



pepco<sup>®</sup>  
group

# FY23 Prelim Results

12 December 2023

# Highlights

Andy Bond – Executive Chair

# Pepco Group is well positioned for future success

- We have a clear, compelling and exciting future, but we need to do less to achieve more and re-earn the right to grow
- Our vision to be Europe's biggest and best discount variety business remains intact, serving families on a budget across our core FMCG, clothing and general merchandise (GM) categories
- We are confident we can deliver this ambition
- The opportunities remain significant – we will leverage them in a more targeted and measured way





# Highlights of FY23

A mixed performance in FY23 overall against a challenging market backdrop

- Record Group revenues of €5,649m
  - Constant currency revenue growth +17.7%
  - LFL growth of +6.0% (Pepco +6.3%; Poundland Group +5.6%)
- Opened 668 net new stores driven by Pepco
- Gross margin of 40.1%, down 70 basis points year-on-year
- EBITDA of €753m, up 3.1% on prior year
- Net debt (pre-IFRS 16) of €411m; represents 1.0x LTM EBITDA





# Summary Profit & Loss

Pepco Group	FY23	FY22	YoY (reported)	YoY (constant)
<b>Revenue (€m)<sup>1</sup></b>	<b>5,649</b>	4,823	17.1%	17.7%
Like-for-like revenue (%)	<b>+6.0%</b>	+5.2%	n/a	0.8pp
<b>Gross profit (€m)</b>	<b>2,268</b>	1,968	15.3%	15.6%
Gross profit margin (%)	<b>40.1%</b>	40.8%	(0.7)pp	(0.7)pp
Operating costs (IFRS 16)	<b>(1,514)</b>	(1,237)	22.4%	23.0%
Operating costs (IFRS 16) (%)	<b>26.8%</b>	25.6%	1.2pp	1.2pp
<b>Underlying (IFRS 16) EBITDA (€m)</b>	<b>753</b>	731	3.1%	3.1%
Underlying (IFRS 16) EBITDA margin (%)	<b>13.3%</b>	15.2%	(1.8)pp	(1.9)pp
<b>Depreciation and amortisation (€m)</b>	<b>(470)</b>	(378)	-24.3%	-24.4%
<b>Net financial expense (€m)</b>	<b>(82)</b>	(52)	-57.8%	-60.2%
<b>Underlying PBT (€m)</b>	<b>202</b>	300	-32.7%	-33.7%
<b>Non-underlying items (€m)</b>	<b>(55)</b>	(75)	26.3%	27.3%
<b>Reported PBT (€m)</b>	<b>147</b>	226	-34.9%	-35.8%
<b>Tax (€m)</b>	<b>(45)</b>	(52)	-13.8%	-13.9%
<b>Reported PAT (€m)</b>	<b>102</b>	174	-41.1%	-42.3%
Basic EPS (€ cents)	<b>17.8</b>	30.2	(12.4)	n/a

- Revenue growth of +17.7% driven by Pepco
- Gross margin down by c70 basis points, but recovery expected in FY24
- Record EBITDA outturn of €753m
- Increase in depreciation and amortisation reflects store growth and new look refit programme in FY23
- Non-underlying items of €55m mainly relate to ERP costs and restructuring costs associated with Dealz to Pepco conversion in Spain

# Financial Review

Neil Galloway – Chief Financial Officer

# Strong sales growth, but deteriorating in H2

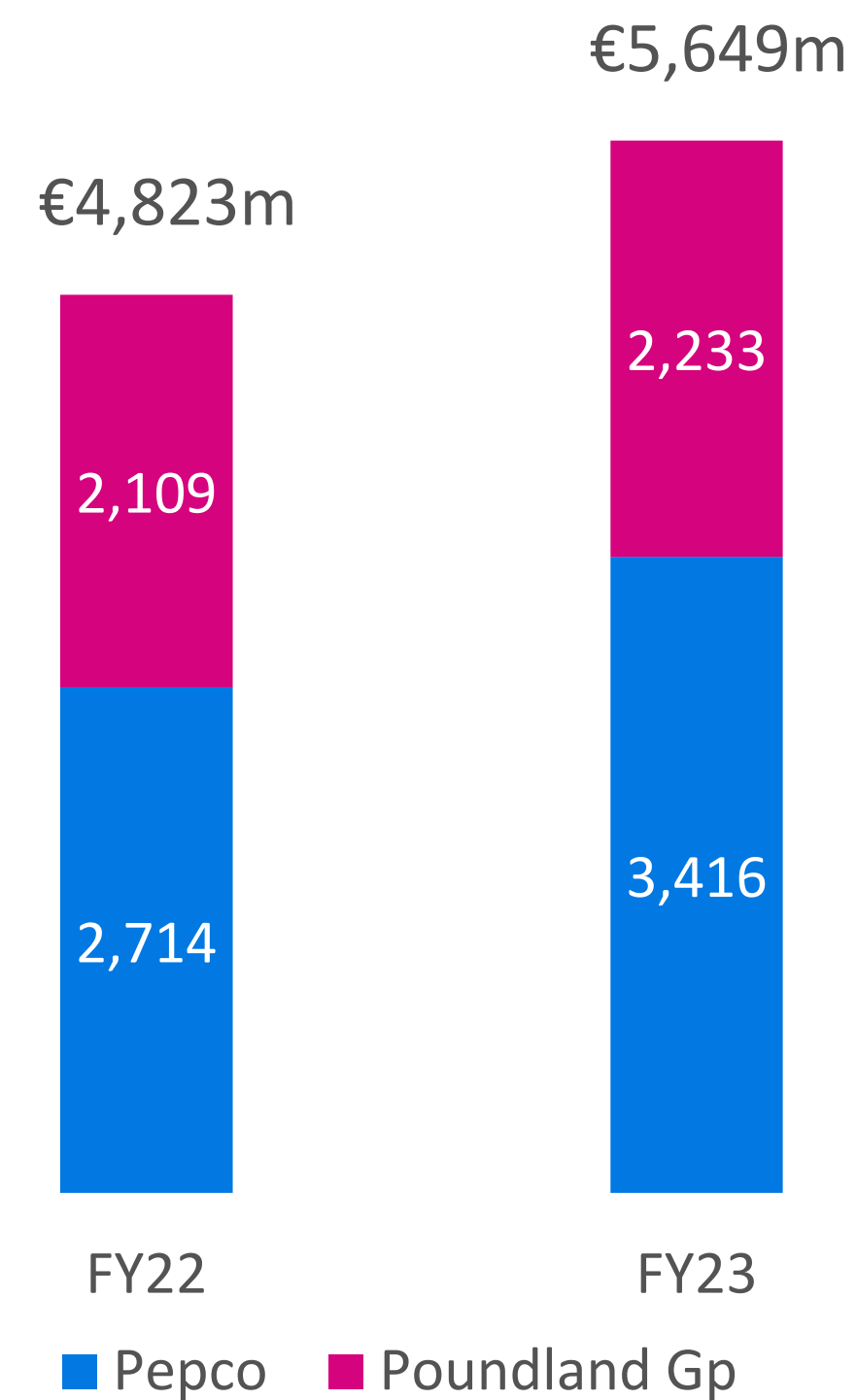
		FY22	FY23
LFL revenue growth	pepco <sup>®</sup>	+7.4%	+6.3%
	Poundland	+2.1%	+5.5%
	dealz;	+8.3%	+11.3%
	pepco <sup>®</sup> group	+5.2%	+6.0%
Revenue growth at constant currency	pepco <sup>®</sup>	+28.7%	+24.8%
	Poundland	+1.4%	+8.7%
	dealz;	+62.8%	+67.2%
	pepco <sup>®</sup> group	+17.4%	+17.7%

- Like-for-like revenue growth of +6.0% across Group, with similar performance across Pepco and Poundland banners

- Group revenue growth of +17.7% driven by Pepco (+24.8%), benefitting from annualisation of store openings in FY22

