

18 January 2024

Pepco Group N.V. First Quarter FY24 Trading Update

Pepco Group, the fast-growing variety discount retailer, which owns the Pepco and Dealz brands in Europe and Poundland in the UK, today reports a trading update for its first financial quarter of FY24 ending 31 December 2023.¹

SUMMARY

- Record Q1 Group revenues of €1.9 billion with constant currency revenue growth of +11% versus last year
- Group like-for-like (LFL) revenues declined 2.3% in Q1, but with an improving trend during the quarter
 - Pepco LFL revenue declined 3.7% against a tough comparative period where LFL sales were up by +20% in Q1 FY23
 - Poundland LFL grew by +0.9%, with a strong peak Christmas performance driven by demand for FMCG, offset by a weaker performance in clothing
 - Dealz LFL declined by 4.6% driven by planned lower stock availability in general merchandise (GM) categories ahead of a transition to Pepco-sourced GM
- Recovery in Group gross margin underway with a 200 basis point improvement year-on-year in Q1 FY24, driven by Pepco
- Store opening schedule front-end loaded to benefit from the peak trading period, with over 200 net new stores opened across the Group in the first quarter, including a one-off benefit from Wilko conversions in the UK

Q1 FY24 Summary

	Pepco	Poundland	Dealz	Total Group
Revenue €m ²	1,184	596	89	1,869
Revenue Growth YoY Constant Currency ³	14.5%	3.1%	41.8%	10.8%
Like-for-like Revenue Growth ⁴	(3.7%)	0.9%	(4.6%)	(2.3%)

Store numbers

Total stores at start of period	3,523	823	283	4,629
New openings	137	77	26	240
Closures	(10)	(27)	-	(37)
Total stores at end of period	3,650	873	309	4,832
Net new stores in period	127	50	26	203
Total trading store space growth (m ²)	4.2%	13.2%	11.0%	6.6%

Commenting on the results, Andy Bond, Executive Chair of Pepco Group, said:

“The Group delivered record revenue in its first quarter. Whilst the Pepco brand saw LFL revenues down across the quarter against a tough comparative period last year, it was encouraging to see the LFL trend improve over the three months in its core CEE markets. Poundland continued to perform robustly in Q1, boosted by strong sales of FMCG.

“I am pleased that we achieved a 200 basis point year-on-year improvement in gross margin during Q1, and this positive trajectory is expected to continue over FY24 - notwithstanding the potential impact of external factors beyond our control, such as industry-wide supply chain disruption.

“We are making good progress against our renewed strategy, as outlined in October last year, to improve profitability and cash generation in our core established business, while delivering more measured profitable growth. We are acting decisively at pace – we have initiated a more targeted store opening programme, paused the new look refit programme, and stopped activities that will not produce appropriate returns.

“Looking ahead, the Group has a market-leading customer proposition, strict focus on returns, and proven profitable store model that makes the leadership team confident in delivering future success across our core European markets.”

HIGHLIGHTS

The Group opened 203 net new stores during the first quarter, with our store opening schedule for the year being front-end loaded in order to take advantage of our peak trading period. This also includes a one-off benefit of 54 Wilko conversions for Poundland. As a result, we expect the run rate of store openings to moderate over the coming quarters and expect to open at least 400 net new stores in FY24, excluding the one-off Wilko conversions in the UK.

- Pepco: 127 net new store openings during the first quarter. This net store growth was driven by CEE with over 70% of openings within the region, including 39 net new store openings in Poland.
- Poundland: 77 gross new store openings during the first quarter, largely reflecting 54 Wilko conversions during the period.
- Dealz Poland opened 26 new stores in the period, and now operates 309 stores in total across Poland.

OUTLOOK

Across much of Europe, trading conditions continue to be challenging, but we remain cautiously optimistic for 2024. Despite Group LFL revenue declining by 2.3% in the first quarter, albeit against a strong comparative period, we saw an improving LFL performance trend across the quarter.

A 200 basis point improvement in Q1 Group gross margin was delivered year-on-year, driven by a strong recovery in our Pepco business. This also represents a tangible increase in gross margin compared to the final quarter of FY23. We expect this momentum in gross margin to continue as the year progresses with the business benefiting from easing input costs, including commodity and freight, an improvement in FX, and buying margin improvements.

While we continue to have line-of-sight on potential further gross margin improvements over the coming quarters, we note that the current situation in the Red Sea is leading to elevated spot freight rates and delays to container lead times. The majority of our freight costs are contracted until the end of Q3, but the business is facing additional surcharges from carriers in relation to the longer shipping routes being taken. While there is limited impact on product availability currently, a prolonged issue in the region could also impact supply in the coming months.

Outside of these external factors, management continues to focus on what remains within its control, leveraging the opportunity to grow in our existing core markets in a more targeted and measured way, which is already leading to benefits, including a strong level of free cash flow generation during the first quarter.

We will keep a strict focus on returns as we grow the business, while maintaining a robust balance sheet in order to execute on our strategy. This foundation, alongside strong brand equity and market share in our core CEE market and a proven profitable store model, gives us continuing confidence in the opportunity of building Europe's leading variety discount retailer.

CONFERENCE CALL

Pepco Group will host a conference call for analysts and investors to discuss its Q1 FY24 trading update on Thursday 18 January 2024 at 8.30am GMT (9.30am CET). Investors and analysts who would like to participate in the Q&A session can dial in using the relevant number below and quote "**Pepco Group**".

Alternatively, a live audio webcast of the call will be available via the following link:

https://brrmedia.news/PCO_Q1TU

Location	Phone Number
Poland	+48 22 397 9053
United Kingdom	+44 (0) 33 0551 0200
United States	+1 786 697 3501

FORTHCOMING DATES

- Annual General Meeting: 15 March 2024

ENQUIRIES

Investors and analysts

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EXPLANATORY NOTES

1. The Group financials are prepared on an unaudited basis for the three-month period ending 31 December 2023. Within this the Pepco segment operates on a calendar month basis with the three-month period ending on 31 December 2023, and the Poundland Group segment primarily operates on a trading week basis with the 13-week period ending on 31 December 2023.

2. Revenues are unaudited with foreign currency revenues translated at the average rate for the month in which they are made.

3. Revenue growth is reported on a constant currency basis using the prior year actual rate applied to both current and prior years.

4. LFL revenue growth is defined as year-on-year revenue growth for stores open beyond their trading anniversary and is reported on a constant currency basis. Absolute LFL revenue and LFL growth are each unadjusted for the impact of Covid in both financial years.

TRUE AND FAIR STATEMENT

The management of Pepco Group N.V. are responsible for preparing this update and state that, to the best of their knowledge, the information contained herein regarding Pepco Group N.V. is correct as of the date of publication of this document and that it fairly reflects the Group's financial situation and business activities.