2 July 2020

Associated British Foods plc
Trading update

Associated British Foods plc today issues a trading update for the 40 weeks to 20 June 2020 which summarises the significant trading developments since the interim results announcement on 21 April and further updates on developments since our statement issued on 1 June, COVID-19 Update, Reopening of Primark Stores and Improved Group Cash Flow.

Trading performance

Group revenue from continuing businesses for the 40 weeks ended 20 June 2020 was 13% lower than the same period last year at constant currency and 14% lower at actual exchange rates.

The following table sets out revenue on a segmental basis for the third quarter, the period from 1 March 2020 to 20 June 2020, and for the cumulative 40 weeks to 20 June 2020 and changes at constant currency to consistent periods in the prior year.

	Third quarter £m	constant fx	Year to date £m	constant fx
Grocery	941	+9%	2,630	+3%
Sugar	344	-1%	1,147	+3%
Agriculture	361	in line	1,053	-1%
Ingredients	385	+3%	1,127	+3%
Retail	582	-75%	4,292	-27%
Total	2,613	-39%	10,249	-13%

Grocery benefited in the third quarter from increased sales volumes through the retail channel which more than offset weaker foodservice demand. Sugar revenues were held back by lower Illovo export volumes in the quarter due to COVID-19-related logistical constraints at borders and ports in Africa. Primark stores were closed for most of the third quarter. Primark revenues for this quarter relate to the short period of trading before the stores closed in mid-March and the sales at the end of this quarter as stores have progressively reopened.

Operating profit for each of Grocery, Agriculture and Ingredients in the quarter were well ahead of last year and ahead of our expectation. As expected, Sugar delivered a material improvement in profit in the quarter driven by our European businesses.

The net cash outflow for Primark for the 12 week period from 1 March to 23 May, when trading across the estate was either non-existent or minimal, was some £800m. This mainly comprised payments to Primark suppliers and operating expenses in Retail, net of mitigation. Grocery, Agriculture, Ingredients and Sugar delivered a net cash inflow of £300m in the quarter.

References to changes in revenue in the following segmental commentary are based on constant currency.

Full year outlook

For the full year we continue to expect strong progress in the aggregate adjusted operating profit of our Sugar, Grocery, Agriculture and Ingredients businesses. This will be mainly driven by a material increase in profit at AB Sugar and another year of good margin and profit growth in Grocery.

Nearly all Primark stores are now trading again and we estimate that, absent a significant number of further store closures, adjusted operating profit for Primark, excluding exceptional charges, will be in the range £300-350m for the full year compared to £913m reported for the last financial year.

The full year effective tax rate for the group is expected to be in the region of 30%, higher than the 22.6% reported for the half year due to much lower taxable profits in the UK and Ireland this year.

After the cash outflow in the third quarter, we expect the group to return to cash generation in the final quarter. With Primark trading again, our current expectation is that the year end net cash balance, before lease liabilities, will be in excess of £750m.

Grocery

Following flat revenues in the first half, third quarter revenues were 9% ahead of last year, with increased retail volumes, and margin and operating profit were strongly ahead.

Twinings Ovaltine revenues were ahead of last year. Good Twinings sales, particularly in the US, France and Australia more than offset a small decline in Ovaltine sales which were affected by reduced demand in out-of-home and convenience channels. AB World Foods, Jordans and Dorset cereals, Ryvita, Silver Spoon and Acetum delivered much higher sales as they benefited from the increase in consumption at home.

At Allied Bakeries an increase in Kingsmill bread volumes was more than offset by the expected decline in private label bread volumes. With the benefit of a range of operational and commercial actions, the operating loss was lower than last year. Co-op has always been one of our more challenging accounts in terms of cost to serve with deliveries to thousands of stores which are widespread across the UK. It is with regret that we have not been able to agree a way forward that makes financial sense and we will therefore be exiting our relationship with them in April 2021.

ACH in North America delivered very strong sales growth, benefiting from higher demand for baking ingredients and corn oil. George Weston Foods in Australia was also ahead, with higher volumes of Tip Top bread and bakery breakfast products more than offsetting reduced foodservice sales at the Don meat business.

Sugar

AB Sugar adjusted operating profit was well ahead of last year in the third quarter, driven by British Sugar and our Spanish sugar business which both benefited from higher EU sugar prices compared to last year's levels. However, revenue was held back by lower Illovo export volumes. Full year operating profit will be materially ahead of last year.

Looking ahead to the 2020/21 campaigns, early indications are that UK sugar production will be in line with the last campaign at 1.19 million tonnes, with reduced beet yields offsetting the increase in crop area. Production in Spain is also expected to be in line with its last campaign. Further progress is expected in China, with a larger crop area and the benefit of some 80% of grower contract payments now linked to beet sugar content.

Production for the new season at Illovo has commenced but will not fully recover the production shortfall in the last campaign caused by the early onset of the rainy season. Export sales have been limited in this quarter by COVID-19 restrictions on cross-border traffic between countries in southern Africa and on port capacity. Illovo has an ongoing programme to deliver operational and administrative cost savings. The full year profit forecast for Illovo now includes a £10m charge for restructuring which is expected to deliver benefits in the next financial year.

Ingredients

Revenue in the third quarter was 3% ahead of last year, driven by both AB Mauri and ABF Ingredients.

AB Mauri experienced increased demand from industrial bakers and retail customers, with particularly strong sales in North America and China. Completion of the yeast and bakery ingredients joint venture in China with Wilmar International is expected by the end of the financial year and construction of the major new yeast plant in northern China is well underway. At ABF Ingredients, sales of enzymes for the bakery sector were especially strong in the quarter.