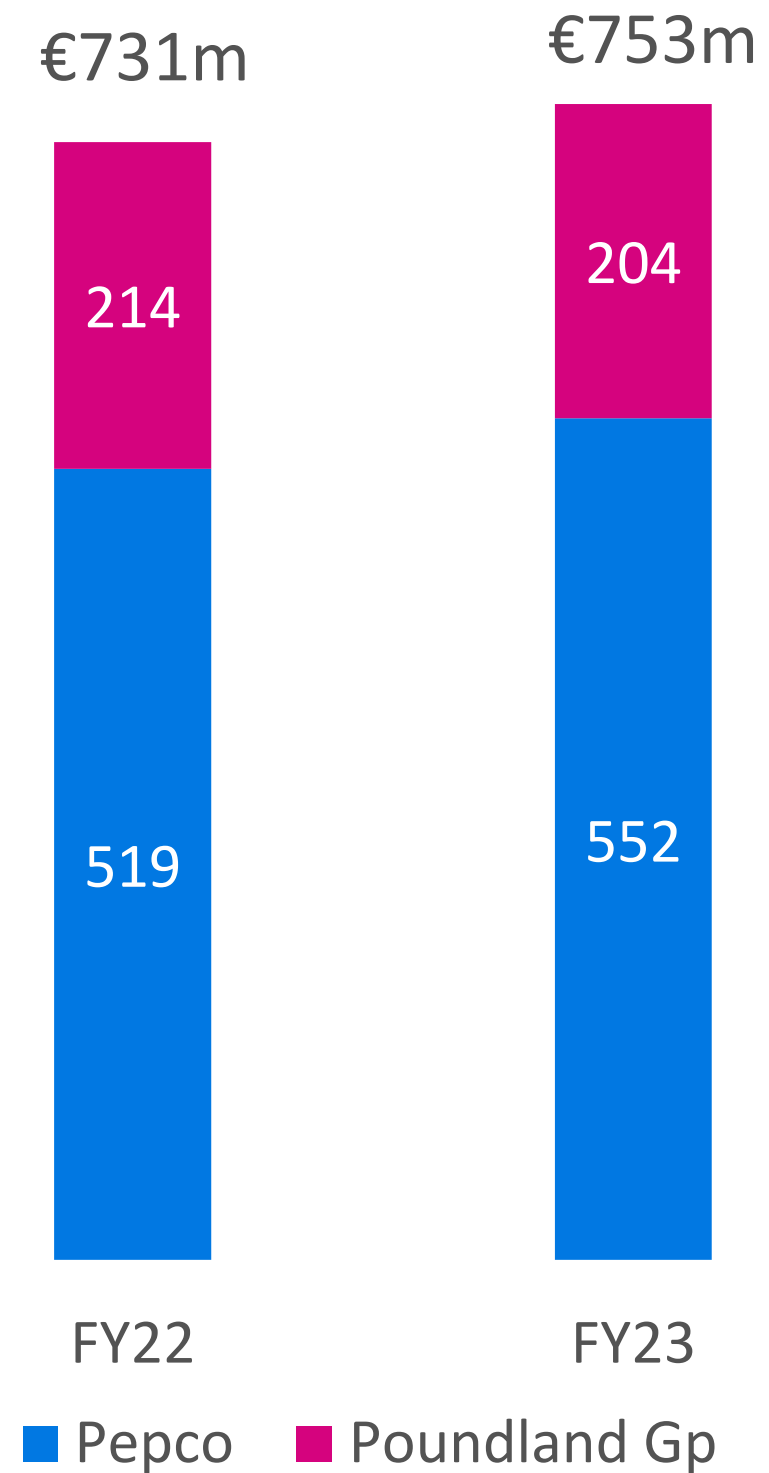
# Segmental performance driven by Pepco

## Revenue (EUR m)

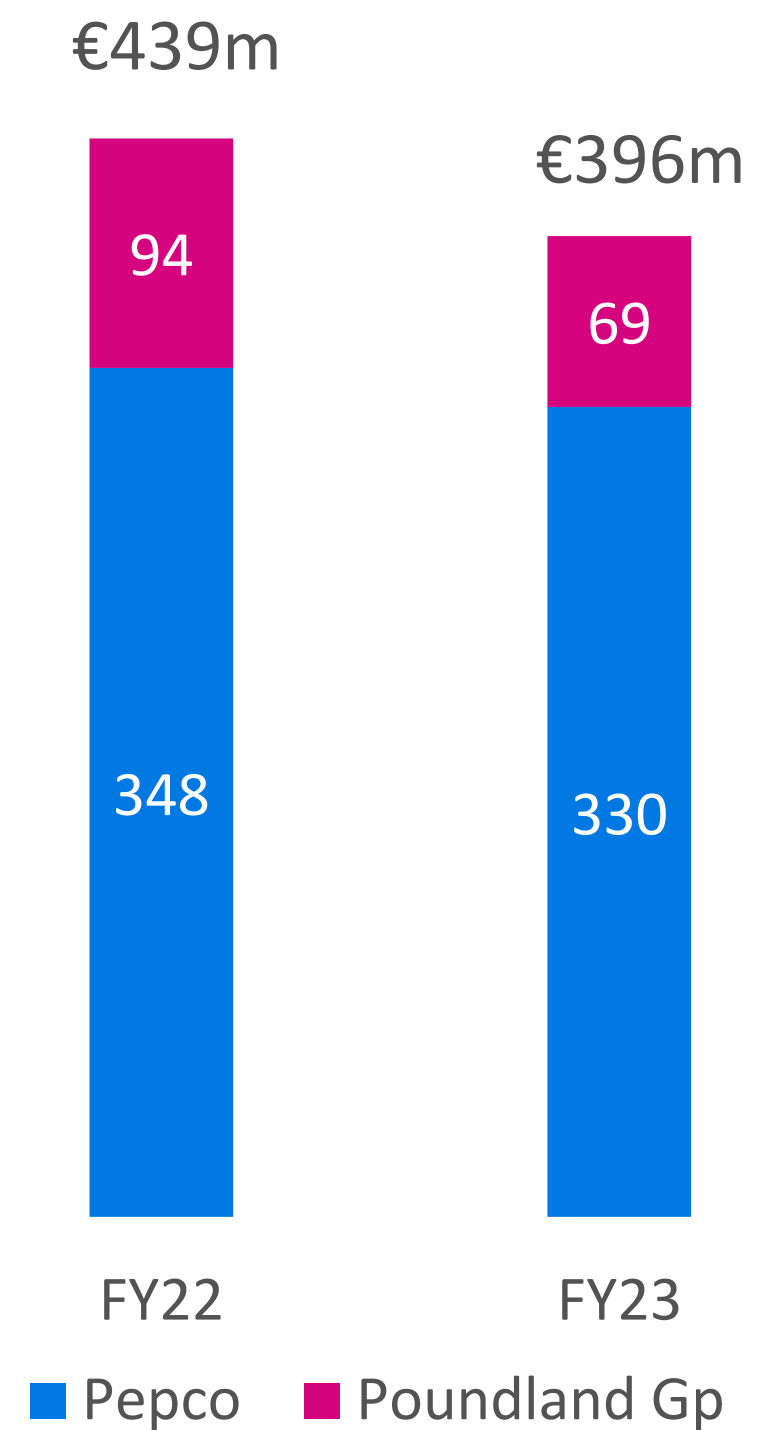


## Underlying EBITDA (EUR m)

### IFRS 16



### Pre-IFRS 16

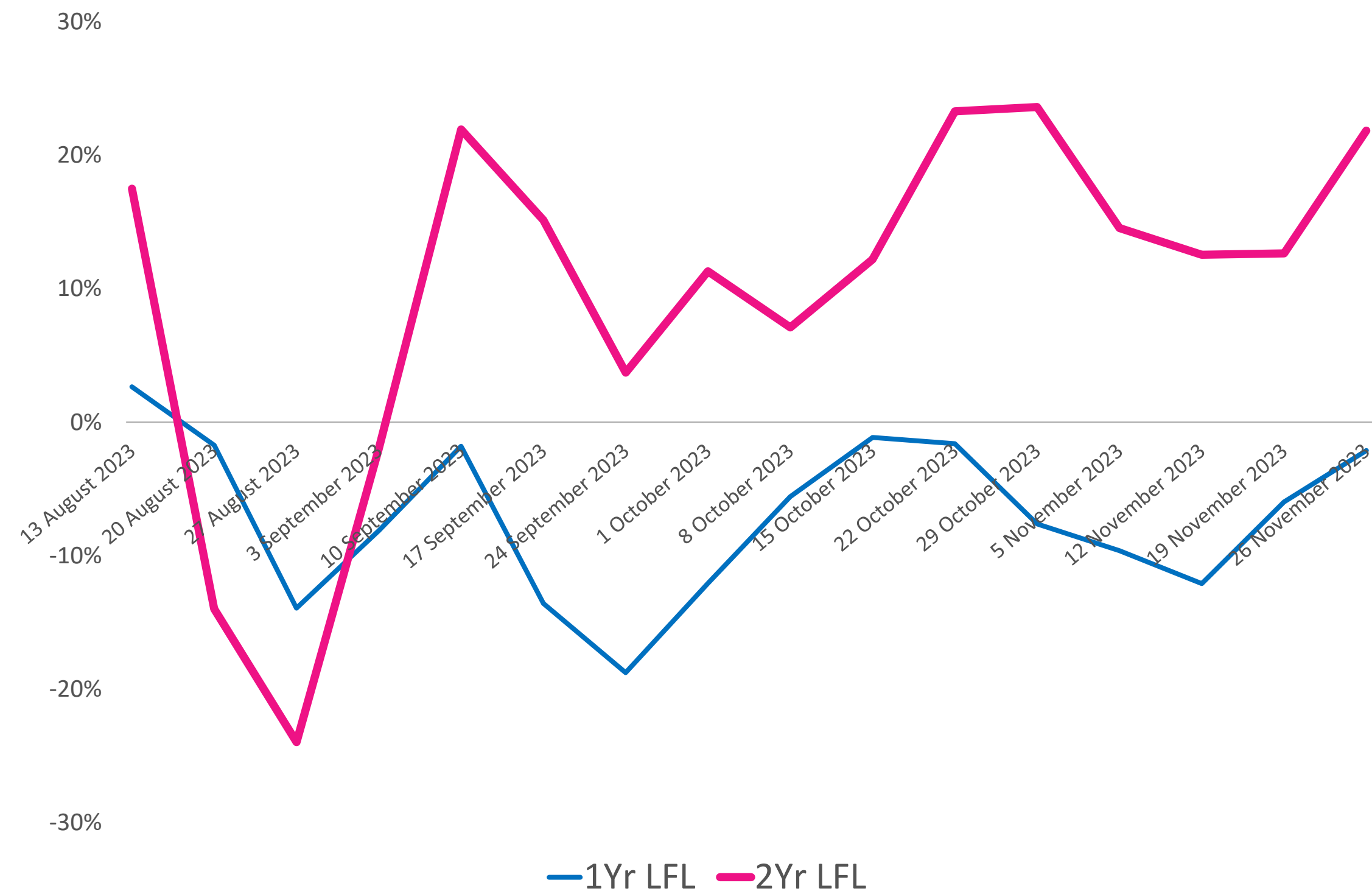


- Revenue growth across all formats, driven by Pepco
- Pepco - Decline of EBITDA (pre-IFRS 16) reflects higher rents and significant expansion of Pepco store base
- Poundland - Decline of EBITDA (pre-IFRS 16) reflects provision releases in prior year and higher utility costs

