8 SEPTEMBER 2022

Pre Close Period Trading update

Associated British Foods plc

Associated British Foods plc issues the following update prior to entering the close period for its full year results for the 52 weeks to 17 September 2022, which are scheduled to be announced on 8 November 2022.

Headlines

- Group outlook for this financial year unchanged: significant increase in adjusted operating profit and adjusted earnings per share
- Food
  - Sales growth over last year increased in fourth quarter demonstrating price actions
  - Adjusted operating profit outlook for Grocery, Sugar and Agriculture in line with expectations
  - Improved trading at ABF Ingredients now expected to deliver higher operating profit
- Primark
  - Total sales expected to be some £7.7bn, 40% ahead of reported sales last year at constant currency
  - UK like-for-like[1] sales improved in the fourth quarter to achieve close to pre-COVID levels
  - Continental Europe like-for-like[1] sales weaker than expected in the fourth quarter
  - Expected full year operating profit margin of 9.6% with second half operating profit margin of 8.0%
  - Click and Collect trial on track for UK regional launch in run-up to Christmas
- Net cash before lease liabilities expected to be £1.5bn and net debt including lease liabilities of £1.7bn
- Board will consider in November whether the Group has surplus cash and capital available for return to shareholders

Outlook for next financial year

- Food
  - Profit expected to be ahead of this year with further significant input cost inflation and pricing action
  - Additional investment in growth initiatives and higher marketing spend
  - Sugar operating profit well ahead; Grocery operating profit broadly in line
- Primark
  - Sales growth driven by pricing and acceleration of selling space expansion
  - Significant market volatility affecting costs: strengthening of the US dollar at the end of this quarter and much higher energy costs
  - Declining disposable income for consumers as a consequence of inflation
  - Significant action to mitigate input cost inflation
  - Commercial decision to limit further pricing actions in the next financial year
  - For next financial year, operating profit margin now expected to be lower than second half of this financial year
- Group
  - Significant growth in sales expected
  - Now expect adjusted operating profit and adjusted earnings per share to be lower than this financial year

An analyst call will be held at 09.00 BST today, Thursday 8 September 2022.

Trading this financial year

Group revenue[2] for the year will be well ahead of last year. In our food businesses, higher revenues reflect price actions and some volume increases, especially in Ingredients. In Primark, the much higher revenues reflect the ending of COVID-related restrictions and the resumption of more normal customer behaviour.

Adjusted operating profit for the Group will be significantly ahead of last financial year, in line with our expectations.

This year will benefit from lower interest and lease interest expense compared to last year and other financial income will be higher driven by a further increase in the surplus in the Group's UK defined benefit pension scheme. As expected, the Group's full year effective tax rate will decline from 28.1% last financial year to below 23% this year.

Our outlook for significant progress in adjusted earnings per share this financial year for the Group remains unchanged.

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

Net cash

Unusually, there was a cash outflow for the Group this year due to some £160m spent on acquisitions and an increase in working capital of some £750m. The increase in working capital reflects inflation and the timing of receipt of Primark autumn/winter inventory around the year end dates which contributed some £440m of the increase: the late arrival of inventory at the end of last year as a result of supply chain difficulties contributed some £200m of the increase, and the planned earlier than usual arrival of inventory this financial year end contributed a further £240m. Our expectation is that net cash before lease liabilities will be some £1.5bn at the year end, and would have been £1.7bn had we not chosen to advance the Primark inventory purchase this year end. This compares to £1.9bn at the end of the last financial year.

The Group's committed Revolving Credit Facility, due to expire in 2023, was renewed in June. The new Facility is for £1.5bn, up from £1.1bn previously, is now free of performance covenants and runs for five years with two 1-year extension options. The successful launch on 10 February of our inaugural public bond of £400m, 2.5 per cent due 2034, diversified the Group's sources of funding and extended the duration of our borrowings. During the year the majority of the remaining Private Placement Notes, £221m, were repaid leaving only some £85m to be repaid in March 2024.