Agriculture

AB Agri revenues were in line with last year in the third quarter with higher sales of feed enzymes offsetting lower poultry feed volumes affected by lower foodservice demand for chicken.

All our feed mills continued to operate through the quarter. Appropriate working practices were adopted to ensure a safe working environment for our employees and to safeguard feed biosecurity through this most challenging of times.

Retail

As a result of the rapid spread of COVID-19 in our markets, all of our 375 Primark stores closed in a 12-day period to 22 March. This resulted in a loss of sales of some £650m per month. Primark has paid, or has committed to pay for, all goods which were either in production or were finished goods in transit at the time of the store closures, on standard terms and without discount. To reduce the cash outflow resulting from this loss of sales, Primark cancelled orders for goods where the handover date from the supplier was after 17 April. It reduced its operating expenses by over 50 percent and this limited the cash outflow to some £100m per month while the stores remained closed.

As European governments have eased restrictions on retail we have reopened stores, starting in Austria on 4 May. We prioritised measures to safeguard the health and wellbeing of everyone in store and to instil confidence in our store environment. These included social distancing protocols, hand sanitiser stations, perspex screens at tills and additional cleaning of high frequency touch points. Personal protection, including masks and gloves, has been made available to all employees. Customers have been free to move through our stores, exploring the merchandise on display with little hindrance, and are able to maintain social distancing.

Since our last trading update on 1 June, stores have reopened more quickly than expected, particularly in Ireland. On 15 June we reopened 179 stores, representing nearly half of our estate, across four markets along with the new store in Trafford Centre. This was a major achievement by our store operations teams. As of today, 367 stores have reopened with the remaining eight expected to follow in the near future.

Country	**Reopening dates**	**Stores**	**Space sq ft 000**
Austria	4 May	5	242
Netherlands	6 May	20	971
Belgium	11 May	7	373
Germany	15 May	24	1,349
	18-19 May	7	451
Italy	18 May	5	257
Slovenia	18 May	1	46
France	22 May	6	320
	29-30 May	3	143
	3 June	6	314
Spain	28 May	25	976
	3-4 June	10	402
	10-11 June	12	530
US	22 May	1	34
	15 June	3	185
	26 June	4	192
Portugal	1 June	6	220
	15 June	4	148
ROI	12 June	16	554
	15 June	20	522
England	15 June	152	6,247
Northern Ireland	18 June	4	115
	22 June	5	97
Wales	26 June	8	306
Scotland	29 June	13	493
Stores reopened 2 July		**367**	**15,484**
US	TBC	1	58
Scotland	TBC	7	217
All stores reopened		**375**	**15,759**

Note: having reopened on 15 June, our two stores in Leicester, UK closed again temporarily from 30 June

Trading in our reopened stores has in aggregate been reassuring and encouraging. Over such a short period it will have been influenced by a number of short- and medium-term factors. Consumer demand has been strong for children's, leisure and night wear, along with summer products such as shorts and t-shirts, and unsurprisingly weak for formal menswear and travel-related accessories. As indicated in our update of 1 June, most of our regional stores are performing well, especially in retail parks. Our stores in the centre of big cities are suffering from the current absence of tourism and much lower commuter footfall. Sales have been held back to some extent by a number of operating restrictions which vary by country but continue to evolve.

Since the reopening of the first stores on 4 May, cumulative sales for the seven-week period to 20 June were £322m and were 12% lower than last year on a like-for-like[1] basis. Sales in the week ended 20 June, with over 90% of our selling space reopened, were £133m and trading in England and Ireland were ahead of the same week last year. We have continued our policy of offering the best prices, and markdowns for the period since reopening have been minimal.

We have made progress with landlords to secure an equitable outcome for the rent payments for the period when we were not trading. The discussions have been on a bilateral basis with each landlord as we have sought to share a fair proportion of the burden incurred during that time. Specifically, UK rent payments due for the six month period of March to September have mostly been made, with the remainder payable shortly, with the amount and frequency by mutual agreement.

With our stores trading, we have now placed orders worth over £800m for the autumn/winter season and, with further orders to be placed shortly, we expect the total for the coming season to exceed £1bn. Our sourcing team is in frequent and direct contact with each of our suppliers in relation to other supportive measures.

The store opening programme planned for the second half of our financial year has been delayed by restrictions on access to complete the fitout of stores. However, in this quarter we have been able to open five of the stores planned: Mons in Belgium; Gropius Passagen in Berlin; Trafford Centre, Manchester in the UK; Lens in France; and, earlier this week, a major new store in Plaza de Cataluña in Barcelona, Spain. This has added 242,000 sq ft of retail selling space. Following the downsizings of Braunschweig and Gelsenkirchen in the first half, we have now downsized our store in Essen, Germany in this quarter. When the final stores are reopened, we will then be trading from 380 stores and 16.0 million sq ft of retail selling space.

In the remainder of this financial year we expect to add five further new stores which, along with extensions to our existing stores in Malaga, Spain and Ubbo shopping centre in Lisbon, Portugal, will bring our retail selling space at the financial year end to 16.3 million sq ft. The opening dates for the new stores in the US rely on a lifting of local COVID-19-related restrictions on retail. The stores planned for the final quarter comprise: openings in the Belle Epine and Plaisir shopping centres in Paris, France; stores in the American Dream shopping centre in New Jersey, and in Sawgrass Mills, Florida; and our first store in Poland, in Warsaw. The new store openings in the US will increase our portfolio there to eleven stores.

Note:

1. Like-for-like sales have been calculated on a store by store basis, for those stores open in the period, and are measured against the comparable trading days last year.

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