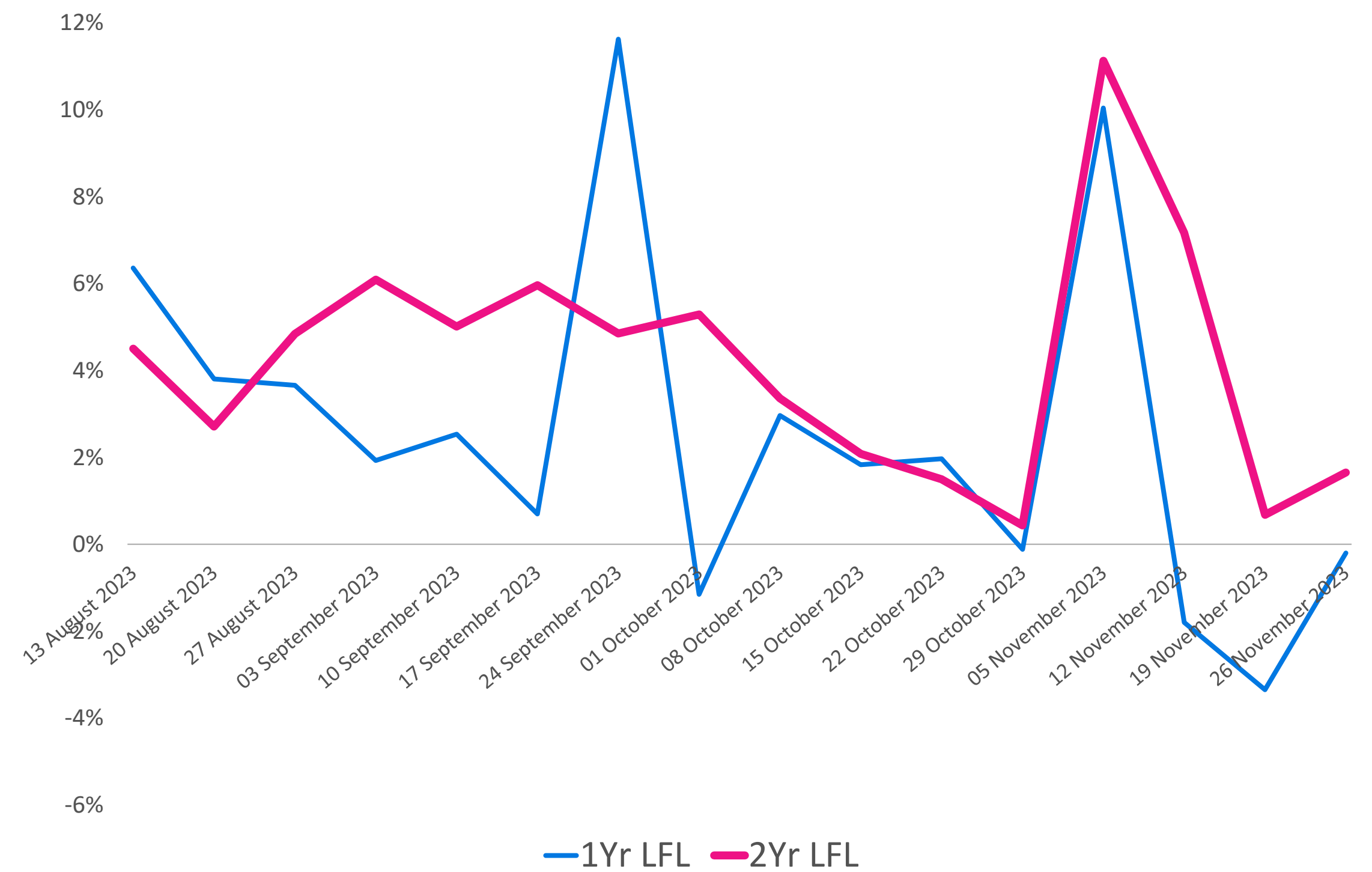


# LFL challenging in H2 FY23, but improving since period end

Pepco LFL run-rate



Poundland LFL run-rate

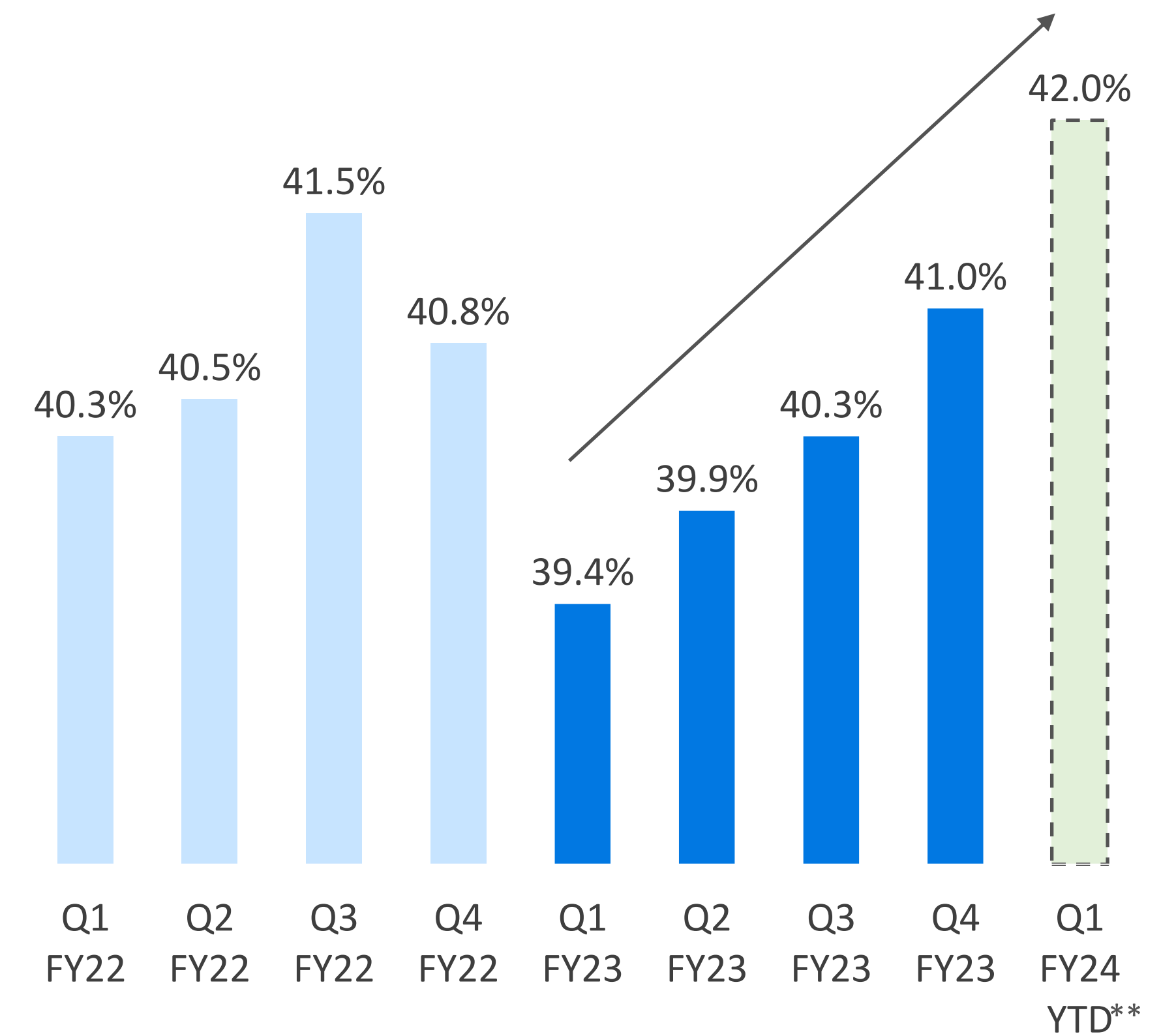


# Gross margin recovering as cost headwinds abate

FY23 Gross margin (%) bridge



Improving quarterly gross margin % trend\*

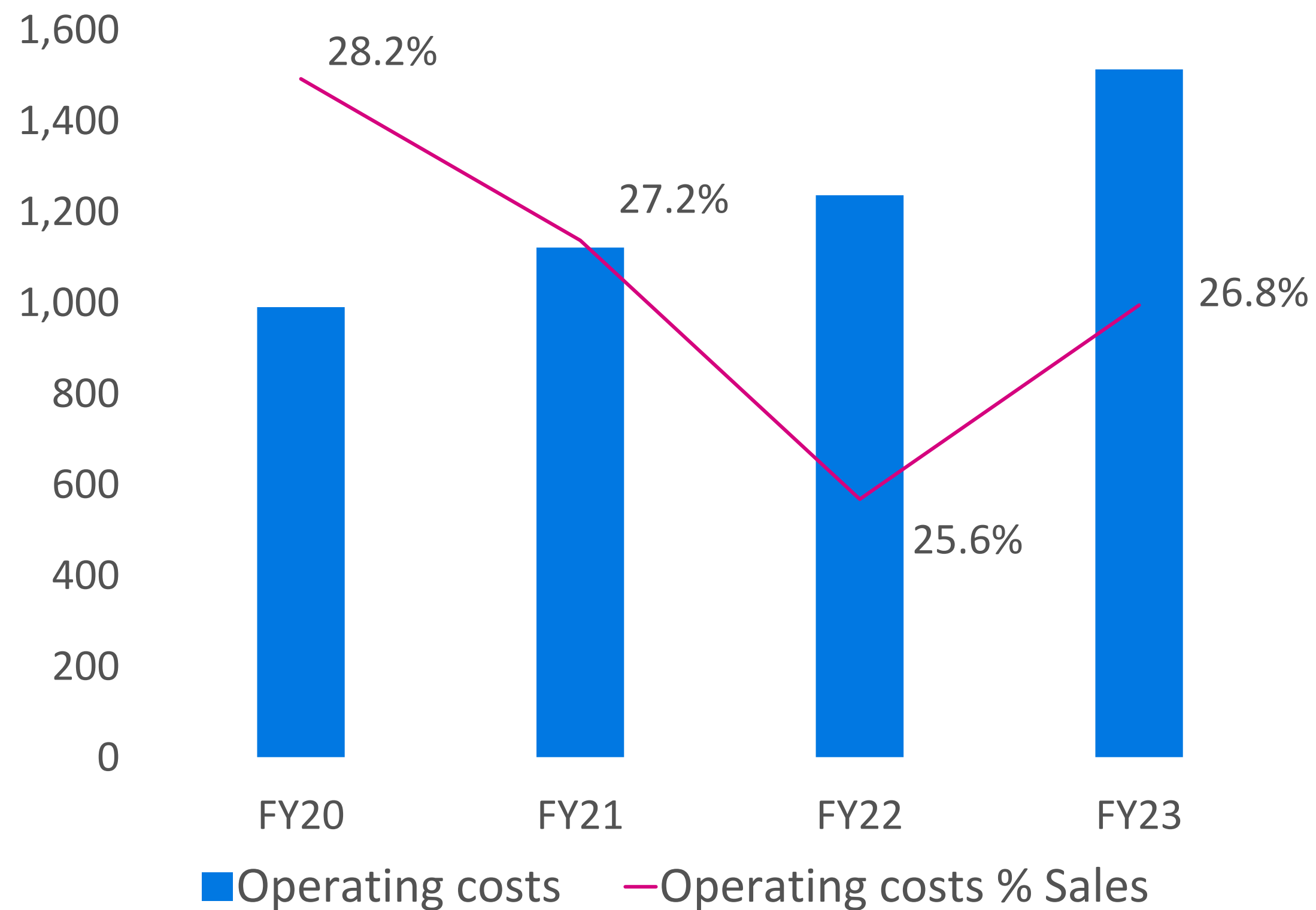


\* Numbers are based on a trading gross profit basis only

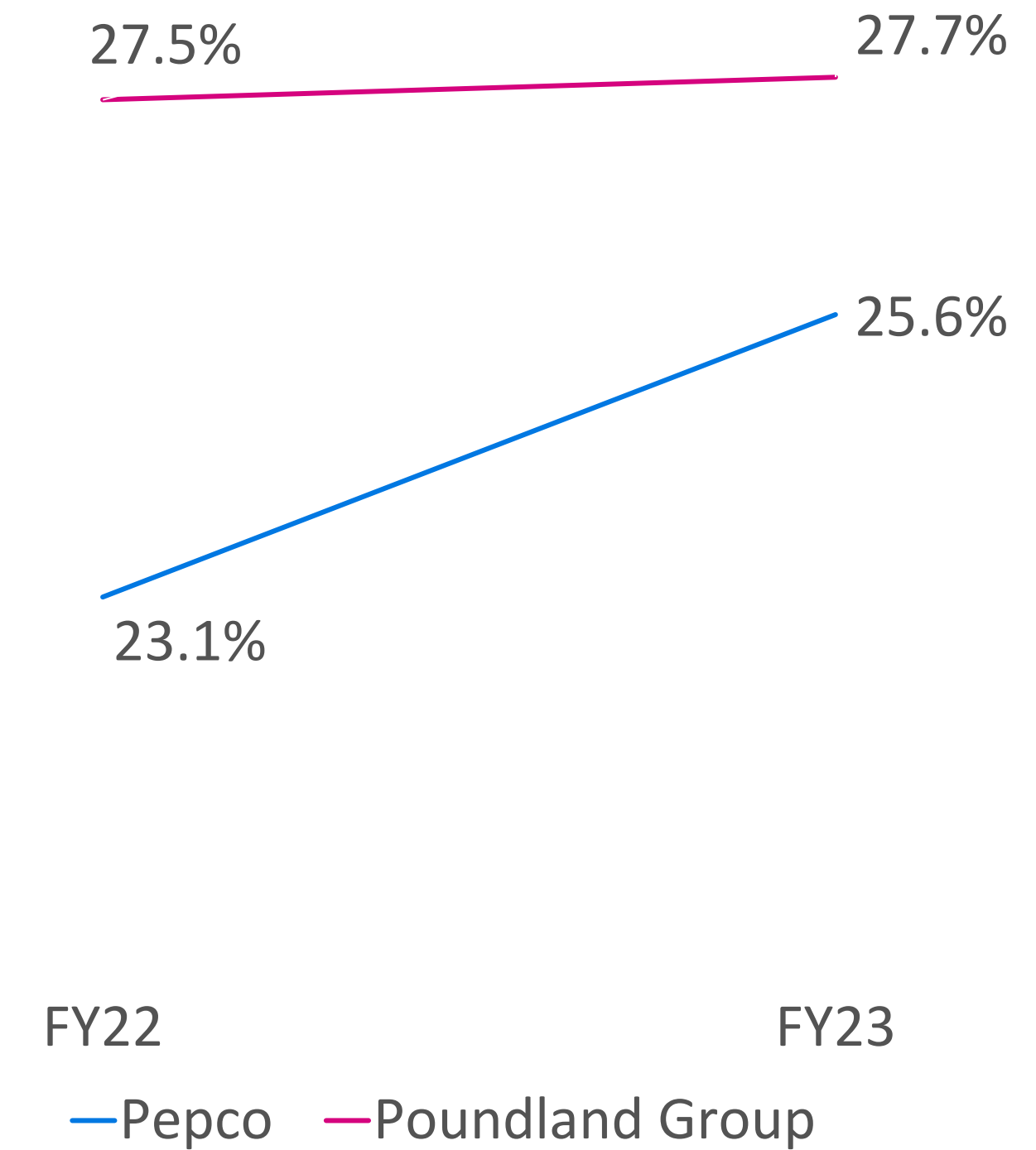
\*\* Q1 FY24 Gross Margin represents the months of October and November 2023

# Operating cost increases from inflation and new store acceleration

FY23 operating costs as % of revenue has risen YoY, but remains lower than FY20/FY21



Higher Pepco opex related to labour inflation & distribution costs to support rollout