Net debt is expected to be some £1.7bn, including lease liabilities of £3.2bn. The Group's financial leverage, defined as net debt including lease liabilities: EBITDA, at the year end, is expected to be some 0.8 times. The board will consider in November whether the Group has surplus cash and capital available for return to shareholders.

Grocery

Grocery revenue is expected to be ahead of last year and is benefiting from a build of price increases taken during the year with the year-on-year increase particularly evident in the last quarter. Further pricing action is underway. As expected, adjusted operating profit is below last financial year driven mostly by the lag between input cost inflation and revenues resulting from subsequent price actions.

Twinings sales reflected a return to more normal levels of demand after the COVID lockdowns of last year and were supported by further new product launches in the wellness category. Ovaltine sales were ahead with continued strong performance in Switzerland, Thailand and Nigeria and a return to stronger out-of-home consumption. Twinings Ovaltine profit will include some £14m of ERP development costs in line with the application of the IFRIC 38 clarification of accounting for cloud computing software arrangements.

Allied Bakeries sales were ahead of last year but losses increased with significantly higher costs for wheat, energy and distribution. Although pricing action at AB World Foods and Jordans Dorset Ryvita led sales to be ahead, margins declined. Westmill benefited from the continued improvement in restaurant and take-away trade sales.

Revenue growth at ACH was stronger with the benefit of price actions taken over the last year which more than offset a decline in the US retail yeast volumes from COVID-elevated levels. The profit of our joint venture in the US, Stratas, was strongly ahead driven by strong procurement. George Weston Foods in Australia delivered good sales growth and an increase in adjusted operating profit compared to last year despite COVID-related labour shortages in our Tip Top bread and Don KRC meat businesses.

Sugar

AB Sugar revenue is expected to be substantially ahead of last year driven by higher sugar and co-product prices. The contribution from higher market prices and the continued focus on cost savings broadly offset the effects of significant input cost inflation, particularly energy, and some operational difficulties in Southern Africa. Recommissioning costs and start-up losses at our Vivergo bioethanol plant were some £30m. We are expecting operating profit to be ahead of last year.

European sugar prices moved much higher this year. Looking ahead we expect European sugar demand to remain in excess of production in our next financial year. These stronger prices have been supported by higher world market sugar prices.

UK sugar production was 1.03 million tonnes, compared to 0.9 million tonnes in the last campaign, with much improved sugar yields as a result of good growing conditions. The factories performed well. Forward cover of gas costs mitigated much of the impact of very high energy prices in the year. We have benefitted from improved margins for electricity produced for export to the grid and from bioethanol derived from sugar beet. Recommissioning at Vivergo has progressed well.

The performance in Spain improved with higher prices, production and sales volumes. Very high temperatures in the south of Spain have reduced beet crop yields and increased imports of cane raws for refining have mitigated the shortfall.

Illovo continued to deliver strong domestic and regional sales volumes and benefited from higher market prices. The season saw disruption to production in Malawi, Eswatini and Mozambique following cyclones Ana and Eloise and high rainfall in South Africa. As a consequence Illovo's sugar production for the full year is expected to be 1.45 million tonnes compared to 1.58 million tonnes last year. We expect adjusted operating profit to be in line with the much improved result last year.

Agriculture

AB Agri sales are expected to be well ahead of last year with higher selling prices, as a result of high commodity costs, partially offset by some volume reduction. Frontier traded strongly with good grain trading volumes and a high demand for crop protection products. Revenues at AB Vista were broadly in line with last year but margins were reduced. Adjusted operating profit for AB Agri is expected to be ahead of last year.

In the quarter we acquired Greencoat Limited, an animal supplement and care business. Greencoat's products are well known in the UK and EU equine supplement markets with its NAF Five Star brand.

Ingredients

Revenue is expected to be strongly ahead of last year driven by both AB Mauri and ABF Ingredients following price increases in both businesses and, in ABF Ingredients, some volume increases. Adjusted operating profit is expected to be ahead of last year and ahead of expectations.

