugar

Revenue from continuing businesses at AB Sugar was in line with last year in the third quarter. This represented an improvement on the decline in sales in the first half and was driven by the expected later phasing and higher sales at Illovo.

As previously outlined, EU stock levels have been tightening during 2018/19 as a consequence of lower sugar production in the last campaign. Early indications are that EU sugar production for 2019/20 will remain at this lower level following a reduction in the crop area. As a consequence, stocks are forecast to remain low which should underpin the higher spot EU sugar prices following their recovery earlier this year.

In the UK the crop has advanced well this quarter and the authorisation for the application of an insecticide to reduce virus yellows infection in sugar beet is welcome. Early indications are that production for the 2019/20 campaign will be at least the 1.15 million tonnes produced last year, with an improvement in beet yield and a 7% reduction in crop area.

In Spain, the crop is progressing well with good water availability in the north. We have largely concluded the contracting of beet volumes with growers at reduced prices from last year which has led to our contracted crop area reducing by one third. We expect an improved operating result for Spain in the next financial year as a result of higher prices and these lower beet costs.

In China, some improvement over last year is expected in sugar content of the new crop. This coming year, payment to some growers will be linked to the sugar content of their beet. At Illovo, the 2019/20 season has now commenced, although high rainfall in South Africa delayed the start of the campaign. Sales in the third quarter were significantly higher than last year, particularly in Zambia and Tanzania.

Ingredients

Revenue in the third quarter was 5% ahead of last year driven by both AB Mauri and ABF Ingredients.

On 31 May we completed the acquisition of Italmill, a supplier of specialist bakery ingredients from a well-invested facility in the north of Italy. Sales in its last financial year were some €35 million and this acquisition will complement our existing Italian yeast and bakery ingredients business.

During the quarter we announced our intention to form a yeast and bakery ingredients joint venture in China with Wilmar International. This will combine our existing activities in China and technical expertise with their extensive sales and distribution capability. The joint venture will build a major yeast plant to be co-located with Wilmar's facilities in north east China.

Agriculture

Revenue growth continued in the third quarter at AB Agri, driven by higher feed sales. Higher feed prices have reflected an increase in the cost of raw materials. However, margins remained under pressure with higher input and operating costs in UK feed and increased price competition in feed enzymes.

Retail

Sales at Primark in the year-to-date were 4% ahead of last year at constant currency and actual exchange rates, driven by increased selling space partially offset by a decline in like-for-like sales.

In the UK the sales growth recorded in the first half continued in the third quarter and Primark recorded a further significant increase in market share. Like-for-like sales were held back by unseasonable weather in May which compared to a favourable market environment in the corresponding period last year. We have seen an improvement in sales in June. Trading at our new stores was strong and we have been encouraged by our customers' reaction to the full product range and the new food and beverage and beauty services offered in Birmingham High Street. Sales in the Eurozone were also affected by the unseasonable weather in May but trading recovered strongly in June. Sales growth was delivered in Spain, Portugal, France and Italy. Trading continued to be weak in Germany.

Our business in the US continued to deliver encouraging like-for-like and strong total sales growth. We expect to open over the next twelve months the previously announced new stores at American Dream, New Jersey and Sawgrass Mills, Florida and we have now exchanged contracts on a store in State Street, Chicago.

Operating margin in the first half was 11.7% which was well ahead of the margin in the same period last year of 9.8%. This was driven by a weaker US dollar on contracted purchases, better buying and tight stock management. We have already advised that the effect of a stronger US dollar on purchases will reduce the margin in the second half, but we now expect a higher offset from better buying and lower markdowns. Our full year outlook is for a year-on-year increase in margin.

Retail selling space increased by a net 0.8 million sq ft since the beginning of the financial year. At 22 June 2019, 372 stores were trading from 15.6 million sq ft of retail selling space which compared to 14.7 million sq ft a year ago. We added 0.5 million sq ft of space in the third quarter with nine new stores: Brussels in Belgium, Bordeaux in France, Wuppertal in Germany, Utrecht in the Netherlands, Hastings, Bluewater, Milton Keynes and Belfast in the UK and our first store in Slovenia, Ljubljana. We relocated to new premises in Birmingham High Street which, at 160,000 sq ft, became our largest store. The contribution from these new stores was strong with Birmingham High Street, Bordeaux and Ljubljana exceeding our expectations. The smaller of our two stores in Oviedo, Spain, was closed and our store in the King of Prussia mall in Pennsylvania was downsized.

In the remainder of the year we will open a store in Bonn, Germany bringing the gross increase in selling space to 0.95 million sq ft as previously advised.

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