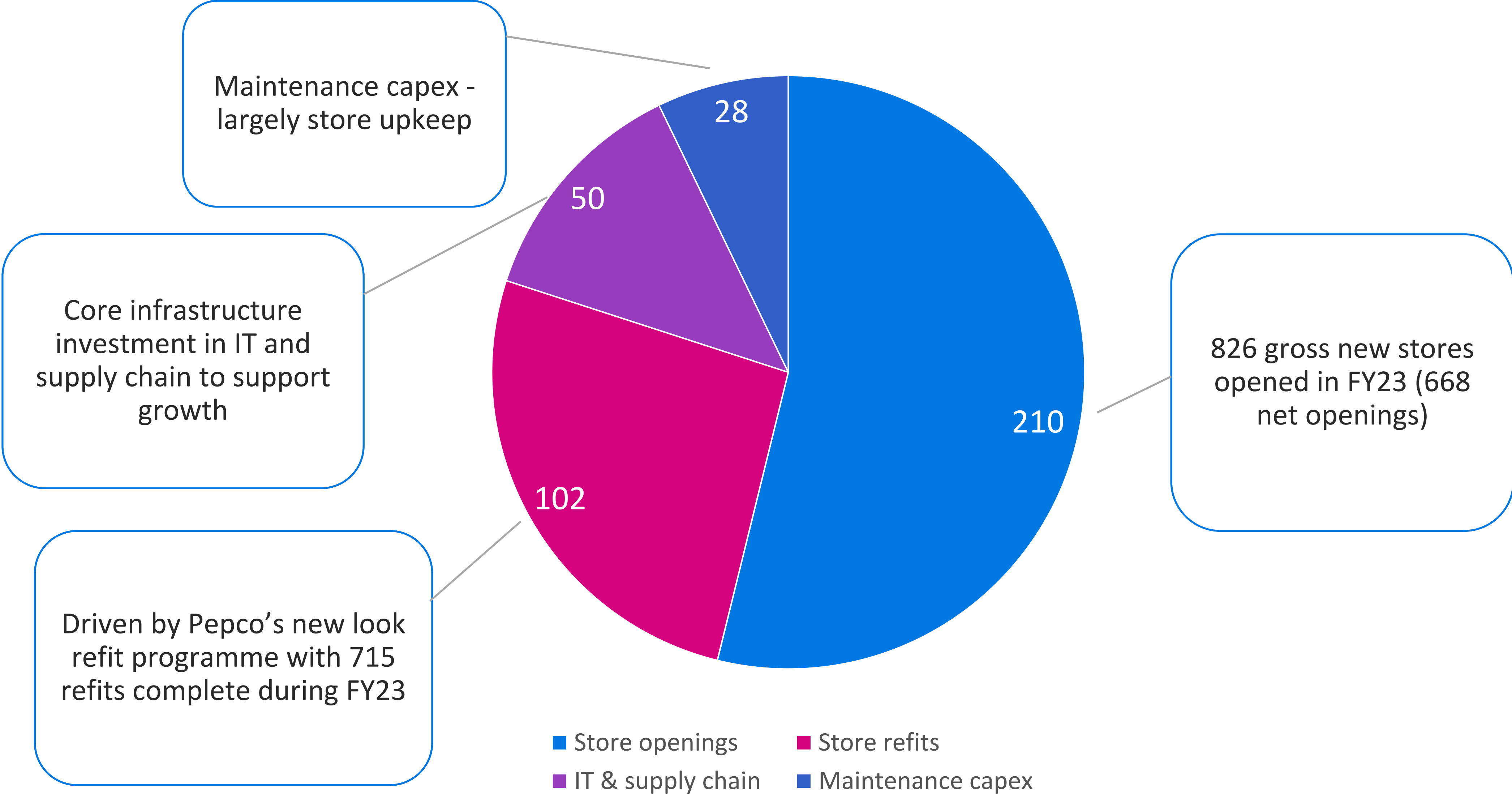


# Cash flow summary

Pepco Group (€m)	FY23	FY22	YoY
<b>Cash generated by operations (reported)</b>	<b>723</b>	425	299
Lease payments (IFRS 16 Payments and Interest)	<b>(382)</b>	(292)	(91)
Tax paid	<b>(75)</b>	(61)	(14)
<b>Net Cash from Operations (pre-Capex)</b>	<b>266</b>	72	194
Capex	<b>(390)</b>	(225)	(164)
<b>Net Cash from Operations (post Capex)</b>	<b>(124)</b>	(154)	30
Funding and investment activities	<b>102</b>	(7)	108
<b>Net cash flow</b>	<b>(22)</b>	(161)	138
Effect of exchange rate fluctuations	<b>9</b>	(3)	12
Cash and cash equivalents at the beginning of the period	<b>344</b>	508	(164)
<b>Cash and cash equivalents at the end of the period</b>	<b>330</b>	344	(14)
Net debt (pre-IFRS 16)	<b>411</b>	275	136
Net debt: underlying EBITDA (pre-IFRS 16) multiple (leverage)	<b>1.0x</b>	0.6x	0.4x
Current ratio	<b>0.9</b>	1.1	(0.2)

- Net cash from operations (pre capex) increased by €194m year-on-year to €266m
- Capex of €390m driven by new store openings and store refits
- Opportunity to improve cash conversion cycle by optimising supply chain and enabling efficient stock management
- Net debt (pre IFRS 16) of €411m at end of year, equating to a leverage ratio of 1.0x EBITDA

# FY23 capex spend of €390m driven by new stores and refits



# Balance sheet summary

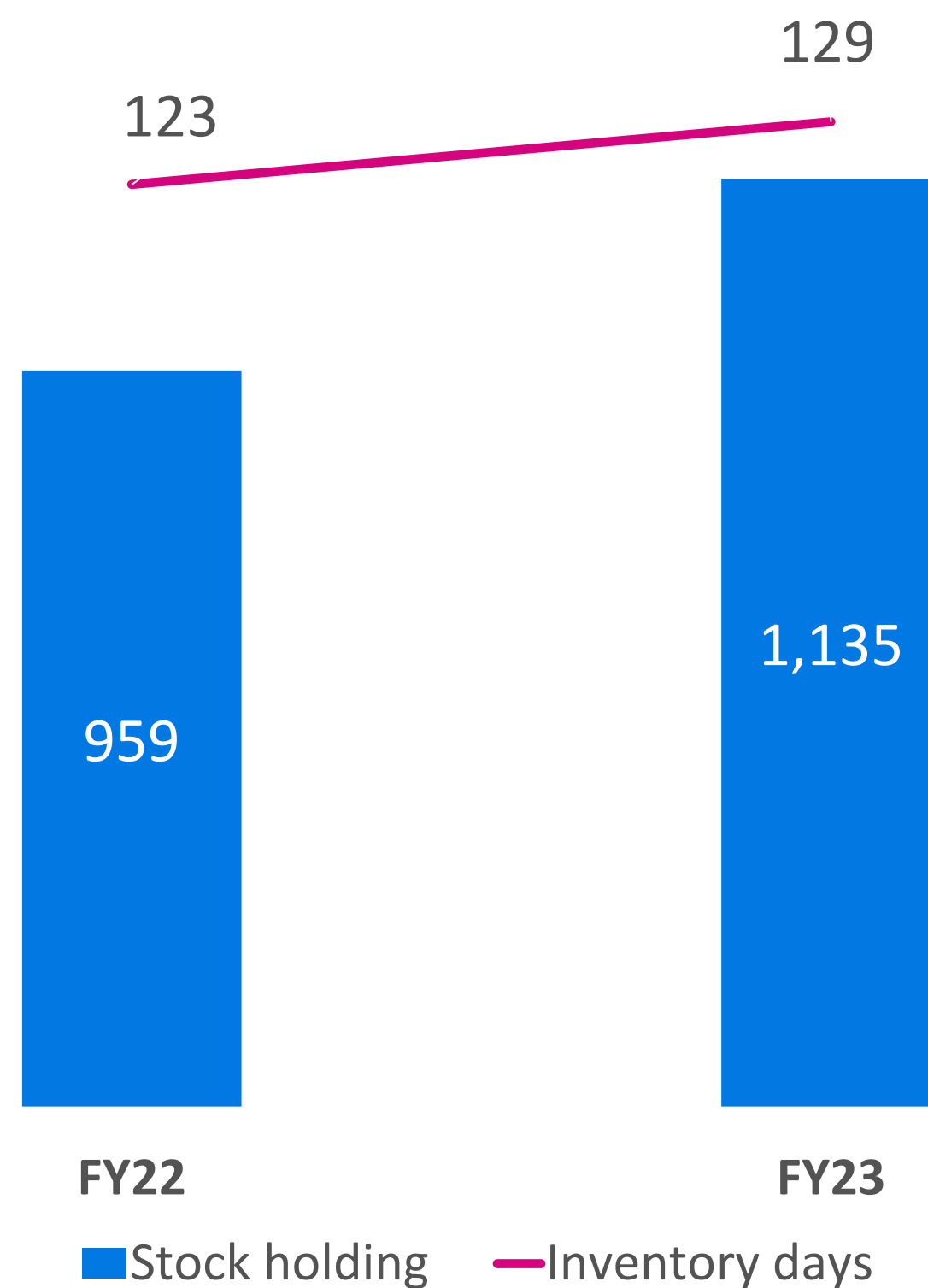
Pepco Group (€m)	FY23	FY22	Change
<b>Assets</b>			
Property, plant and equipment	746	525	222
Right of Use Asset	1,249	1,018	231
Goodwill and other intangible assets	847	814	33
Trade and other receivables	144	78	67
Derivative financial instruments	48	170	(122)
Deferred tax asset	113	91	22
Inventories	1,135	959	176
Cash and cash equivalents	330	344	(14)
<b>Total assets</b>	<b>4,615</b>	<b>3,999</b>	<b>615</b>
Trade and other payables	1,288	1,014	275
Lease liabilities	1,317	1,134	183
Borrowings	729	615	115
Provisions	31	48	(17)
Derivative financial instruments	93	45	48
<b>Total liabilities</b>	<b>3,457</b>	<b>2,855</b>	<b>603</b>
<b>Net assets</b>	<b>1,157</b>	<b>1,145</b>	<b>12</b>

- Increases in PPE, ROU assets and inventory largely driven by additional store openings across the business

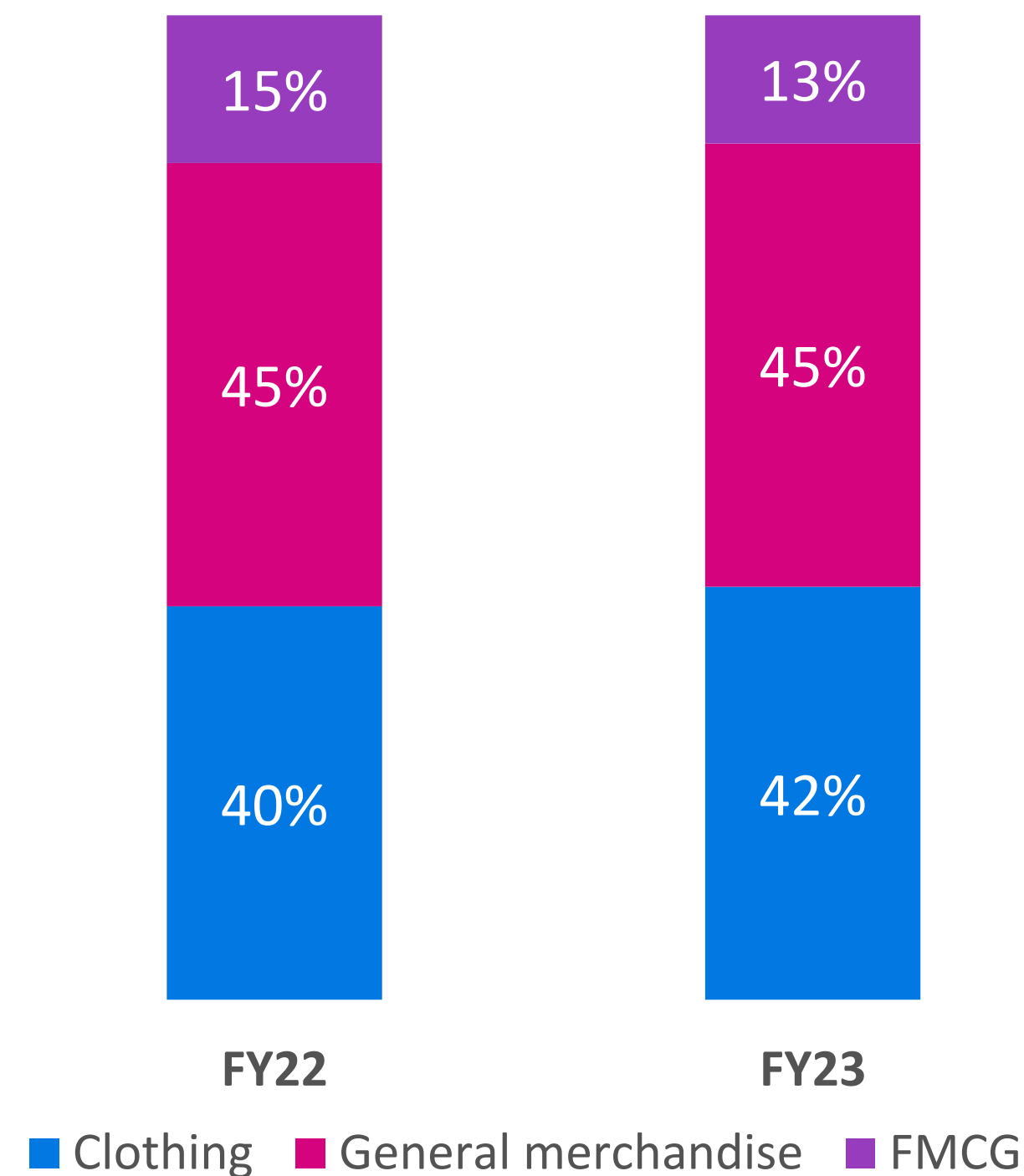


# Inventory higher than expected due to sales challenges in Q4

Stock holding (€m)



