PEPCO Group

13th January 2022

Pepco Group – Q1 Trading Announcement

Store openings accelerate as trading remains resilient

The fast-growing pan-European variety discount retailer, Pepco Group, owner of the PEPCO and Dealz brands present across Europe and Poundland in the UK, today reports a trading update for the first financial quarter ending 31st December 2021[1].

Key Performance Headlines

Total Group revenue growth[2] of 12% year on year ("YoY") led by PEPCO at 20% and reflected the following drivers:

- Store expansion accelerated across all operating territories and brands:
    - Strongest ever quarter for store openings with 161 new stores opened.
    - PEPCO: 146 new store openings in Q1 (Q1-FY21: 87), including 55 in the strategically important Western European markets of Italy, Austria and Spain, which continue to trade ahead of expectations.
    - Dealz: 15 new stores in Q1 (Q1-FY21: 18), as the roll out programme accelerates, particularly in Poland.
- Resilient underlying constant currency like-for-like[3] ("LFL") sales growth in Q1 of +0.7%:
    - PEPCO: LFL in Q1 flat (FY22: 0.0%), impacted by continued supply disruption reducing availability and the widening of Covid restrictions limiting customers' ability to shop (See Trading Context & Performance below).
    - Poundland Group: LFL in Q1 +1.5%, reflects continued positive progress across all aspects of Poundland's offer development programme, including range improvements in general merchandise and clothing, further expansion of multi-price penetration to 41.5% and the introduction of our new chilled & frozen offer to a further 52 stores.
- Significant delivery on operating cost initiatives both reducing costs and delivering a more flexible, revenue linked cost base.
    - PEPCO markdown reduced by 0.8ppt's to a historic low of 0.4% to sales, reflecting the initial impact of new improved processes within the supply chain, supported by new enhanced tools.
    - Reduced markdown and flow of goods also served to reduce absolute store labour costs while preserving levels of customer service.
    - Poundland successfully renegotiated 30 store leases, reducing passing rent by an average of 22%.
- Closing net debt on an IFRS16 basis of €1,248m (FY21: €1,174m) reflects strong cash EBITDA and working capital efficiency offsetting increased lease liabilities from a record quarter of store expansion.
    - Closing net debt excluding leases of €115m (FY21: €187m) similarly reflects strong cash generation whilst continuing to invest significantly in strategic growth initiatives[4].

Trading Context & Performance

The first quarter saw the extension of trading restrictions across many of the territories we operate in. Whilst the overall number of stores compulsorily closed in the period was lower YoY, with c.1% (FY21: c.9%) of trading weeks[5] lost, a significantly greater number of stores were disrupted by Government restrictions which had a considerable impact on the level of footfall into PEPCO stores. These restrictions had a significant impact on the level of customer footfall as they included limits on customer numbers allowed in stores at one time which impacted over 50% of trading weeks and restricting entry to stores to vaccinated customers only which given the average Central Europe vaccination level of 54%, impacted 14% of trading weeks. Further, more minor, restrictions related to the selling of specified products and reduced opening hours were also in place.

	Q1		
	PEPCO (apparel-led multi-price)	Poundland Group (FMCG-led price-anchored)	Total Pepco Group
Total Revenue[6] / €m	729	623	1,352
Total Stores #	2,610	1,055	3,665
Total Growth			
- Revenue YoY; Constant Currency	20.0%	4.3%	12.4%
- Like-for-Like Revenue Growth	0.0%	1.5%	0.7%
- New Stores YTD	5.9%	1.4%	4.6%
- New Stores YTD #	146	15	161

Commenting on the results, Andy Bond, CEO Pepco Group, said:

"We continued to make good strategic progress in the first quarter, opening a record 161 new stores, most notably accelerating our PEPCO openings in Western Europe with 55 openings. We upgraded 362 PEPCO stores to introduce our latest ranges and layout and introduced a full chilled and frozen offer to a further 52 Poundland stores as part of Poundland's holistic programme to enhance their proposition.

"It is particularly pleasing that despite the supply chain and demand challenges presented by Covid, which impacted trading across the peak season, the strength of the consumer proposition of all three of our brands ensured that we delivered a resilient trading performance. We believe that the supply chain pressures that impacted our first quarter will now subside. However, given the broader inflationary pressures faced by our core consumer, we are committed to supporting them by preserving the majority of our existing price points and therefore strengthening our price leadership position.

"While Covid continues to present a potential downside risk to both consumer demand and product supply, at this point of the year and having navigated our most important trading quarter we remain committed to our existing full year profit guidance.

"I will leave at the end of March confident that we have a clear growth plan and strong capability to deliver our long term-term profit growth aspirations, both this year and well into the future, through the excellent management teams led by Trevor and Nick."

Explanatory Notes:

1. Group revenue is prepared on an unaudited basis for the three-month period ending 31st December 2021. Within this the 'PEPCO (Apparel-led multi-price)' segment operates on a calendar month ending on 31st December 2021, and the 'Poundland Group (FMCG-led price-anchored)' segment primarily operates on a trading week basis with the 13-week period ending on 26th December 2021.
2. Revenue growth is reported on a constant currency basis.
3. LFL revenue growth is defined as YoY revenue growth for stores open beyond their trading anniversary and is reported on a constant currency basis.
4. Net debt and the YoY reduction is an Alternative Performance Metric and is unaudited and quoted on an IAS17 (pre-IFRS16) basis unless otherwise stated.
5. Impacted trading weeks are defined as any full week where restrictions impacted the entire 7 day period.
6. Revenues are unaudited with foreign currency revenues translated at the average rate for the month in which they are made.

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