6 July 2017

Associated British Foods plc
Trading update

Associated British Foods plc today issues a trading update for the 40 weeks to 24 June 2017 which summarises the significant trading developments since the last market update.

Trading performance

Group revenue from continuing businesses for the 40 weeks ended 24 June 2017 was 10% ahead of the same period last year at constant currency and 20% ahead at actual exchange rates. The results of the group in the third quarter were strong with revenue growth of 13% at constant currency and 20% at actual exchange rates. The results to date reflect a material translation benefit from the devaluation of sterling following the result of the UK referendum on EU membership in June last year. At current exchange rates, the translation benefit will be significantly less in the last quarter of our financial year.

The underlying operating performance of the group during the third quarter was ahead of our forecast as a result of a stronger profit delivery from Primark which has marginally improved our group outlook for the full year. We continue to expect to report good growth in adjusted operating profit and adjusted earnings per share for the group.

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

Grocery

Our grocery businesses achieved further revenue growth in the quarter with continued progress for Twinings Ovaltine and George Weston Foods in Australia. In the UK, the bread market has remained very competitive which, combined with inflationary cost pressures in bakery, has had a negative impact on Grocery margins.

Sugar

Revenue growth for AB Sugar remained strong in the third quarter with the continuing benefit of higher prices and increased production from Illovo in Africa. Whilst world prices have recently fallen below last year's level, this will have little impact on the current financial year with most sales contracts in the EU already committed.

UK sugar production for the 2016/17 year was 900,000 tonnes with a smaller contracted growing area than last year and lower beet yields. Looking ahead to the post-quota environment that begins in the autumn, the contracted area for the 2017/18 season has been increased by a third. The new crop is now well established and making good progress.

In north China, a record beet crop was processed this year and the new season crop is progressing well. Prices have remained stable and, in May, China's Commerce Ministry announced additional duties on sugar imports.

Illovo expects to produce 1.7 million tonnes of sugar this year compared with 1.4 million tonnes produced in the comparable months last year. The season has started well with a good quality crop recovering from last year's drought.

Agriculture

Revenue growth in the third quarter at AB Agri was slightly ahead of that achieved in the first half but margin remains under some pressure in UK and China Feeds. Frontier's performance has been held back by low UK grain stocks and little market volatility, although the crop input segment of the business is performing strongly.

Ingredients
Year on year profit growth remains strong driven by yeast and bakery ingredients and good performances from Abitec in the US and Enzymes. The extension to the enzymes factory in Finland was completed during the quarter. This is the second expansion of this plant in recent years and will increase fermentation capacity by over 40%.

Retail
Sales at Primark in the year to date are 13% ahead of last year at constant currency driven by increased retail selling space and growth in like-for-like sales. At actual exchange rates sales continued to benefit from sterling weakness and are 21% ahead year to date.(1) The increase in average retail selling space to date against last year was 13%. Sales growth in the last 16 weeks was 15% at constant currency and 21% at actual exchange rates.

Third quarter trading was particularly strong in the lead up to Easter, benefiting from comparison with results last year that were affected by poor weather and an earlier Easter holiday. As a consequence, like-for-like sales in this period were better than the first half of the year. Primark performed particularly well in the UK where year to date sales are 9% ahead of last year and we continued to increase our share of the total clothing market.

The first half operating profit margin of 10% declined from 11.7% in the first half last year, reflecting the strength of the US dollar on input costs. In our interim results we explained that the full effect of sterling weakness against the US dollar would have a greater impact on margin in the second half because currency hedges maturing in that period would be at less advantageous rates. However, with the benefit of improved input margin mitigation and lower markdowns, we now expect the full year margin and the rate of decline to be in line with the first half.

Retail selling space has increased by 1.3 million sq ft since the beginning of the financial year and, at 24 June 2017, 339 stores were trading from 13.6 million sq ft of retail selling space. The third quarter was another active period with 10 new stores opened: Uxbridge and Llandudno in the UK; Granada and Tarragona in Spain; Charleroi in Belgium; Zwolle and Hilversum in the Netherlands; Florence in Italy; and Staten Island, New York and South Shore, Massachusetts in the US. Early trading from these new stores, particularly those in Florence and the US, has been good. We also extended the Downtown Crossing store in Boston, US taking its selling space to 92,000 sq ft.

We expect to add a further 0.2 million sq ft of selling space by the end of this financial year, with four stores in the UK and our fourth Italian store in Verona, bringing the total selling space added in the year to 1.5 million sq ft as previously indicated.

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(1) Last year was a 53 week year for Primark and, as a result, this financial year started one week later. However, sales in the adjusting weeks were similar, unlike the comparison at the half year, and therefore, on a comparable week basis, the 53rd week had no effect on the growth in reported sales.