Stock category mix (%)



- Trading headwinds in Q4 led to higher buildup of stock than planned with inventory days trending higher than FY22
- We are closely targeting inventory days as a measure going forward to reduce it to more optimal levels

# Financing

- Inaugural bond issued in June 2023: €375m 5-Year Senior Secured Notes priced at 7.25% and maturing in July 2028
- Proceeds used to repay existing €300m Term Loan A facility due April 2024
- RCF (due April 2026) also upsized from €190m to €390m to provide additional working capital
- The refinancing extended Pepco's maturity profile, with the added benefit of providing access to access to a larger pool of capital which can support Pepco's future growth ambitions
- Strong balance sheet gives access to over €400m of liquidity

## Public credit ratings from all 3 rating agencies

**FitchRatings**

'BB' rating

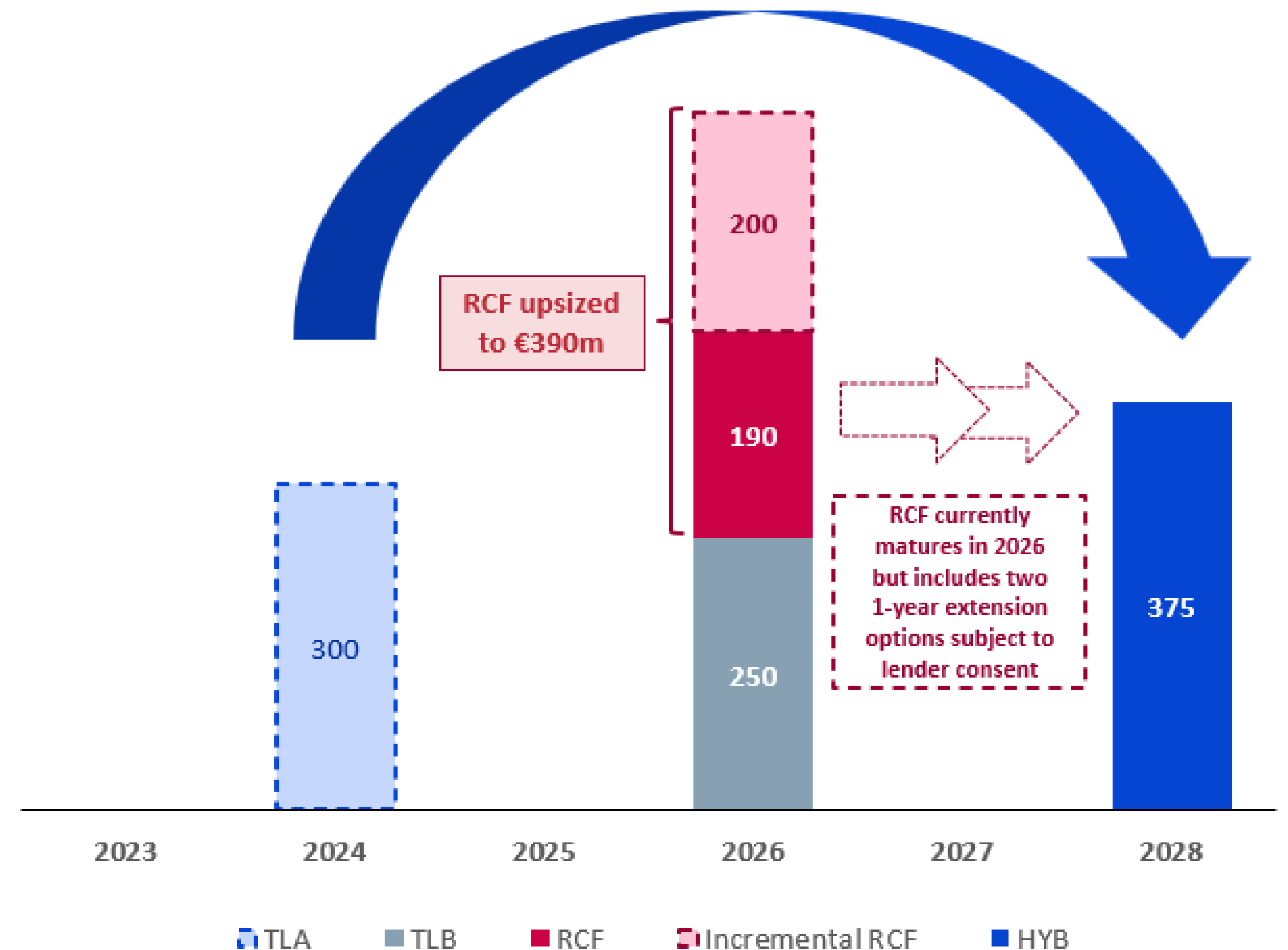
**MOODY'S**

'Ba3' rating

**S&P Global**

'BB-' rating

## Pro Forma Maturity Profile (€m)



	FY23	FY22	YoY (reported)	YoY (constant)
Underlying (pre-IFRS 16) EBITDA (€m)	396	439	-9.9%	-10.0%
Underlying (pre-IFRS 16) EBITDA (%)	7.0%	9.1%	(21)pp	(21)pp
Net debt (pre-IFRS 16, €m)	411	275	49.4%	n/a
Leverage (pre-IFRS 16)	1.0x	0.6x	0.4x	n/a

# Business review

Andy Bond – Executive Chair



# Our progress in 2023



1

Store network expanded

2

Customer offer developed

3

Driving cost and operational efficiencies

4

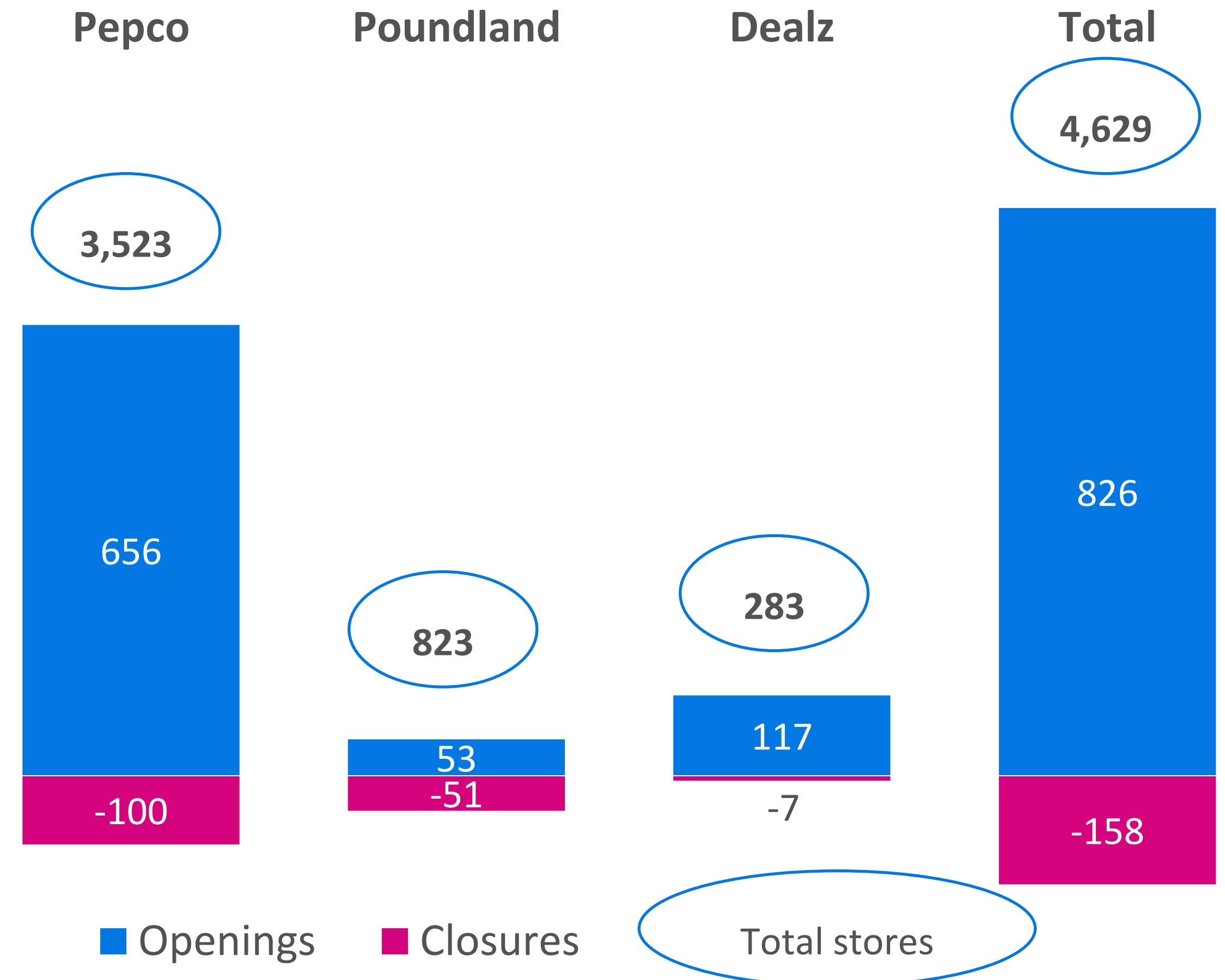
Investment in infrastructure and people



# 1 Store network expanded

- Record net new store openings of 668 in FY23
- Western Europe now approaching half of all new Pepco openings. Pepco 'Plus' remains a key format for the region
- Strong UK opportunity - Poundland closures part of long-term estate management plan; 64 Wilko conversions completed to date
- Dealz to focus on Poland and has reached a milestone of 300 stores in December 2023
- Focus on strengthening the Group's store profitability in FY24, with 400 net new stores targeted

FY23 store openings by banner





# Customer offer developed

## Pepco 'Plus stores



- Pepco 'Plus' stores offer FMCG, in addition to clothing and general merchandise
- Group currently operates 53 Pepco 'Plus' stores
- Remains key focus for core Western European markets

## Store refits



- Pepco 'new look' refit programme under review to assess returns
- 715 conversions completed by end of FY23
- Around 220 further conversions expected during Q1 FY24 as part of previous commitments