Revenue growth for AB Mauri is expected to be strong, particularly in North America. In Europe sales to the foodservice and craft channels have increased following the easing of many of the COVID restrictions. Margin continued to be impacted by the timing of customer price actions.

ABF Ingredients revenue and profit are expected to be well ahead of last year. Revenues increased in all the businesses driven by underlying growth, sustained COVID volume recoveries, new business wins and strong price execution to offset inflation.

The integration of Fytexia Group, a life science company which develops scientifically supported active nutrients for human health, is progressing well.

Retail

Total sales[2] for the financial year are expected to be some £7.7bn, which at constant currency is 40% ahead of the reported sales last year and 44% ahead of last year adjusted to a comparable 52-week basis. The much higher revenues reflect the end of COVID-related restrictions and the resumption of more normal customer behaviour.

Like-for-like[1] sales in the fourth quarter were in line with those in the third quarter. Continued improvement in our performance in the UK market was offset by a weaker than expected performance in Continental Europe. Total sales in the fourth quarter are expected to be 7% higher than last year, adjusted to a comparable 52 week basis driven by increased selling space and one year like-for-like growth of 6%. Like-for-like[1] sales for the quarter are expected to be 9% below the comparable pre-COVID period.

The loss of contribution from the expected improvement in Continental European sales is now likely to result in a full year adjusted operating profit margin for Primark of 9.6% and a second half adjusted operating profit margin of 8.0%.

In this final quarter trading in the UK was strong with sales densities much improved on the third quarter driven by like-for-like sales 13% ahead of last year and just below pre-COVID levels three years ago. This improvement was driven by higher customer footfall across the estate and, in particular, by customers returning to high streets and city centres. Primark's share of the total UK clothing, footwear and accessories market by value, which includes online sales, for the 12 weeks ending 24 July was broadly in line with pre-COVID levels three years ago. Performance in the Republic of Ireland continued to be strong with like-for-like sales consistently close to pre-COVID levels.

In the final quarter total sales in Continental Europe are expected to be 5% ahead of the same period last year, adjusted to a comparable 52 week basis, driven by selling space expansion of 4% and like-for-like sales 1% ahead of last year. Compared to pre-COVID levels three years ago, like-for-like sales were behind by 18%. Across these markets footfall failed to improve in the fourth quarter. This was driven by different factors in each market but recently we have seen some signs of customer caution relating to their spend in all markets.

In Iberia, sales densities this quarter were much improved on last year when COVID restrictions constrained domestic demand and resulted in low levels of tourism. The improvement this year was held back by extreme temperatures during the summer months which kept many customers at home. Market data earlier this year indicated that the total market for apparel was still well below pre-COVID levels. In France, the total retail clothing sector has continued to trade behind pre-COVID levels without the expected step-up in customer footfall, particularly in the Paris outskirts where we have a concentration of stores and where we believe sales have lagged the rest of the country. In Italy, total sales in the quarter increased 20% year-on-year with enthusiastic customer reaction to the four new stores opened during the year. In Germany, sales densities have not returned to pre-COVID levels and so in coming months we will review options for further action to reposition our business for success in this important market.

Total sales in the US in the quarter are expected to be some 27% ahead of pre-COVID levels driven by new store openings, with like-for-like[1] sales close to pre-COVID levels.

To date, retail selling space in the financial year increased by a net 0.4 million sq ft. Since the last trading update, we have opened two stores in Italy: Chieti and Bologna. We will open a further three stores before the financial year end: Brno in Czechia; Tallaght in the Republic of Ireland; and San Sebastián in Spain. As a result, we will be trading from 17.3 million sq ft of retail selling space at the end of the financial year, a net increase of 0.5 million sq ft compared to a year ago. The opening of our new store in Queens, New York, is now planned for the early part of the next financial year.

We have made very good progress in developing a strong pipeline of new stores in line with our ambition to grow the store estate to some 530 stores by the end of our 2026 financial year. We expect to add a net one million sq ft of retail selling space in the next financial year with the vast majority of new stores in our growth markets of the US, France, Italy and Spain.

