

11 April 2024

## Pepco Group N.V. Second 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 second financial quarter of FY24 ending 31 March 2024.<sup>1</sup>

### SUMMARY

- H1 Group revenue of €3,200m with constant currency growth of 11% versus last year
- H1 Group like-for-like (LFL) revenues down by 2.5% (H1 FY23 LFL +11.1%)
  - Pepco: -3.2% LFL against a tough comparative period where LFL sales were up by +15.8% in H1 FY23
  - Poundland: -0.7% LFL, with a positive FMCG performance offset by a weaker performance in clothing and general merchandise (GM) impacted by transition to new Pepco ranges
  - Dealz: -4.6% LFL impacted by the planned transition to Pepco-sourced GM
- Strong recovery in Group gross margin has continued, driven by Pepco
- New store openings moderated in the second quarter as expected, with 86 net new stores opened across the Group in Q2, compared to 203 net openings in Q1.

	Q2 FY24				H1 FY24			
	Pepco	Poundland	Dealz	Group	Pepco	Poundland	Dealz	Group
Revenue €m <sup>2</sup>	820	458	71	<b>1,349</b>	1,986	1,054	160	<b>3,200</b>
Revenue Growth YoY Constant Currency <sup>3</sup>	14.7%	4.5%	44.6%	<b>11.7%</b>	14.6%	3.7%	43.1%	<b>11.1%</b>
Like-for-like Revenue Growth <sup>4</sup>	(2.8%)	(2.8%)	(4.6%)	<b>(2.9%)</b>	(3.2%)	(0.7%)	(4.6%)	<b>(2.5%)</b>
<b>Store numbers</b>								
Total stores at start of period	3,577	873	309	<b>4,759</b>	3,450	823	283	<b>4,556</b>
New openings	95	4	7	<b>106</b>	232	81	33	<b>346</b>
Closures	(7)	(13)	-	<b>(20)</b>	(17)	(40)	-	<b>(57)</b>
Total stores at end of period	3,665	864	316	<b>4,845</b>	3,665	864	316	<b>4,845</b>
Net new stores in period	88	(9)	7	<b>86</b>	215	41	33	<b>289</b>
Total trading store space growth (m <sup>2</sup> )	2.8%	(1.3%)	1.7%	<b>1.7%</b>	7.2%	11.7%	8.6%	<b>8.3%</b>

*Note: Austria is now classified as a discontinued operation following the Group's exit of Pepco Austria. Therefore, all numbers above (including comparators) exclude Austria*

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

*"We continued to make good progress against our renewed strategy in H1, growing revenue by 11% to €3,200m and driving a positive trajectory in gross margin. While the trading environment remains challenging, we are encouraged by signs of an improved performance in some of our core Pepco Central and Eastern Europe markets – a key geographical region for the Group – during the second quarter. We expect a continued upward trajectory in LFL sales at Pepco in H2.*

*"We remain focused on cost control and are on track to deliver a significant reduction in our capex this year – making us increasingly confident on enhanced free cash flow generation in FY24. Our margin improvements are being driven by a combination of macro-factors from easing input costs, including commodity and freight, to more favourable foreign exchange, as well as self-help levers including enhanced purchasing and supply chain efficiencies.*

*“As planned, we’ve taken a measured approach to store openings in Q2, with new store growth focused in markets where we are confident of generating the highest returns. This targeted approach will continue over the coming quarters, as part of our renewed strategy to drive core profitability through a more disciplined approach to growth and investment.*

*“The Group is confident about delivering profitable growth this financial year – reflecting a stronger and more resilient business – as we continue to move forward to build Europe’s leading variety discount retailer.”*

## **HIGHLIGHTS**

The Group delivered 289 net new store openings during the first half. As highlighted at our Q1 update, our store opening schedule for the year was front-end loaded, reflecting commitments made during FY23 and to take advantage of our peak trading period. Therefore, while we opened 203 net new stores in Q1, this reduced to 86 net new stores in Q2 (excluding Austria), as we’ve focused new store growth in core existing markets we know well, where we have greater confidence in driving returns. The Group continues to expect to open at least 400 net new stores in FY24.