## Poundland development

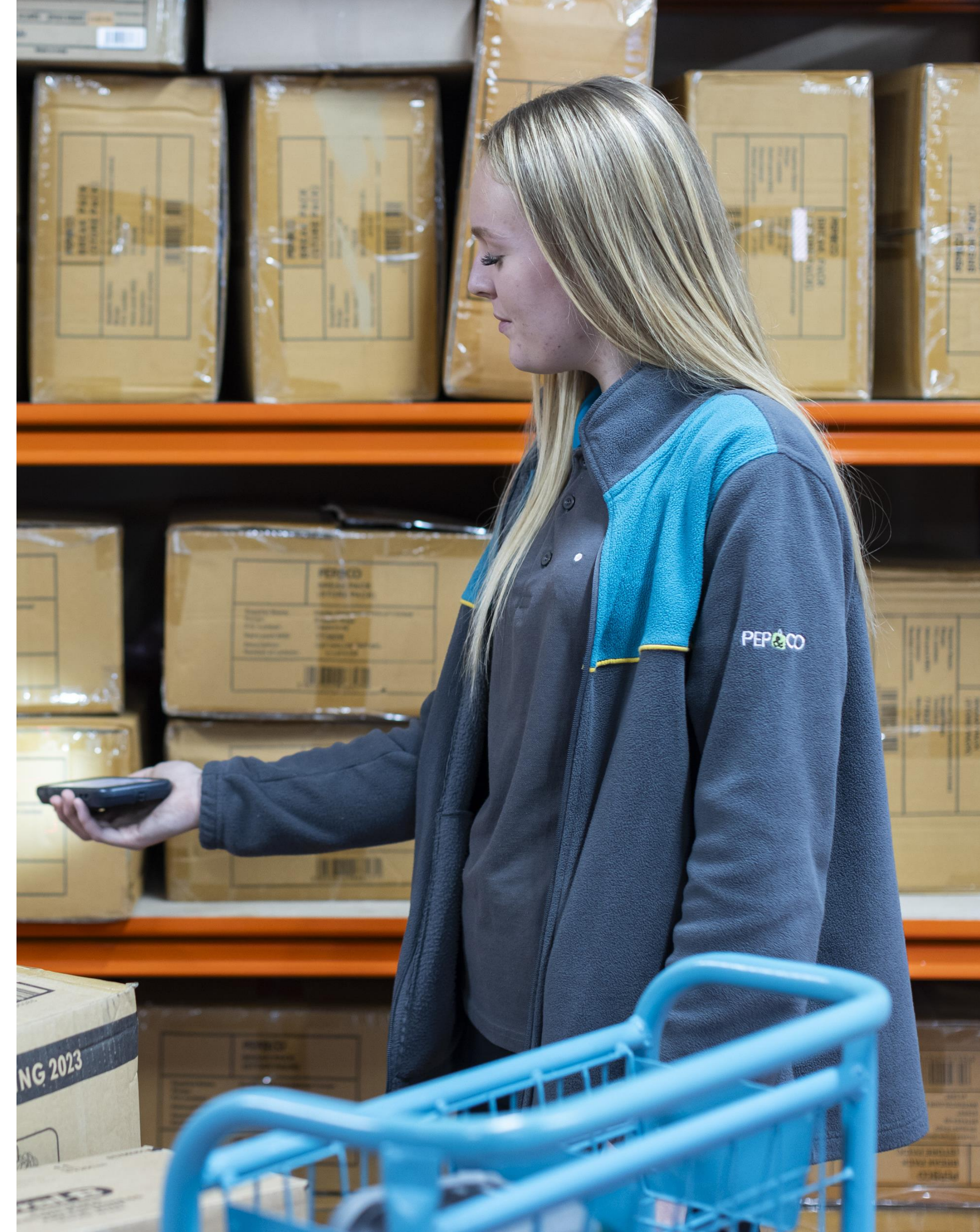


- Clothing powered by Pepco now across all Poundland stores
- Pepco GM to launch in Poundland in Spring 2024
- Poundland digital business growing rapidly, with higher basket sizes



### 3 Driving cost and operational efficiencies

- Spain: Consolidation of Dealz and Pepco businesses created simpler operating model (one brand, one range, one team)
- PGS incorporated into Pepco to optimise and align the buying cycle
- Labour and supply chain efficiencies remain key focus in light of inflationary pressures





# Investment in infrastructure and people

## Infrastructure

- Investment in store technology including self-scan tills and modern Oracle Xstore retail POS (point-of-sale) systems
- Rollout of a new scalable Oracle ERP platform continuing across the Group, providing modern inventory management and finance solutions
- Supply chain technology efficiencies with WMS (Warehouse Management System) blueprinting across all Pepco distribution centres

## People

- Investment in the capabilities of our people by developing existing colleagues and attracting new, high calibre recruits into the business
- 81% of store managers across the Group were internally promoted and we promoted over 4,350 colleagues during FY23
- Investment into regional training centres and access to online training provided to further develop careers

# Strategy update

Andy Bond – Executive Chair

# 2023: A year of highs and lows

## Highs

- Record Group revenues of €5,649m delivered; with +17.7% constant currency revenue growth
- Record EBITDA (IFRS 16) despite challenges
- Opened 668 net new stores driven by Pepco
- Maintained strong brand equity and market share in our core CEE markets

## Lows

- Tough external environment: Core consumer under pressure, greater competition and unpredictable weather patterns
- Growth too ambitious: Ill-discipline around project management and transformation, overstressing colleague and systems capability
- Weak 4-wall EBITDA performance: Insufficient time spent on rebuilding health of the core business post Covid
- Speed: Too slow in the transformation plans towards one business

# Challenges being addressed through clear action points

- Rebuilding the health and profitability of our core stores back to pre-Covid levels through price leadership and continuous product improvement
- Delivering growth in gross margin and drive operating cost efficiencies
- A more disciplined approach to growth, capex and risk
- Stronger cash generation and better capital allocation focus
- Committing to the UK as the Group's largest market
- Growing scale in core Western European markets such as Italy and Spain
- Acting with speed to move towards a single customer offer and business model
- Reviewing underperforming markets and non-core projects
- Continue to work on the economic and strategic positioning of Dealz





# We have distinct competitive advantages that set us apart

- ✓ A proven, profitable and scalable store model
- ✓ Conveniently located stores and format size, offering broad customer appeal
- ✓ Strong brand equity and market share in our core CEE markets
- ✓ In-house designed clothing and GM offer, alongside the scale and growth we offer FMCG brands
- ✓ Direct sourcing model through PGS (Pepco Global Sourcing)

# Current trading and outlook

Andy Bond – Executive Chair



# Current trading and outlook

- Challenging sales environment has continued, as expected
- Group LFL sequentially improving week-on-week – total LFL -3.1% in 8 weeks to 26 Nov 2023
  - Pepco trading against a strong comparative period
  - Poundland LFL driven by strength of FMCG
- Demonstrating improvements in gross margin 100 basis point improvement FY24 YTD\* versus Q4 FY23
- Cautiously optimistic on year ahead

**Confident that right strategy now in place to meet our ambitious targets over medium-term**





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- We have a clear, compelling and exciting future, but we need to do less to achieve more and re-earn the right to grow
- Our vision to be Europe's biggest and best discount variety business remains intact, serving families on a budget across our core FMCG, clothing and general merchandise (GM) categories
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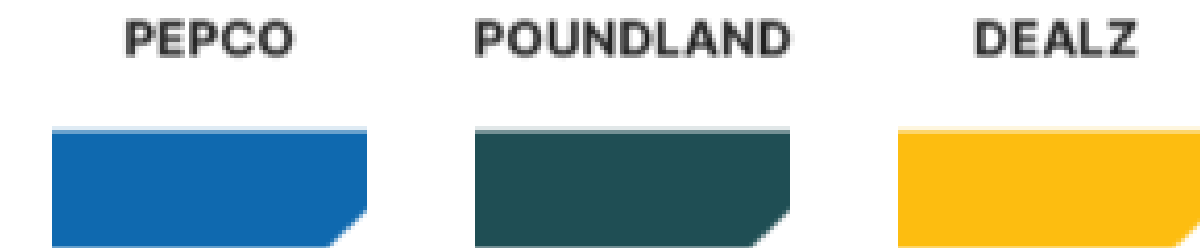




