1 July 2021

Associated British Foods plc
Trading update

Associated British Foods plc today issues a trading update for the 40 weeks to 19 June 2021 which summarises the significant trading developments since the last market update.

Trading performance

The following table sets out revenues by business segment for the third quarter of our financial year and for the cumulative 40 weeks to 19 June 2021 and changes at constant currency[2] to comparable periods in the prior year. The third quarter is the 16-week period from 28 February to 19 June 2021.

	Third quarter £m	**constant fx**	**Year to date £m**	**constant fx**
Grocery	871	-3%	2,705	+2%
Sugar	406	+21%	1,169	+7%
Agriculture	391	+10%	1,137	+8%
Ingredients	376	+3%	1,111	+2%
Retail	1,605	+207%	3,837	-11%
Total	3,649	+47%	9,959	-2%

As expected Grocery revenues in the third quarter were lower than last year, with a decline of 3%. Third quarter sales last year were very strongly ahead of the prior year, with an increase of 9%, with much higher retail channel volumes as a consequence of the first lockdowns across our major markets. Sales in this quarter were 6% higher than sales in the same pre-pandemic period two years ago.

Sugar revenues in the quarter were significantly ahead, driven by strong volumes in Illovo and China and higher prices in Europe and Africa.

Primark revenues reached £1.6bn in the third quarter with the reopening of all stores and the opening of seven new stores. These revenues were well ahead of last year's third quarter sales of £0.6bn, when the first lockdowns resulted in the closure of all our stores for an average period of 12 weeks. This quarter, sales in the reopened stores were ahead of expectation in all markets, a number of new sales records were set and the like-for-like[1] performance was much improved on earlier periods during this pandemic reflecting an increase in both confidence and willingness to spend by our customers. Primark's like-for-like[1] sales were 3% up on a two-year basis in the quarter, but volatility remains high and performance varied by region depending on the degree of restrictions related to COVID-19. Data for the total UK clothing market, which includes online sales, for the seven-week period after reopening shows both volume and value share gains for Primark on a two-year basis.

Group cash generation in the quarter was both ahead of expectation and much stronger than in prior years. Net cash before lease liabilities[3] for the group increased from £705m at the beginning of the quarter to over £1.45bn at the end of the quarter. This improvement was mostly delivered by recovery in Primark sales along with a reduction in the inventories which had built up during lockdown. Assuming that no Primark stores are closed in the remainder of this financial year, we expect the excess inventory at the end of lockdown to have returned to more normal levels by the financial year end. Net cash before lease liabilities[3] for the group is expected to be above £1.7bn at the financial year end.

For the full year, we now expect that the improved performance at Illovo will result in a higher adjusted operating profit at AB Sugar. Adjusted operating profit at Grocery is expected to be lower than last financial year primarily driven by lower margins at ACH. Following the encouraging sales performance by Primark since stores reopened this quarter, we now have higher expectations for final quarter sales. Our forecast for full year sales at Primark has increased accordingly and adjusted operating profit, stated before repayment of job retention scheme monies, is now expected to be broadly in line with last year. Our outlook for the adjusted operating profit for the group, stated before repayment of job retention monies is now in line with last year.

The group's adjusted effective tax rate for the full year is now expected to be some 31%, down from 34.9% forecast at the half year, as a consequence of the increase in profits at Primark. Since the half year the Government has enacted its proposal to increase the UK corporation tax rate to 25% from April 2023. Our guidance for the group's tax rate includes the deferred tax impact of this measure in this financial year.

We expect these improvements in our outlook to result in adjusted earnings per share for the group reaching a level below last year, only reflecting the charge for repayment of the job retention scheme monies and the higher year-on-year adjusted effective tax rate.

References to changes in revenue in the following segmental commentary are based on constant currency[2].

ESG

In March 2021, the group held the first in a series of investor events designed to set out our approach to this important topic. This first presentation is available on our website www.abf.co.uk. We will be holding our second event on 17 September with a focus on Primark and its sustainability strategy, reducing its impact on the environment and improving the lives of the people in its supply chain.

Grocery

Grocery revenues in the first half were 8% ahead of the first half last year which was before March 2020 when the major economic consequences of COVID-19 started. However, sales in the third quarter this year were 3% lower than the third quarter last year. Although retail channel sales remained at elevated levels in many of our markets this quarter, this has to be compared to the exceptionally high retail channel volumes experienced during the first lockdowns. Sales in the third quarter last year were 9% up on the prior year and so sales this quarter were 6% ahead of the pre-pandemic levels of two years ago.

In the third quarter Twinings Ovaltine sales were well ahead, with the segment decline driven by ACH, George Weston Foods and UK Grocery. Corn oil costs in the US have increased substantially this year. These higher costs significantly impacted the profit margin this quarter ahead of further price increases planned by Mazola for the end of this financial year. For the full year, we expect Grocery revenues to be ahead of last year but for operating profit to decline by a mid-single digit percentage compared to last year as a result of the ACH margin reduction.