- Pepco: 215 net new store openings during the first half. This net store growth was driven by CEE with over 68% of openings within the region, including 61 net new store openings in Poland.
- Poundland: 81 gross new store openings during the period, largely reflecting 56 Wilko conversions.
- Dealz Poland opened 33 net new stores in H1, and now operates 316 stores in total across Poland.

## **PEOPLE**

The Group has today announced the appointment of Stephan Borchert as its Chief Executive Officer, effective from 1 July 2024 subject to EGM approval, concluding an extensive global executive search process undertaken by the Board. Stephan will commence an induction period starting on 1 July for three months. Andy Bond will remain in his role as Executive Chair during this transition period, reverting to the role of Non-Executive Chair on 1 October 2024, the start of the new financial year. Additional information on the appointment can be found in a separate press release published today.

## **AUSTRIA EXIT**

The Group announced on 19 February 2024 that as part of ongoing and in-depth performance reviews, it would cease its operations in Austria, as it did not foresee that the Austrian market will reach the appropriate level of returns expected. The Group operated 73 Pepco stores in the country. Further information related to the exit will be disclosed at the publication of our H1 interim results.

## **HUNGARY INCIDENT**

As reported on 27 February 2024, Pepco Group was the target of a sophisticated fraudulent phishing attack in its Hungarian business, resulting in a loss of approximately €15.5 million in cash. The Hungarian police’s investigation into the fraud, including the likelihood of any potential recovery, is ongoing. The Company is currently undertaking a full review of its phishing training and procedures throughout the Group.

## **OUTLOOK**

The trading environment across Europe remains challenging, although we are encouraged by signs of an improved like-for-like sales performance in some of our core CEE markets during the second quarter. Trading overall for Pepco in the first half has come up against a strong comparative prior year period, but we expect our LFL performance will improve during the second half of our fiscal year. For Poundland, the business has seen an impact in H1 from the substantial customer offer change in clothing and general merchandise to Pepco ranges. This transition is now largely behind us and we should start to see a progressive improvement in performance over the coming months.

We remain encouraged by the expected year-on-year improvements in gross margin to date, driven by our Pepco business, which will help drive profitability in the full year. The improvements in gross margin are being driven by easing input costs, including commodity and freight, an improvement in FX, and buying margin improvements. While the situation in the Red Sea continues to lead to some surcharges in freight rates and delays to container lead times,

the Group is managing product availability across the business, and as things stand, does not expect this to significantly impact gross margin in the second half.

Overall, the Group remains confident in delivering profitable growth in this financial year by maintaining a strict focus on returns across all parts of the business, while focusing on measured growth in our core markets. In addition, management is focused on driving efficiencies in supply chain and back office, and further strengthening our controls. We expect all of these initiatives to help drive further growth over the medium term.

The Group maintains a strong balance sheet with access to over €450 million in available liquidity (from cash and credit facilities) and continues to generate strong cash flow from its operations. This solid 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 Q2 FY24 trading update on Thursday 11 April 2024 at 8.30am BST (9.30am CEST). Investors and analysts who would like to participate in the Q&A session can dial in using the relevant number below and quote "**Pepco Q2**".

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

[https://brrmedia.news/PCO\\_Q224](https://brrmedia.news/PCO_Q224)

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

## FORTHCOMING ANNOUNCEMENT DATES

The Group intends to issue H1 interim results for the six months ended 31 March 2024 on 23 May 2024.

## ENQUIRIES

### Investors and analysts

Tej Randhawa, Investor Relations	+44 (0) 203 735 9210
Joanna Kwak, Investor Relations	+44 (0) 203 735 9210

### Media

Rollo Head, FGS Global	+44 (0) 7768 994 987
James Thompson, FGS Global	+44 (0) 7947 796 965
Sam Harrison, FGS Global	+44 (0) 7973 545 879

## EXPLANATORY NOTES

1. The Group financials are prepared on an unaudited basis for the six-month period ending 31 March 2024. Within this, Pepco and Dealz operates on a calendar month basis with the six-month period ending on 31 March 2024, and Poundland operates on a trading week basis with the 26-week period ending on 31 March 2024.

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.

#### **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.