

11 July 2024

Pepco Group N.V. Third 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 third financial quarter of FY24 ending 30 June 2024.¹

SUMMARY

- Year to date (“YTD”) 9-month Group revenue of €4,681m with constant currency growth of 10% on last year
- Q3 Group revenue of €1,481m, up 8% year-on-year on a constant currency basis
- Group like-for-like (“LFL”) revenues down 4.3% in third quarter:
 - Pepco: -2.7% LFL reflecting the earlier timing of Easter, slower-selling older stock that is being traded out through markdown, and supply chain issues impacting availability of new summer stock
 - Poundland: -6.9% LFL due to challenges related to the introduction of new Pepco-sourced clothing and general merchandise (“GM”) ranges, as previously disclosed, which are being addressed
 - Dealz: -7.3% LFL impacted by the transition to Pepco-sourced GM and a highly competitive FMCG market
- Strong year-on-year recovery in gross margin continued into the third quarter, driven by Pepco
- Net new store openings of 326 in nine months to date (37 in Q3); the Group remains on track to open around 400 net new stores overall in FY24
- The Group maintains its previous guidance on the full year EBITDA outlook of around €900m, representing EBITDA growth of c.20% over prior year (FY23: €753m)

The Group continues to make tangible strategic progress towards the objectives set out at our CMD last October including rebuilding profitability in our core Pepco CEE business, with store profitability back at pre-Covid levels, and delivering stronger cost focus and higher cash generation through disciplined capital investment.

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

“We have continued to execute against our strategy to deliver more measured growth – doing less, to achieve more – with a greater focus on improving profitability. The improved gross margin trajectory we flagged at the half-year results has continued strongly into the third quarter, and disciplined capital investment is driving strong cash generation. In line with our strategy, we opened a lower number of net new stores in the third quarter (37), largely focused in our core Pepco Central and Eastern Europe markets where we are delivering the highest returns.”

“Group like-for-like revenues in Q3 were below our expectations, partly due to macro factors, such as ongoing supply chain disruption, and company-specific issues, including slower-selling older stock which is being removed through markdown, as well as the transition to Pepco-sourced clothing and general merchandise in Poundland and Dealz. We are actively improving the availability and breadth of our ranges, and expect to benefit from these actions in the new financial year.”

“Looking ahead, the Group remains confident of delivering underlying EBITDA of around €900m this financial year and exiting the year with an improved trajectory in LFL sales in our core Pepco business. Our strong customer proposition and market-leading pricing leaves us well placed for future success as Europe’s leading variety discount retailer.”

FINANCIAL PERFORMANCE

	Q3 FY24				9M FY24			
	Pepco	Poundland	Dealz	Group	Pepco	Poundland	Dealz	Group
Revenue €m ²	929	480	72	1,481	2,915	1,535	231	4,681
Revenue Growth YoY Constant Currency ³	12.6%	(2.7%)	23.3%	7.6%	13.2%	1.6%	36.2%	10.0%
Like-for-like Revenue Growth ⁴	(2.7%)	(6.9%)	(7.3%)	(4.3%)	(3.0%)	(2.8%)	(5.5%)	(3.1%)
Store numbers								
Total stores at start of period	3,665	864	316	4,845	3,450	823	283	4,556
New openings	65	1	9	75	297	82	42	421
Closures	(17)	(20)	(1)	(38)	(34)	(60)	(1)	(95)
Total stores at end of period	3,713	845	324	4,882	3,713	845	324	4,882
Net new stores in period	48	(19)	8	37	263	22	41	326
Total trading store space growth (m ²)	1.6%	(2.2%)	2.7%	0.7%	8.9%	9.2%	15.5%	9.3%

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

HIGHLIGHTS

Group LFL revenues declined 4.3% during the third quarter, reflecting the earlier timing of Easter, which partly fell into March 2024 versus the prior year, as well as a delay in summer stock hitting store shelves, partly due to the issues in the Red Sea. In Pepco, our new summer ranges are resonating well with customers, with strong sales, and older inventory is being managed out through promotional activity. In Poundland, while the business has been addressing the breadth of its new Pepco-sourced clothing and general merchandise ranges, the benefit of this will not be evident until the new financial year. In Dealz, the business has also experienced transition issues in relation to Pepco-sourced general merchandise, against a backdrop of a highly competitive food market in Poland.

As previously guided, the rate of new store openings decelerated in the third quarter with 37 net new stores. 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. Openings are focused principally in core CEE markets where we are delivering higher returns. The Group continues to expect to open around 400 net new stores in FY24.

- Pepco: 48 net new store openings during the third quarter. This net store growth was driven by CEE with 71% of openings within the region, which includes 14 net new store openings in Poland, and 11 across Romania and Serbia. In Western Europe, openings were focused in Italy and Spain.
- Poundland: 19 net store closures during the period, largely reflecting lease run-offs of underperforming stores.
- Dealz Poland opened 8 net new stores in Q3, and now operates 324 stores in total across Poland.

PEOPLE

The Group welcomed the arrival of its new Chief Executive Officer, Stephan Borchert, on 1 July 2024. Stephan, who is based in London, joins us as a vastly experienced executive in the retail and other sectors including in fashion, beauty, pharmacy and healthcare services. From 2018 to 2022, he was CEO of GrandVision, the global leader in optical retail, operating more than 7,400 stores in more than 40 countries worldwide.

Stephan is currently undertaking an induction period 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.

OUTLOOK

The Group remains confident that availability issues that have impacted LFL sales will ease through the fourth quarter, as we mitigate the Red Sea impact by shipping product earlier and channeling stock through different shipping routes. In addition, we are encouraged by the gradual improvement of inventory in Pepco, with older stock from previous seasons being removed through mark down, which is improving the mix towards higher-margin newer stock that is selling strongly. This in turn is expected to help drive a recovery in LFL sales during Q4 FY24 and beyond, and management remains confident of exiting the financial year with an improved LFL trajectory in our core Pepco business.

While overall LFL revenues in the third quarter were below our expectations, the momentum in gross margin demonstrated at the half year results, continued strongly into the third quarter driven by Pepco. As a result, the Group remains confident of delivering a FY24 underlying EBITDA (IFRS 16) of around €900m (FY23: EBITDA IFRS 16 of €753m).

The Group continues to generate strong cash flow from its operations, helped by a strict discipline around investment capital. We remain confident in the strength of our customer proposition and our price leadership position, which alongside strong brand equity and market share in our core CEE market, leaves the Group well placed for future success as Europe's leading variety discount retailer.

CONFERENCE CALL

Pepco Group will host a conference call for analysts and investors to discuss its Q3 FY24 trading update on Thursday 11 July 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 Q3**".

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

https://brrmedia.news/PCO_Q3TU

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 full year pre-close trading update on 26 September 2024.

ENQUIRIES

Investors and analysts

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EXPLANATORY NOTES

1. The Group financials are prepared on an unaudited basis for the nine-month period ending 30 June 2024. Within this, Pepco operates on a calendar month basis with the nine-month period ending on 30 June 2024, and Poundland Group operates on a trading week basis with the 39-week period ending on 30 June 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.
5. The Group took a decision to exit Austria in H1 2024 and consequently all numbers quoted in this release exclude Austria for FY24 and the comparative period for FY23.

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.