22 February 2016

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 27 February 2016 which are scheduled to be announced on 19 April 2016.

For the half year we expect some progress in adjusted operating profit for the group although adjusted earnings per share are expected to be slightly lower.

The underlying trading outlook for the group for the full year is unchanged. The weakening of sterling in recent weeks, particularly against the euro, will ease the effect of currency translation on this year's results assuming current rates prevail, reducing our previous estimate of £25m to £10m. We now expect only a marginal decline in adjusted earnings per share for the group for the full year.

Cash flow and funding

We expect an operating cash outflow in the first half of the year consistent with our cyclical pattern of cash generation. The working capital outflow in the first half is expected to be much lower than in the same period last year, driven by a reduction in sugar stocks and a lower inventory at Primark. Capital expenditure will be a little higher, driven by Primark's expansion.

Net debt is expected to be some £0.4bn, substantially lower than at the same time last year reflecting good cash management in this year's first half and strong cash generation in the second half of last year.

Grocery

Revenue and profit in the first half are expected to be close to last year at constant currency. At actual exchange rates, revenue is expected to be slightly lower than last year but margin will continue to show progress.

Twinings Ovaltine achieved market share gains for tea in the UK, Italy, the US, and Australia. Sales of Ovaltine in Thailand have stabilised with an improved margin and in its developing markets, good progress was made in Vietnam and Brazil although difficult economic conditions led to disappointing sales in Nigeria.

The UK bakery market remains intensely competitive with retailers choosing bread as a means of highlighting their value for money to shoppers. Although average prices have been stable for the last six months, they remain at their lowest level for eight years. Kingsmill's market share grew, with a substantial increase in sales volumes, although bakery margins as a whole remain under pressure. Dorset Cereals continued to perform very well and has now been launched in Australia with good distribution in the two major national retailers. Jordans and Ryvita have both made further progress internationally, growing particularly well in Australia, Canada and France.

Operating profit in North America was maintained. In the US, Stratas Foods achieved strong volume growth in foodservice and retail oils, and lower Mazola volumes were offset by a reduction in overheads. In Mexico, oil volumes were lower and margins came under pressure from the devaluation of the peso.

Trading at George Weston Foods in Australia was much improved. Revenues were ahead of last year across all businesses with a particularly strong gain made by the Don KRC meat business. Here further factory improvements and lower procurement costs also drove improved profitability. Tip Top continued to drive a more efficient cost base and the brand has undergone a complete redesign with new packaging across the bakery range.

Sugar

AB Sugar has performed steadily in the first half. World prices remain low but a tightening of EU and Chinese stock levels has resulted in a strengthening of domestic prices in those markets.

With most of British Sugar's contracts for the current year already agreed, there will be no material impact on its profit from the improvement in pricing until next year. The UK beet crop has made good progress, but after last year's record production of 1.45 million tonnes, a smaller area was contracted for cultivation this year. This reduction, combined with beet yields returning to more typical levels, is expected to result in production just short of 1.0 million tonnes this year. Operating performance remained very strong at all sites with campaigns now completed, and there remains a continued focus on the delivery of substantial cost reduction. A state-of the-art anaerobic digestion plant for the production of biogas is being built at Bury St Edmunds and will be commissioned later this year.

The Vivergo bioethanol plant has focused on maintaining an efficient and consistent operating performance which, combined with better bioethanol prices, has led to an improvement in profitability in the first half.

Profitability improved significantly in the first half in Spain with the benefit of better pricing and higher production. In the north, the campaigns at Miranda and Toro were completed by mid-January and at La Bañeza, where the start of the campaign was deferred to allow further maturity of the beet, completion is expected by mid-March. Total beet sugar production is expected to be 10% ahead of last year at 440,000 tonnes. Additionally, 25,000 tonnes will be produced from the refining of cane raws at the northern beet factories.

China also saw an improvement in profitability following the closure last year of the two uneconomic factories in Heilongjiang. Operational performance at the two remaining beet sugar factories at Zhangbei and Qianqi was strong with a record beet supply to both plants, and the highly successful campaign finished in December. In the south, production was lower due to a combination of a smaller area assigned to the cane crop, excessive rain affecting cane maturity and poor sugar content within the cane.