# Q&A

# Appendix

# Store coverage



## Poland

- Pepco 1256
- Dealz 283

## Bulgaria

- Pepco 151

## Latvia

- Pepco 60

## United Kingdom

- Poundland 745

## Slovakia

- Pepco 146

## Germany

- Pepco 52

## Romania

- Pepco 445

## Serbia

- Pepco 124

## Slovenia

- Pepco 39

## Czechia

- Pepco 287

## Croatia

- Pepco 121

## Estonia

- Pepco 36

## Hungary

- Pepco 246

## Lithuania

- Pepco 80

## Greece

- Pepco 22

## Spain

- Pepco 205

## Ireland

- Poundland 78

## Portugal

- Pepco 14

## Italy

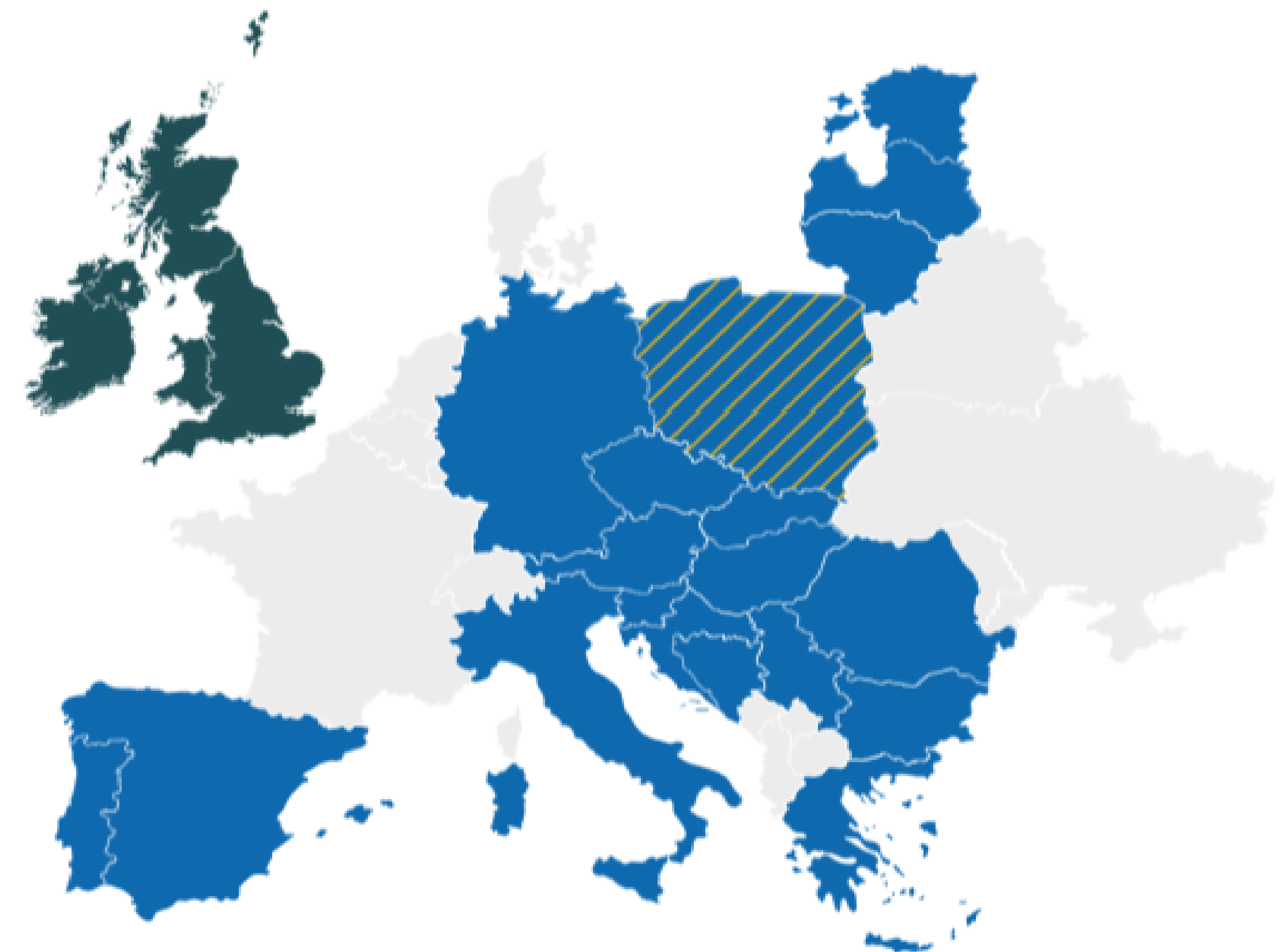
- Pepco 157

## Austria

- Pepco 73

