

12th October 2022

Pepco Group N.V. – Year-End Pre-Close Trading Announcement
Continued growth and strategic progress

The fast-growing pan-European variety discount retailer, Pepco Group, owner of the PEPCO and Dealz brands in Europe and Poundland in the UK, today reports a trading update for the financial year ending 30th September 2022¹, with Full Year Preliminary Results to be published on 13th December 2022.

Financial Highlights

- Full year Group revenues of €4,824m, +17.4% on a constant currency basis:
 - PEPCO +28.7% growth
 - Poundland Group: +5.0%
- Strong Group like-for-like (“LFL”) full year growth of 5.2%:
 - PEPCO: +7.4% LFL
 - Poundland Group: +2.6% LFL
 - Group September LFL growth of +15.5% providing strong exit rate into FY23
- Full year underlying EBITDA on a constant currency basis is anticipated to be within a range of €735m to €750m, which is in-line with our year-on-year (“YoY”) growth expectations
 - On an actual currency basis, underlying EBITDA is expected to be in the range of €720m to €735m
- Net financial debt excluding capitalised leases amounted to €265m and is €168m higher than last year
- Closing net debt⁵ of €1,430m (IFRS16) reflects an increase of €228m YOY
 - driven by the continued growth of our store footprint as we execute our expansion strategy
 - alongside working capital increases as we return to a higher – more normal – inventory position following the global supply chain disruption in FY21

	Q4			Full Year		
	PEPCO	Poundland Group	Total Pepco Group	PEPCO	Poundland Group	Total Pepco Group
Revenue €m ²	728	515	1,243	2,713	2,110	4,824
Revenue Growth YoY Constant Currency ³	28.8%	3.8%	17.4%	28.7%	5.0%	17.4%
Like-for-like Revenue Growth ⁴	8.0%	1.7%	5.2%	7.4%	2.6%	5.2%
Stores #						
Total Stores end of Q4/FY22				2,910	1,051	3,961
New Stores #				446	70*	516*
New Stores Growth				18.1%	7.1%*	15.0%*

**excludes the impact of 59 Fultons store closures*

Delivering against strategic priorities

Bigger – Growing revenue, brand and market share

We delivered a record number of 516 net new stores under our accelerated store expansion programme – the Group’s single biggest driver of value creation – in FY22, ahead of our upgraded target of 450 new stores. In PEPCO 446 new stores were opened, ahead of our 400 guidance, including 163 new stores in the strategically important Western European markets of Italy, Spain, Germany and Austria.

Within the Poundland Group 70 new stores were opened almost exclusively in the Dealz Poland business (excluding the closure of 59 Fulton's stores).

Following an encouraging performance in new and existing markets, we are further accelerating our store expansion programme and are now targeting opening at least 550 net new stores in FY23 alongside entry into the new territories of Greece and Portugal for the PEPCO brand.

Better – Enhancing our store portfolio, categories and product ranges

We continue to drive a better business through store and proposition renewals with 727 store renewals completed (598 Pepco brand, 129 Poundland) in the year. This completes the PEPCO GM extension programme and continues the Poundland store refit programme driving LFL sales growth, economies of scale and enhancing the customer offer.

As we updated in July following our successful trial in Spain of store conversions from Dealz to PEPCO –which offer the full range of PEPCO clothing & general merchandise and Poundland Group FMCG – the Group decided to retire the Dealz brand in Spain and pursue a growth strategy for the PEPCO brand. The conversion programme is now underway and continues to perform in line with our expectations following the trials.

Following the successful work in Spain, PEPCO is now trialling a small number of PEPCO-branded stores in the Republic of Ireland. This will bring together our three categories under one roof, converting existing Dealz stores in six locations to the PEPCO brand. Initial feedback from our first trial store in the Omni shopping centre in Santry, Dublin, has been exceptionally positive and we will carefully consider and review further customer reaction. As in Spain, we will evaluate the response to this before making any further decision.

In addition to these existing renewal programmes, we conducted trials within PEPCO of a new proposition initially in 16 stores in Poland's Wroclaw followed by 47 stores in the capital, Warsaw. This resulted in an increase in selling space of between 4% and 12% alongside improvements in store branding, layouts and product visibility delivering a commensurate improvement in financial performance. These proven returns give us confidence and we will roll out this renewal programme to the rest of the PEPCO estate over the next 2 – 3 years.

