



## PRIMARK® (LSE: ABF) 1H17 Results: Sharp Operating Margin Erosion and Lackluster Comps

- Associated British Foods reported 1H17 results for the 24 weeks ended March 4, 2017. This report focuses on results for Primark, the company's retail division.
- Primark reported that its 1H17 revenues increased by 21% year over year, to £3,222 million. In constant currency, the company's sales increased by 11% year over year. Primark increased its selling space by 12% year over year in the first half.
- Total comparable group store sales increased by 1% year over year, except in the Netherlands, where comparable store sales declined. UK comparable store sales increased by 2% year over year.
- Primark's 1H17 operating profit declined by 2% at constant exchange rates and its operating profit margin contracted by 170 basis points year over year, to 10.0%.

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Total comparable group store sales increased by 1% year over year, except in the Netherlands, where comparable store sales declined. UK comparable store sales increased by 2% year over year, and total UK sales growth of 7% reflected Primark's gain in share of the UK apparel market.

Primark opened 16 new stores during 1H17, adding 0.8 million square feet of selling space. The company opened five new stores in the UK and a sixth store in the US.

The company has added a further 0.3 million square feet of selling space since the end of 1H17, including a new store in Staten Island, New York, in the US. It is expected that Primark will add a further 0.4 million square feet of selling space during the remainder of FY17, which would bring the total new selling space added in the fiscal year to 1.5 million square feet.

Primark's 1H17 operating profit declined by 2% at constant exchange rates, reflecting the effects of the British pound's weakness and the US dollar's strength on input costs. Consequently, the company's operating profit margin contracted by 170 basis points year over year, to 10.0%.

### Outlook

At the group level, Associated British Foods noted that it expects the underlying revenue momentum seen in 1H17 to continue into the second half. However, management cautioned that profit growth in 2H17 "will, at current exchange rates, be tempered primarily by a smaller translation benefit and the full effect of the devaluation of sterling against the US dollar on Primark's margin."



FLASH REPORT

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