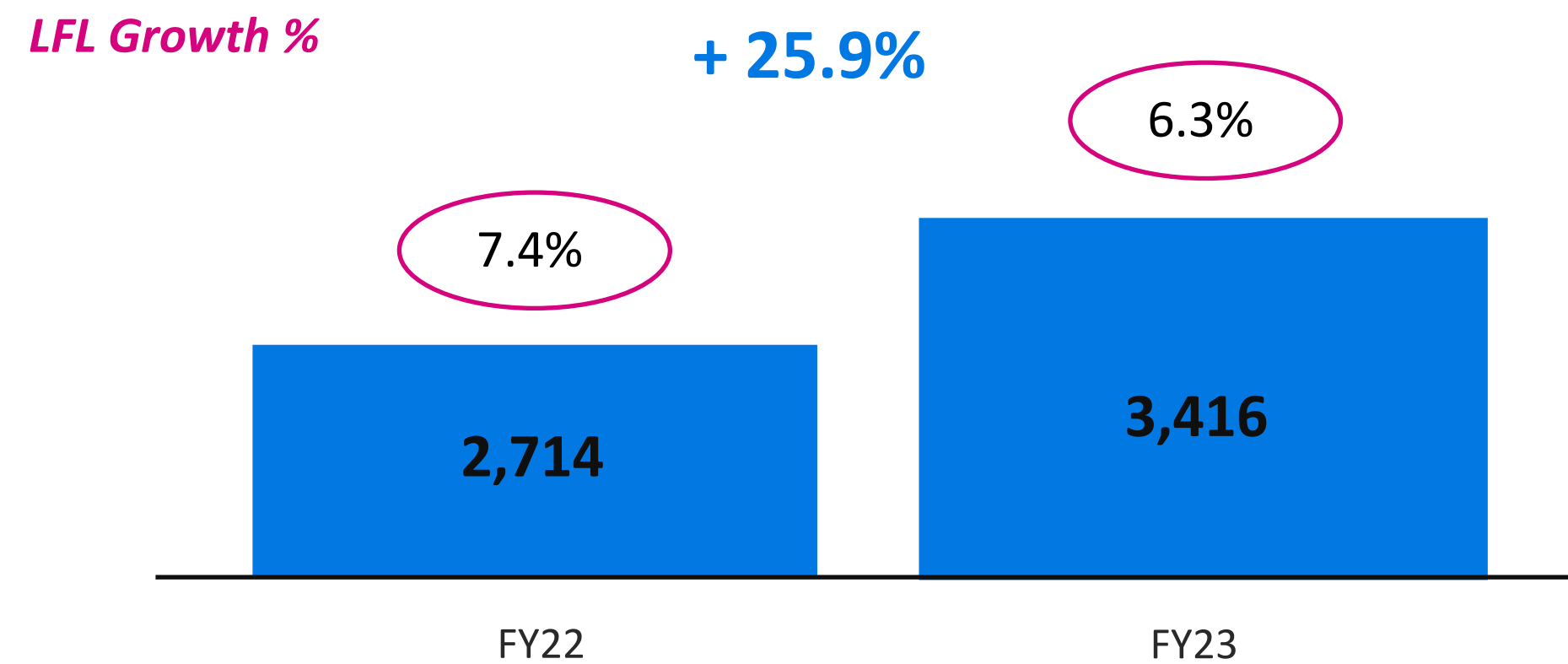
## Bosnia & Herzegovina

- Pepco 9

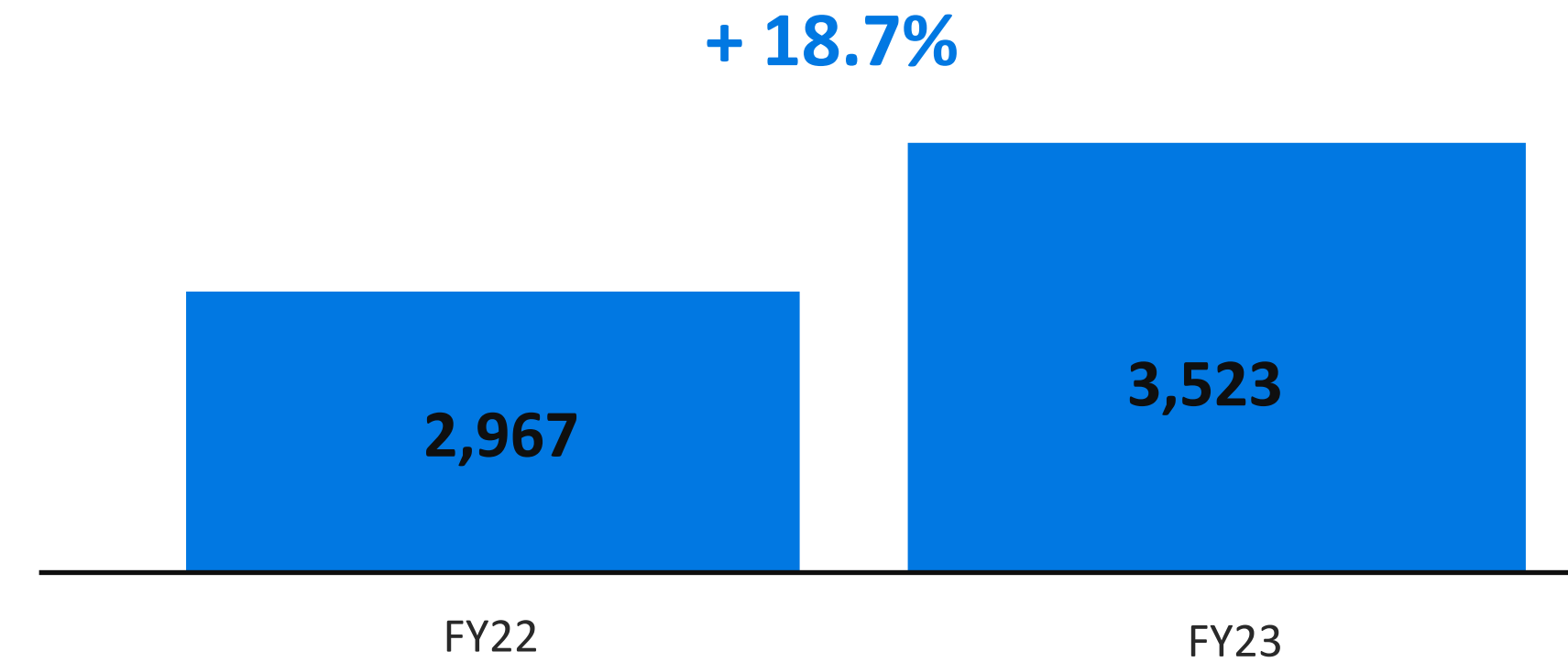


# Focus on Pepco

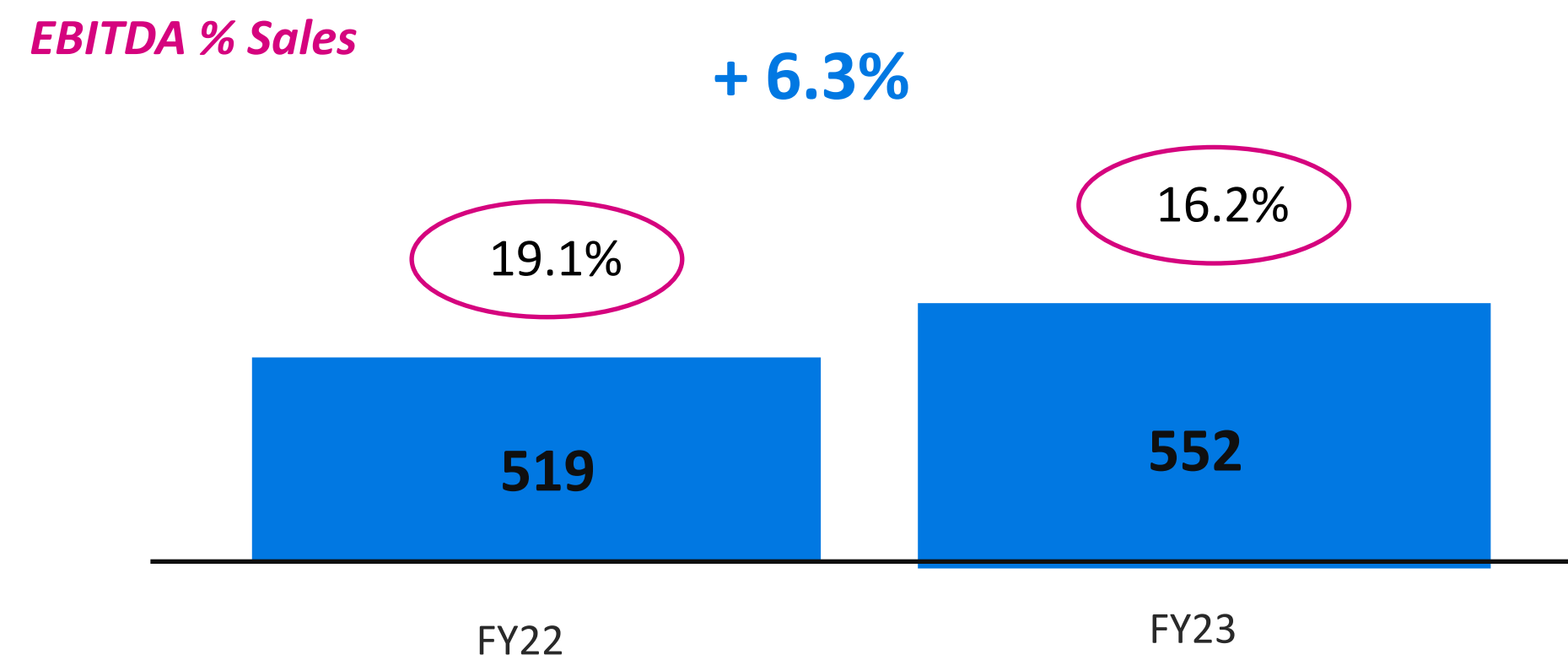
## Revenue & LFL



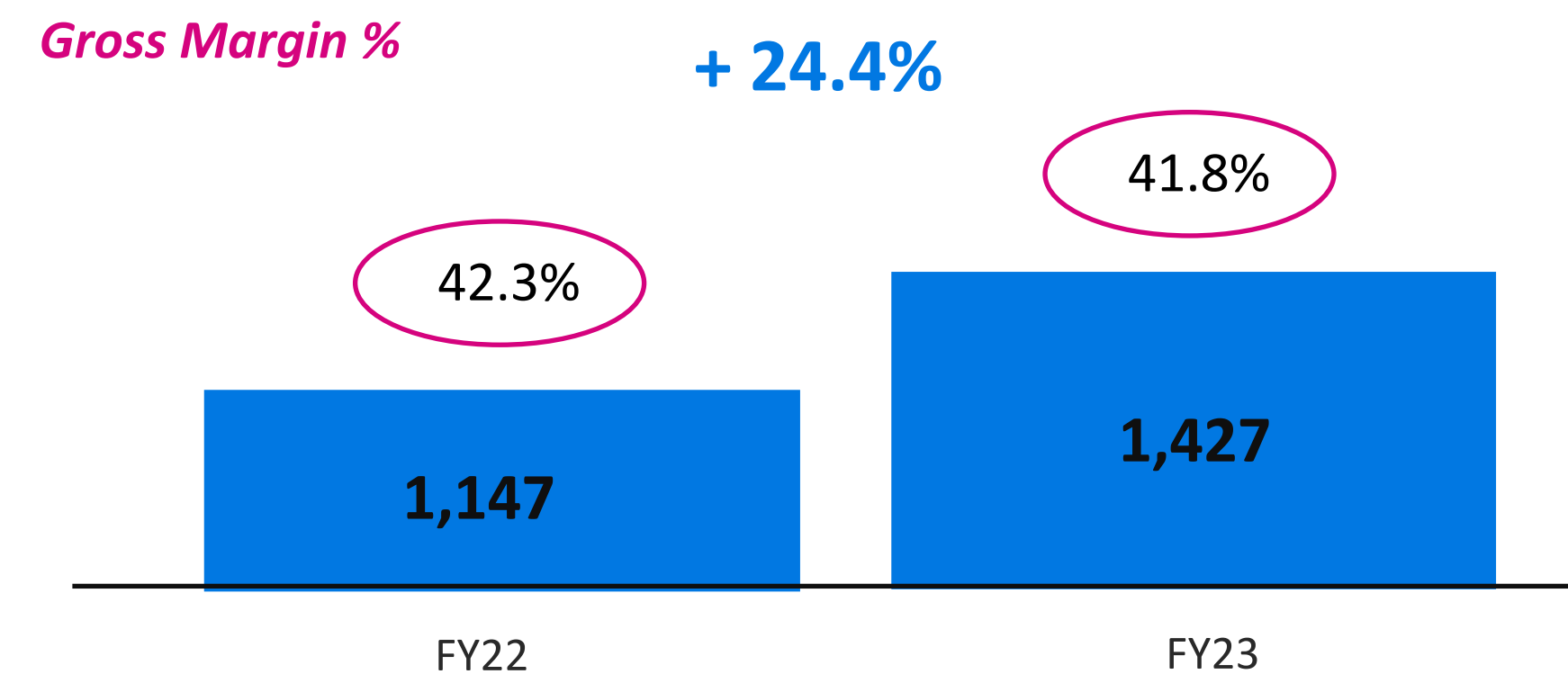
## Store Numbers



## EBITDA (IFRS 16)



## Gross Profit

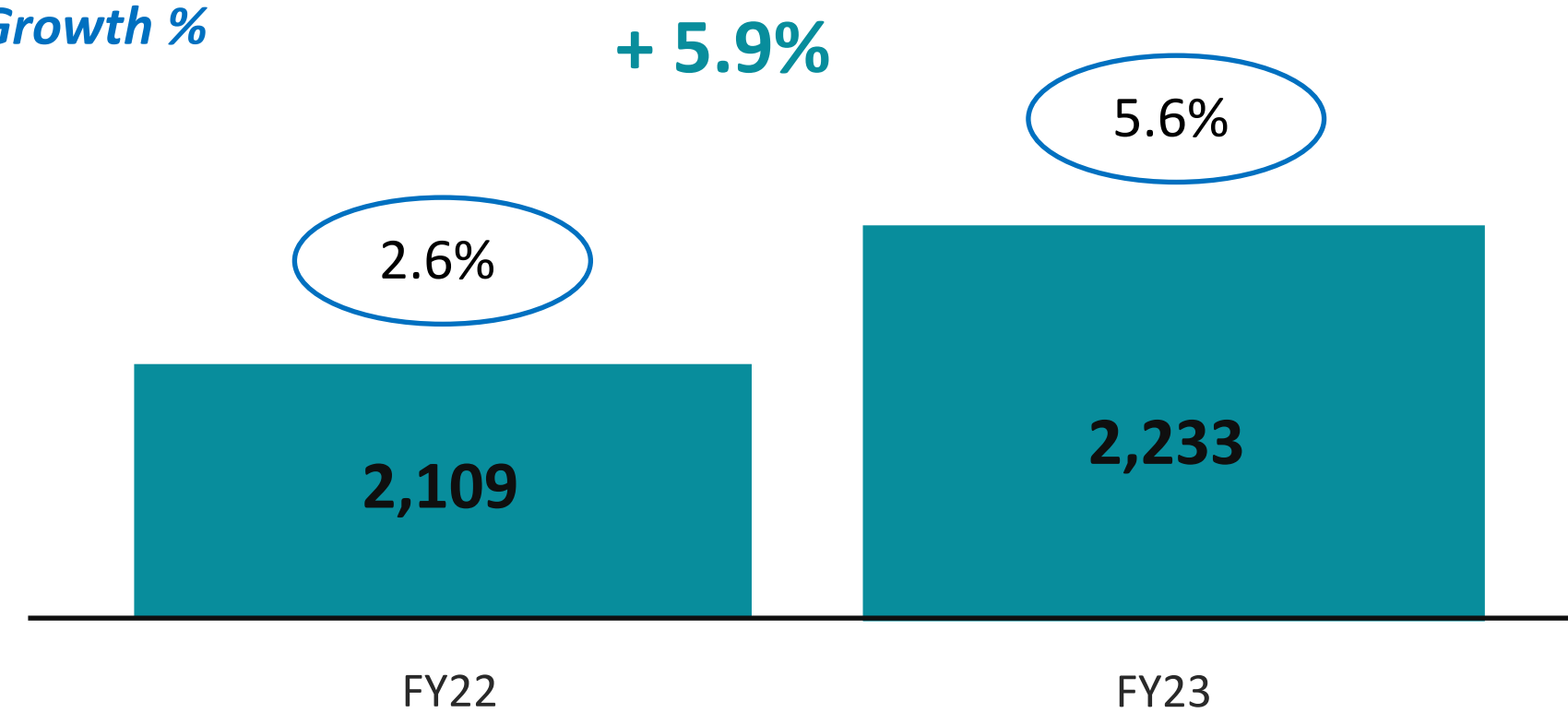




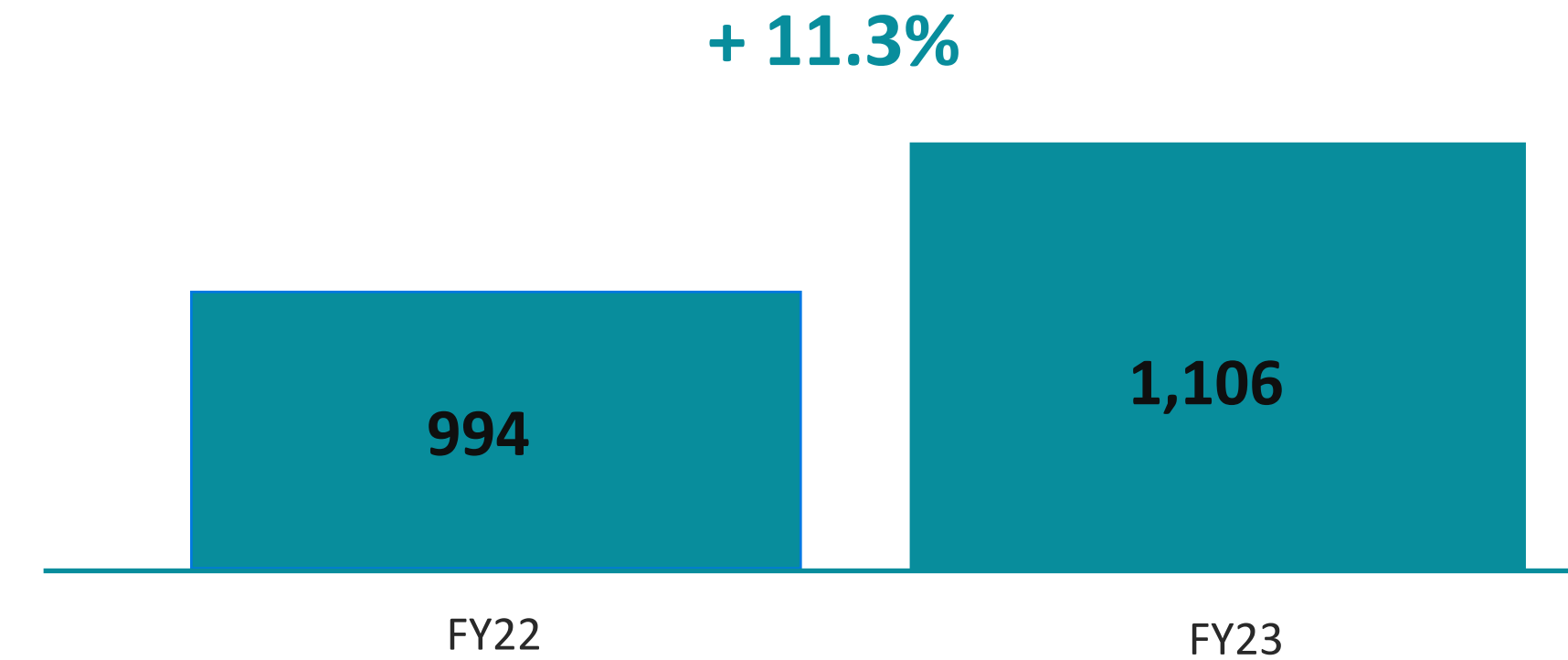
# Focus on Poundland Group

## Revenue & LFL

LFL Growth %

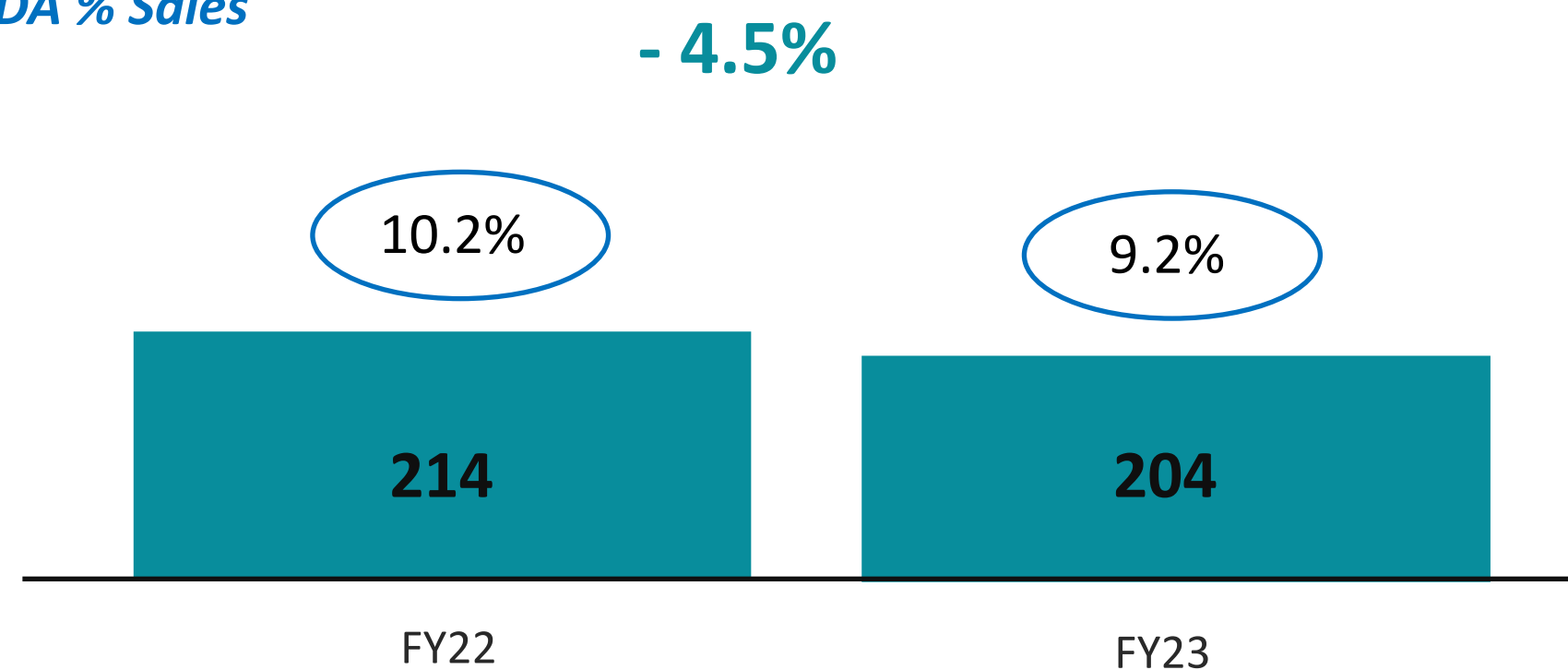


## Store Numbers



## EBITDA (IFRS 16)

EBITDA % Sales



## Gross Profit

Gross Margin %