At the beginning of February we made a non-binding expression of interest to Illovo Sugar, potentially to acquire all of the remaining issued ordinary shares of Illovo that ABF does not already own. We intend to make an offer of ZAR20 per Illovo ordinary share, to be settled in cash to all other shareholders. At this stage there can be no certainty that the discussions will result in a transaction.

Agriculture

Revenue in the first half will be lower than last year, particularly in our UK feed business, AB Connect. However, excellent trading at AB Vista drove further margin improvement for AB Agri as a whole.

Lower feed revenues for AB Connect were largely the result of lower sugar beet feed volumes combined with the effects of a mild winter on demand for ruminant feed. Speciality feed volumes were ahead of last year as the business increased market share in the domestic market more than offsetting lower export volumes.

AB Vista continued to build on its success in feed enzymes with good sales growth particularly in Asia, Europe and the Middle East. In China, market conditions remain weak but the impact has been mitigated by improved purchasing and pricing together with success in winning contracts to supply more large-farm customers. Frontier Agriculture had a resilient performance with lower demand to date for fertiliser and crop protection products being offset by good grain trading income.

Ingredients

Revenues in the first half are expected to be ahead of last year at constant currency but a little lower at actual exchange rates. Operating profit for the half year will again be well ahead of last year, with further recovery in yeast and bakery ingredients and another strong performance from ABF Ingredients.

At AB Mauri, the yeast and bakery ingredients businesses in Hispano America and Brazil have fared well in difficult economic conditions with a continued focus on craft bakeries supported by enhanced in-market execution. In North America, AB Mauri leads the industry in the application of ingredient technology in industrial bread production. We launched USDA 'certified organic' bread improvers in the period and used our technology to enable further reduction of sugar and salt in bread formulations.

In Europe, the continued integration of the bakery ingredients business acquired in 2014 saw the rationalisation of warehousing and distribution in Iberia. A new technical centre was opened in the UK to enable the development of new bakery ingredient solutions and the provision of technical support and training to customers.

ABF Ingredients delivered excellent revenue growth in the first half with all businesses increasing profit. AB Enzymes made further progress in the baking and detergent sectors and margin has benefited from a good manufacturing performance. In the US, functional excipients achieved significant growth and speciality cereals advanced with a good performance from protein extrusions.

Retail

Sales at Primark are expected to be 7.5% ahead of last year at constant currency, driven by increased retail selling space, and 4% ahead at actual exchange rates. Following a strong performance at the start of the financial year, trading was weaker in the weeks leading up to and over Christmas as a result of unseasonably warm weather across northern Europe. Cumulative like-for-like sales have improved since the January trading update and are expected to be level with last year in the first half after better trading during the period since then. France remained buoyant with strong like-for-like sales in the period despite the very high sales densities achieved by these stores in their first year of trading. As expected, the impact of new store openings on the like-for-like sales in existing stores in Germany and the Netherlands has eased. Early trading at our two new stores in the US has been encouraging with the range and concept being well received.

Operating profit margin in the period has been better than expected, with much of the impact of the stronger dollar being mitigated by a good buying performance and a lower level of markdowns arising from a well-managed stock position.

Retail selling space has increased by 0.3m sq ft since the financial year end and, at 27 February 2016, 299 stores will be trading from 11.5 million sq ft of retail selling space. We opened a net six new stores in the period including a flagship, 133,000 sq ft store on Gran Via in central Madrid in October and our second store in the US at the King of Prussia mall in Pennsylvania at the end of November. We expect to open a further six stores in the US later this calendar year and a 70,000 sq ft store in the American Dream shopping mall in New Jersey in calendar 2017. Our plans are well advanced for the opening, in April, of our first Italian store at Arese, north-west of Milan, and we also plan to add a store in a mall north of Florence by the summer of 2017. We expect to open new selling space of some 1.4 million sq ft for the current financial year.

We are making a significant investment in our warehouse infrastructure. Last year, capacity was added in Spain and Germany and we opened a new warehouse in Bor, on the western border of the Czech Republic. This summer we will migrate our Magna Park distribution centre to a larger, purpose built warehouse at Islip, Northamptonshire, and our new facility in Roosendaal in the Netherlands will open later in the year.

For further enquiries please contact:
Associated British Foods

John Bason, Finance Director	Tel: 020 7399 6500
Flic Howard-Allen, Head of External Affairs	

Citigate Dewe Rogerson

Chris Barrie, Eleni Menikou	Tel: 020 7638 9571
Jonathan Clare	Tel: 07770 321881