7 July 2016

Associated British Foods plc
Trading update

Associated British Foods plc today issues a trading update for the 40 weeks to 18 June 2016 which summarises the significant trading developments since the last market update.

Trading performance

Group revenue for the 40 weeks ended 18 June 2016 was 3% ahead of the same period last year at constant currency and 1% ahead at actual exchange rates. This reflects stronger growth in the third quarter of 4% at constant currency and 7% at actual exchange rates.

The underlying operating performance of the group during the third quarter was ahead of our expectation, with an improvement in our sugar business, and on 28 June we completed the buyout of the minority interests in Illovo. In the third quarter, sterling was weaker against most of our major trading currencies compared with the same period last year, resulting in a translation benefit. Following the result of the EU referendum, sterling has weakened further and at these rates we expect a bigger translation benefit in the final quarter with no material transactional effect.

As a result, our outlook for this financial year has improved and we no longer expect a decline in adjusted earnings per share for the group for the full year.

Grocery

The progress of our grocery businesses continued with some improvement in revenue growth in the third quarter. Twinings Ovaltine made further advances in its biggest markets of the UK, US and Thailand. Sales volumes at Allied Bakeries were well ahead of last year although margins remain under pressure. The performance of the bakery and meat businesses at George Weston Foods in Australia continued to improve.

Sugar

Revenue for AB Sugar was higher than last year at constant currency. A reduction of EU stock levels and, more recently, an increase in world sugar prices have resulted in a strengthening of European sugar prices. 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. All of our sugar businesses have delivered substantial cost reductions again this year through a combination of continuous improvement, business transformation, capital expenditure and procurement activities.

UK sugar production for the 2015/16 year was just short of 1.0 million tonnes with a smaller contracted growing area than last year and average beet yields. The new crop for the 2016/17 season is making good progress and we expect sugar production of some 930,000 tonnes from a slightly reduced contracted area. Delivered beet costs for the 2016/17 campaign will be 15% lower than this year. In Spain, the operating result has improved significantly with the benefit of lower beet costs, higher production and better pricing.

In China, beet sugar revenues in the north were well ahead of last year with higher beet volumes, a strong operational performance and better prices. The new crop is progressing well in favourable growing conditions. In the south, poor sugar content in the cane led to lower sales volumes this year but an increase in the area under cane and good early growth shows promise for the new season.

Illovo expects to produce 1.47 million tonnes of sugar this year, and an improved sales mix and further cost savings across the business have contributed to an increase in full year profit estimates. The new refinery in Zambia was completed on time and is now operational.

We completed the buyout of the minorities in Illovo Sugar Limited for a purchase consideration of £245m. The group's adjusted operating profit is unchanged by this, and transaction related costs of £5m will be excluded from adjusted earnings. To align Illovo's financial year end more closely with that of the group, its results will now be consolidated for the year to 31 August which, in this year of transition, will be an 11 month period. The net effect of this buyout and the change of reporting calendar will be marginally accretive to the group's adjusted earnings per share this year.

Agriculture

Revenue at AB Agri continued to decline, driven by low commodity prices and lower volumes in UK feed. Profit margin improved with the benefit of continued growth of feed enzymes at AB Vista.

Ingredients

Ingredients continues to build on the improvement of the last two years and operating profit remains substantially ahead, with the benefit of further recovery in yeast and bakery ingredients.

Retail

Sales at Primark in the year to date were 7% ahead of last year at constant currency driven by increased retail selling space. Sales at actual rates in the quarter benefited from sterling weakness and so, cumulatively, are now also 7% ahead. Like-for-like sales in the last 16 weeks were adversely affected by unpredictable weather patterns, with an especially cold April followed by a return to more seasonal weather in May.

The operating profit margin in the third quarter was 11.9% which was in line with that of the first half.

Retail selling space has increased by 0.8 million sq ft since the beginning of the financial year and, at 18 June 2016, 310 stores were trading from 12.0 million sq ft of retail selling space. The third quarter was a very active period with 11 new stores opened: Broughton Park near Chester, Birmingham Fort, and Monks Cross in York, in the UK; Almada Forum in Portugal; Cagnes-sur-Mer, near Nice, and La Valette-du-Var, near Toulon, in France; Leipzig in Germany; Groningen and Alkmaar in the Netherlands; our third US store in Danbury, Connecticut; and our first store in Italy at Arese, northwest of Milan.

We are very encouraged by the early trading of these new stores, especially those in France, at Danbury in the US and Arese in Italy.

The phasing of new store openings is now such that we expect to add a further net 0.3 million sq ft of selling space by the end of this financial year. Notably this includes two more stores in the US, at Willow Grove in greater Philadelphia and Freehold Raceway in New Jersey, and a doubling in size of the very successful Creteil store in Paris.

The relocation of our UK warehouse capacity from Magna Park to Islip in Northamptonshire is expected to be completed by September. The new distribution centre at Roosendaal in the Netherlands will be operational early in the new calendar year.

Looking ahead

The UK referendum decision to leave the EU has created uncertainty in the business environment and financial markets. ABF is an international business with diverse interests across 48 countries and a business model that, wherever possible, aligns production with the end markets for its products. Primark operates discrete supply chains for its stores in each of the UK, US and Eurozone. We undertake relatively little cross border trading between the UK and the rest of the EU.

Sterling has weakened significantly since the referendum vote. If current exchange rates continue there will be a translation benefit for the remainder of this financial year. In our next financial year, these rates would have both positive and negative effects on profit. There would be an adverse transactional effect on the profit margin on Primark's UK sales, currently half of its turnover, a favourable transactional effect on British Sugar's margins and a translation benefit on group profits earned outside the UK, which last year were some 50% of the total.

We have a strong balance sheet and we remain optimistic for the group's continued growth, particularly with our plans for Primark's expansion which remain unchanged.

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