PEPCO Group

14th December 2021

Pepco Group – Preliminary Statement

Strong financial and strategic progress despite a challenging Covid-affected trading environment

The fast-growing pan-European variety discount retailer, Pepco Group, which owns the PEPCO and Dealz brands in Europe and Poundland in the UK, today reports preliminary financial results for the year ending 30th September 2021[1].

Financial Summary

Pepco Group		FY21
Revenue[2]	€m	4,122
Total Revenue Growth (reported currency)	%	17.2
Total Revenue Growth (constant currency)	%	19.3
Like-for-Like Growth[3]	%	6.5
Gross Profit Margin Growth	bps	220
Underlying EBITDA[4]	€m	647
Underlying EBITDA Growth (YoY)	%	46
Underlying PBT	€m	244
Underlying PBT Growth (YoY)	%	394
Total Number of Stores	#	3,504
Store Growth (Net New Stores) Versus Last Year	#	483
Store Growth (Net New Stores) Versus Last Year	%	16

Financial Highlights

- Full year Group revenue of €4,122m, +17.2% year on year ("YoY").
- Strong underlying constant currency full year like-for-like ("LFL")[3] sales growth of 6.5%, including:
  - PEPCO: 9.8% LFL growth; and
  - Poundland Group: 3.1% LFL growth.
- Gross profit margin increased by 220 bps (FY21 42.9% versus FY20 40.7%) representing a return to FY19 levels, driven through mark down improvements and product mix despite a backdrop of supply chain headwinds.
- Cost of doing business ("CODB") ratio reduction of 90 bps from 28.2% to 27.2% driven through PEPCO costs leverage, principally in distribution, and Poundland Group rental savings.
- Closing net debt[5] of €1,202m (€37m reduction YoY), delivering an EBITDA / net debt ratio of 1.9x (2.8x in FY20).
- Closing net financial debt[6] (excluding store lease liabilities) of €108m a €220m reduction YoY and an EBITDA / financial net debt ratio of 0.3x. These improvements reflect management action to reduce stock and optimise working capital across the year.
- Full year underlying EBITDA of €647m represents 46.2% growth on the Covid impacted prior year.

Strategic Progress

Accelerating Store Expansion

- Significant new store expansion continues across all our trading brands. Openings were in line with guidance with 483 net new stores opened in the year (424 excluding Fultons stores acquired and trading at the year-end), comprising:
  - PEPCO: 364 net new store openings, which represents a 17.3% increase versus last year, including 36 in the strategically important Western European market initially in Italy, Spain and Austria and the opening of our first stores in Serbia; and
  - Poundland Group: 119 net new stores (60 excluding Fultons) driven by Dealz expansion in Poland and Spain, which represents an increase of 12.9% YoY (6.5% excluding Fultons).

Driving LFL Sales

- Significant proposition progress in the year including further expansion of Poundland simple price points and range development across both Poundland and PEPCO.
- 954 store renewals completed, updating stores to our latest layout and environment, accelerating our customer proposition transformation and contributing to the 6.5% LFL sales growth, comprising:
  - 827 PEPCO refits; and
  - 127 Poundland refits.

Reducing Cost of Operations

- The Group continued to drive operating efficiencies and expand operating margins in the year including;
  - Continued reduction in the absolute levels of store rent where 212 leases were renegotiated in the period with an average reduction of 37%;
  - The closure of one of Poundland's four regional distribution centres; and
  - Warehouse and Distribution delivered a 130bps decrease in the cost of selling, general and administrative expense items as a percentage of sales at PEPCO.

Investing in Infrastructure

- The Group implemented the first Oracle ERP module, which is the beginning of numerous modules being delivered across the Group over the coming years.
- The scale and pace of the programme is under constant review to ensure that implementation risk, particularly in light of Covid, is appropriately managed.

Enhanced Governance and Financial Position

- The Group completed the refinancing of €550m term debt and €190m RCF as part of the IPO process, helping to formalise those banking relationships at the core of delivering our planned growth across Europe, whilst also reducing future debt service costs by over 500bps versus the existing debt structure.
- The Group successfully listed on the Warsaw Stock Exchange on 26th May 2021 and enhanced the governance structure through the appointment of an Independent Chairman and four additional Independent Non-Executive Directors.

Outlook

The outlook for the business remains favourable, given its market-leading positioning, pricing and proposition in the attractive and growing discount variety retail sector in Europe and the UK. We have a strong new store pipeline for FY22 and beyond, with a substantial number of store renewals which deliver enhanced customer experience and driver LFL. Alongside our store and proposition work we have a number of material and focused programmes to further drive down our cost of doing business. We continue to be confident on the opportunities ahead for the business and our ability to deliver on our long term growth ambitions.