Ovaltine sales were well ahead of last year driven by growth in China, Switzerland, and in particular Thailand. Twinings revenues were marginally lower in the quarter compared to last year's exceptionally strong performance in the grocery channel following widespread lockdowns in a number of our key markets. Twinings in France continued to perform well, becoming the number one selling tea brand in the quarter.

Although sales in this quarter were behind at AB World Foods, Jordans and Dorset Cereals, Ryvita, Silver Spoon and Acetum, all brands have grown sales compared to pre-COVID. Westmill and Sports Nutrition showed significant growth in the quarter, driven by some recovery in their out-of-home business. At Allied Bakeries, expected volume reductions followed the exit from the supply of bread to the Co-op in April. Cost reductions have been delivered to mitigate the loss in contribution.

Revenues in ACH North America were lower, which compared to last year's peak in demand for baking products, corn oil and particularly consumer yeast. Revenue at George Weston Foods in Australia was lower, with a marginal decline in Tip Top volumes and a more substantial decline in the Don meat business. Yumi's strong growth continued.

Sugar

AB Sugar had a strong third quarter with revenues 21% up on last year bringing the cumulative increase in this financial year to 7%. This was driven by particularly strong volumes in Illovo and China, as well as by higher prices in Europe and Africa. The profit margin in Illovo was much improved on last year and more than offset lower European sugar margins, which were affected by higher production costs as a consequence of the reduction in the beet crop. All businesses continued to deliver savings from the on-going performance improvement programme.

The world sugar price has risen in recent months. In the European market, we expect demand to be in excess of production again this coming year, which should give further pricing opportunities if stronger global pricing is sustained.

UK sugar production of 0.9 million tonnes was well down on the 1.19 million tonnes produced last year, due to adverse weather conditions at the time of planting and the severe impact of virus yellows on sugar beet. Our production forecast for next year is just over 1.0 million tonnes with a reversion to normal yields more than offsetting a reduced planting area. The work to reopen the Vivergo bioethanol facility in Hull is on target and supply to UK fuel blenders is expected to commence in early 2022. Earlier this year the UK Department for Transport announced an increase in the mandated inclusion levels of renewable ethanol in petrol from E5 to E10 to be effective from September.

Illovo revenues in the quarter were driven by strong domestic sales. Sugar production is marginally ahead of last year after a good start to the season in all countries except South Africa. Higher sales and an improved sales mix, combined with cost benefits from the performance improvement programme, delivered a higher than expected improvement in profitability. In May we announced the expansion of our operations in Tanzania which will more than double our sugar production when commissioned in 2023. The additional volumes will be sold domestically and this project will be a major contributor to the Tanzanian government’s objective of moving towards sugar self-sufficiency.

The favourable phasing of sales volumes this quarter will likely lead to a smaller increase in revenues in the fourth quarter. Following the stronger than expected performance by Illovo, we expect full year operating profit for AB Sugar to also be ahead of previous expectations.

Ingredients

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

AB Mauri experienced better demand compared to the third quarter of last year which saw peak COVID-19 restrictions. Sales to foodservice and craft channels in Europe were ahead with less severe restrictions. In South America demand for yeast and bakery ingredients remained strong and significant cost inflation has been mitigated through price.

We saw year-on-year sales growth at ABF Ingredients in this quarter.

Agriculture

AB Agri sales in the third quarter were 10% ahead of last year. Revenues in our UK compound feed business and in China were well ahead driven by higher wheat, soya and cereal prices. Nevertheless, we saw lower revenues at AB Vista and AB Neo compared to last year, when a number of our customers were building safety stocks in the light of the first COVID-19 global lockdowns and subsequent supply uncertainty.

Retail

This quarter has been characterised by the extensive reopening of stores and all stores were trading at the period end. During the quarter, restrictions on the movement of people and trading were widespread and impacted our sales. Although restrictions eased during the quarter, many remain in place with limitations on tourist travel and trading hour restrictions having the most impact. Primark revenues of £1.6bn in this quarter reflected the build in sales as stores reopened. Third quarter sales of £0.6bn last year followed the loss of sales in that period with all stores closed for an average of 12 weeks.

The phasing of store reopenings this quarter is summarised in this table.

Date	**Store number**	**Selling space m sqft**	**% selling space open**
Open at 28 February	77	3.5	22%
England, Wales			
Open at 12 April	227	9.5	57%
Scotland, NI, Netherlands, Portugal			
Open at 30 April	301	12.6	75%
ROI, France, Germany			
Open at 19 June	396	16.8	100%

We were trading from 22% of our retail selling space at the beginning of the quarter. The reopening of stores in England and Wales on 12 April, which represent some 40% of retail selling space, was a key milestone. All remaining stores reopened over the subsequent two months.