Current trading conditions

Demand for our products remains strong even against the backdrop of significant uncertainty in the macroeconomic environment, exacerbated by the impact of geopolitical events. Whilst inflation remains at recent historic highs, in our core markets of Poland, Hungary and Romania inflation in clothing and footwear is running at only around a third of the headline inflation rate. Both clothing and food remain resilient categories in the Polish and wider CEE retail sector. The outlook across the UK remains challenging as constraints on consumers' disposable income continue. That said, our value-led proposition becomes even more relevant in these challenging times and continues to drive new customers to our stores, expanding our target market, across Europe.

Supply side conditions in retail have been more positive recently; the price of cotton has fluctuated but remains below recent peaks. There has also been some easing of freight costs which continue to fall from peak but remain high against historical levels, while supply chains are not yet fully recovered from the pandemic.

Commenting on the results, Trevor Masters, CEO of Pepco Group, said:

“These are very challenging times for families across Europe and we remain absolutely committed to helping customers on a budget by offering great range, value and convenience – and we are confident this will enable us to expand our customer base going forward.

“After another year of good progress, we are accelerating our profitable store-expansion programme – our biggest source of value creation – and store refit strategy, helping to drive like-for-like sales growth. Following recent successful openings, we will be launching the PEPCO brand in the new markets of Greece and Portugal in FY23. We

are also trialling our broadest offering of clothing, general merchandise and FMCG under the PEPCO banner in a handful of stores in Ireland.

“We will continue to drive our business using our four key strategic levers – bigger, better, simpler and cheaper. This strategy is driving faster growth through accelerated store openings and innovation to improve each store for customers and colleagues, helping to further enhance our LFL performance. We are also deploying these levers to lower our cost structure – to be significantly cheaper and more efficient – and improve back-office structure and processes. This strategic focus has served us well in growing sales and delivering on EBITDA and cash generation. We are accelerating our strategy in order to capitalise on the opportunities available to us in these volatile market conditions.

“Our progress to date gives us confidence that this continued expansion of our estate will enable us to achieve greater scale economies across the Group and drive further efficiency savings. As a result of our continued focus on driving progress under our key strategic pillars, we remain confident of our ability to continue to grow our EBITDA, in line with our historic run-rate, in the absence of any further deterioration of macro-economic trading conditions.”

Outlook

Given the profitable returns we continue to deliver from our stores, we are committed to accelerating our store rollout programme which, combined with our increased focus in Western Europe and our ongoing refit programme, means that our annual capex will rise from historic levels to between €350m and €400m.

This investment will be funded by continued management actions driving recurring operational cashflow savings. Whilst trading conditions continue to be challenging, we are confident in our continued progress and believe that the market volatility offers a significant opportunity to grow our market share and brand presence across Europe.

For further information, please contact:

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Conference Call details:

Pepco Group plans to host a Q4 Trading Update Call on Wednesday October 12 at 08:30 BST (09:30 CET). Trevor Masters (CEO) and Mat Ankers (Interim CFO) will give a short overview of the results followed by ~30 minutes Q&A at which we would invite questions from you.

Investors and analysts who would like to participate in the Q&A session, please dial in 5-10 minutes prior to scheduled start time and quote "Pepco". You will then be asked to provide your name and organisation. The operator will take you through when and how to ask a question.

Additionally, if you wish to just view the webcast please follow up this link to register:

Attend the webcast: <https://stream.brrmedia.co.uk/broadcast/6333081b0e3bee457613c08b>

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Explanatory Notes:

1. The Group financials are prepared on an unaudited basis for twelve-month (Full Year) & three-month (Fourth Quarter) period ending 30th September 2022. Within this the 'PEPCO (Apparel-led multi-price)' segment operates on a calendar month basis with the three-month period ending on 30th September 2022, and the 'Poundland Group (FMCG-led price-anchored)' segment primarily operates on a trading week basis with the 13-week period ending on 25th September 2022.
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.
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 FY21 and FY22.
5. Net debt represents total borrowings from credit institutions and lease liabilities (IFRS 16), both finance and operational leases, net of cash and bank balances. Net financial debt represents borrowings from credit institutions and finance lease liabilities (IAS 17) net of cash and bank balances.

Future Market Updates

1. Capital Markets Day: 13 – 14 October 2022
2. FY22 Preliminary Results and Publication of Annual Report: 13 December 2022
3. Q1 trading update: 12th January 2023

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.

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