The new UK website has been live since April and our initial judgement has been confirmed that customers have welcomed its new features. The key metrics, such as traffic and engagement, have steadily built from a strong start. The new stock-checker facility is being enthusiastically adopted. We remain on track to launch the UK trial of a Click & Collect service in the run-up to Christmas this year, focused on 25 stores in the north of England and Wales. We have chosen a much-expanded range of children's products for this trial, which we believe has the potential to satisfy unfulfilled demand, driving footfall from both existing and new customers to deliver incremental sales in store.

Looking ahead to the next financial year, we expect sales growth to be driven by the increase in retail selling space and like-for-like growth resulting from both the price increases implemented for autumn/winter this year and those planned for spring/summer next year. Primark has already been managing the challenges of supply chain disruption, inflation in raw material and energy costs and in labour rates, alongside the higher purchasing costs which have resulted from the strengthening of the US dollar over this financial year against sterling and the euro. To mitigate these pressures, in addition to the price increases mentioned above, there are also plans to improve store labour efficiency and deliver lower operating costs. In recent weeks the US dollar has strengthened significantly against sterling and the euro, and energy costs remain volatile and higher. Against this current volatile backdrop and a context of likely much reduced disposable consumer income, we have decided not to implement further price increases next year beyond those already actioned and planned. We believe this decision is in the best interests of Primark and supports our core proposition of everyday affordability and price leadership.

As a result of the timing of the recent movements in currency and energy prices, and the commercial decision to limit further price increases next year, we now expect Primark's profit margin for next year to be lower than the operating profit margin of 8.0% expected for the second half of this financial year.

Looking further ahead, we remain focused on returning the business to an operating profit margin of some 10% as commodity prices moderate and consumer confidence improves.

ESG

We hosted an ESG Investor Briefing on 18 May, the third such briefing for investors on key factors for the Group. This latest briefing focused on the environmental factors that are most material. We demonstrated in the presentation, which can be found in our website, that many of these environmental factors present opportunities for our businesses. We have evaluated where climate change is likely to have the most material impact on the Group and we will set out the relevant scenario analyses in our full year reporting in accordance with the requirements of TCFD.

We will shortly post a letter to certain shareholders regarding their electronic and hard copy communication preferences. A copy will be submitted to the National Storage Mechanism at https://data.fca.org.uk/#/nsm/nationalstoragemechanism and will be viewable on our website at https://www.abf.co.uk/investors

Notes:

[1] Like-for-like sales metric expressed represents like-for-like sales over three years and enables measurement of the performance of our retail stores compared to our experience in 2019, the last full financial year before any of the economic effects of COVID. This measure represents the change in sales at constant currency in our retail stores adjusted for new stores, closures and relocations. Refits, extensions and downsizes are also adjusted for if a store's retail square footage changes by 10% or more. For each change described above, a store's sales are excluded from like-for-like sales for one year. No adjustments are made for disruption during refits, extensions or downsizes if a store's retail square footage changes by less than 10%, for cannibalisation by new stores, or for the timing of national or bank holidays. It is measured against comparable trading days in each period.

[2] 53rd week impacted both our Primark and Grocery business/GWF last year and represented sales of around £160m.

Definitions of the alternative performance measures referred to in this announcement can be found in note 30 of our Annual Report and Accounts 2021 as well as note 13 of the Interim Results Announcement released on the 26 April 2022.

This announcement contains inside information. The person responsible for arranging the release of the announcement is Paul Lister, Director of Legal Services and Company Secretary.

This pre close trading update contains forward-looking statements. These have been made by the directors in good faith based on the information available to them up to the time of their approval of this report. The directors can give no assurance that these expectations will prove to have been correct. Due to the inherent uncertainties, including both economic and business risk factors underlying such forward-looking information, actual results may differ materially from those expressed or implied by these forward-looking statements. The directors undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

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