Like-for-like[1] sales for the quarter were 3% ahead of the comparable period two years ago when sales were at pre-COVID levels. Our stores in the UK, Republic of Ireland, France and Italy delivered very strong increases, the US was marginally ahead and like-for-like[1] sales elsewhere in continental Europe were lower reflecting trading restrictions. For the reopened stores like-for-like[1] performances are based on trading for a small number of weeks and reflect pent-up demand in the early weeks after reopening. However, they are significantly better than the performances after reopenings earlier in the pandemic driven by higher customer footfall than on those occasions, an increase in basket sizes and a lower level of markdown. Where we have been able to see evolution of trading over a number of weeks, footfall and basket sizes have declined from the peaks at reopening, although in our strongest markets, higher than pre-COVID basket sizes have continued and offset the lower footfall.

Data for the UK clothing, footwear and accessories markets, which includes all channel and online sales, for the seven weeks after the reopening of stores, shows both value and volume share gains for Primark compared to the same period two years ago. Both Primark and online gained share over this period.

The relevance and appeal of our value-for-money offering has been evidenced by the number of customers that have returned to shop in person in our stores, across every one of our markets, each time we have reopened post-lockdown. This reopening has also seen a resurgence in demand for fashion across womenswear and menswear, as customers start to step out of lockdown leisurewear. There has been a strong response to our two hero womenswear ranges for spring/summer, Joyful Gelato and Garden Party, with the pink gingham and purple blazers selling out within weeks supported by digital marketing. Licence product performed very well with strong sales in our NBA-branded and children’s gaming ranges, particularly in the US. Our new baby collection made a strong start.

Inventory at Primark during the last lockdown increased to some £400m above our normal levels. Inventory has been falling during the quarter and, assuming that all stores continue to trade for the remainder of the financial year, we expect to return to a more normal inventory at the financial year end.

Repayment of monies due from the job retention schemes will be made before the financial year end and now covers the UK, Republic of Ireland, Portugal, Czechia and Slovenia, for a total of £96m. This compares to the estimate of £121m made at the time of the interim results announcement for all job retention scheme funds received by Primark from European governments and reflects those markets where there is an established process for repayment.

Retail selling space has increased by a net 0.6 million sq ft since the beginning of the financial year. We are now trading from 396 stores, 16.8 million sq ft of retail selling space, which compares to 16.0 million sq ft a year ago. We successfully added seven new stores in the third quarter: Chicago, our 12th store in the US, Poznan in

Poland, Tamworth in the UK, Bilbao Gran Via in Spain, Rome Est in Italy, Prague Wenceslas Square in Czechia, and a flagship 80,000 sq ft store in Rotterdam Forum in the Netherlands. One of our first stores to open in the Netherlands, a small store in Alkmaar, was closed during the period. Our Prague store is located on the iconic Wenceslas Square in the heart of the city and is our first store in what has become our 14^{th} market. We expect to open two further stores in this financial year, Marbella in Spain and, around the year end, a store in the Fashion District of Philadelphia in the US. This will take our total number of stores to 398, trading from 16.9 million sq ft of retail selling space.

Our new stores have had a positive reception from customers with queues on opening day and very good sales. We have a healthy pipeline of new stores and are looking forward to the opening of our 400^{th} store this autumn. We will build on our entry this year into eastern Europe with more stores in Poland and Czechia, and our first store in Slovakia. We will also continue to expand in France, Spain, Portugal and Italy. In the US, our stores continue to trade strongly. We had a strong response to our opening in Chicago and we plan to accelerate our growth in the US.

We have grown our following across Primark's social media channels to 24.5 million from 22 million at the end of the last financial year. Digital has a critical role to play as part of Primark's marketing mix and we are now investing in a market-leading digital platform, a key component of which will be the launch of a new customer-facing Primark website early in the next calendar year. The improved functionality of the website will allow us to showcase a much larger proportion of the Primark range and provide to customers range availability by store. We are also strengthening our digital marketing capability to enable us to deliver more personalised content to customers.

With all Primark stores trading again, and in the light of the additional sales generated since stores reopening and the encouraging like-for-like[1] performance, we now expect Primark profit for the full year, stated before repayment of job retention scheme monies, to be broadly in line with that achieved last year.

Notes:

1. Two year 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 in 2019, which was before any of the economic effects of COVID-19.

2. Constant currency measures are derived by translating the relevant prior year figure at current year average exchange rates, except for countries where CPI has escalated to extreme levels, in which case actual exchange rates are used. There are currently two countries where the group has operations in this position - Argentina and Venezuela.

3. Net cash before lease liabilities comprises cash, cash equivalents and overdrafts, current asset investments and loans.

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