Whilst the Group continues to face commodity inflation and increased shipping costs alongside supply chain disruption at the start of our new financial year, the Group has a clear strategy to mitigate these impacts.

To help further drive our ambitious growth plans, the Group intends to invest into its price proposition to maintain, or potentially grow, price advantage in FY22, a significant strategy given the price sensitive nature of our core customer. The Group will also reduce its operating cost base to further support the delivery of profitable growth well into the future.

Alongside supply chain pressures, we continue to monitor the emerging new wave of Covid cases across Europe. The level of cases has resulted in the re-introduction of Government mandated restrictions in some of our operating territories. The potential breadth, length and depth of the impact of these restrictions is uncertain both in terms of customer restrictions or store closures, as are any broader impacts from a further wave of Covid creating disruption across the supply chain. Based on our understanding of the current level of Covid impacts on revenue and costs we are confident in delivering full year profit growth in line with historic levels.

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

"We delivered another strong financial performance in the last year, while further strengthening our balance sheet. Despite a challenging backdrop, we made impressive progress against our strategic objectives to further cement our status as one of Europe's strongest and most attractive growth stories in physical retail.

"The Group's profitable store rollout programme continued at pace, with Pepco Group opening a record 483 net new stores for the year, including the first PEPCO stores in Austria, Serbia and Spain. The highly encouraging initial performance of these Western European PEPCO stores gives us increasing confidence that the whole of Europe is an addressable market for us, with our plans to open in Germany well on track for the first half of 2022. Through our new stores we remain on course to create at least 13,000 jobs over the next three years.

"In this current financial year, we intend to invest to maintain or grow our price advantage and support customers at a time when household budgets remain stretched. To mitigate wider inflationary pressures across our markets, we will also continue to execute on our plans to reduce operating costs.

"We continue to reap the rewards of our ongoing investment across both store openings and renewals. Alongside new space investment, our store refit and proposition renewal programme continues to drive like-for-like sales growth and increased store profitability. I would like to thank everyone across the Group for their fantastic efforts over the last year.

"While market conditions may remain challenging for some time to come, the Group is very well positioned to continue its strong track record of growth and we remain confident in the significant growth opportunities we have ahead of us."

Business Review

This report is presented for Pepco Group N.V., a public limited liability incorporated company in the Netherlands, for the year to 30th September 2021.

The Group has 3 core strategic imperatives, all of which evidenced significant progress in the year, as follows:

i. Significant store portfolio expansion for the PEPCO and Dealz brands;
ii. Above market average LFL sales growth driven by proposition development and store renewal programmes; and
iii. Substantial operating cost improvements across the Group driven through scale and efficiency programmes.

To enable us to meet these objectives, we have clear investment plans to develop high quality, scalable infrastructure, which we continue to be able to fund from the cash we generate from our operations.

Our business is led at the Group Level by Andy Bond and Nick Wharton as Group Chief Executive and Group Chief Financial Officer respectively alongside Trevor Masters, in the newly created role of Group Chief Operating Officer from 1st January. Each of our operating companies, PEPCO, Poundland, Dealz (Spain and Poland) and our Far East based sourcing operation PGS are individually led by managers experienced in retail operations and sourcing.

Accelerating Store Expansion

Despite the impact of significant operational challenges from Covid-related disruption, the Group delivered new stores in all 15 territories in which it operates. The rollout continues to be highly targeted and profitable, with stores continuing to payback exceptionally quickly as we continue to drive profit and working capital improvements.

The group opened 483 net new stores in the year (424 excluding Fultons stores acquired and trading at the year-end) representing a 16.0% increase (14.0% excluding Fultons). This was a record number of annual openings and included landmarks such as PEPCO’s 200th Hungarian store and our 100th Dealz store in Poland.

Recognising the significant future store capacity in all of the territories that it operates, PEPCO expanded its store portfolio in the full year by 364 stores (+17.3% YoY). This reflects the brand’s strategic intention to grow its operations across the whole of Europe, including its first Western European stores in Austria and Spain plus Serbia in Eastern Europe. Cumulative performance in the new territories has been ahead of internal targets, providing confidence in their continued strong performance once Covid headwinds are completely lifted as well as the strategic opportunity each country and more broadly Western Europe represents.

Following sustained improvements in performance, we continued the roll-out of the Dealz format across Poland and Spain with 65 stores opened in the year, a notable acceleration as the business creates momentum within both its store pipeline and customer proposition.

Driving LFL Sales

Across the group, we continue to develop our customer proposition through expanding our categories and enhancing ranges, which helped drive the delivery of another strong LFL in the year of +6.5%. On a trading store basis (those stores trading in the same weeks of both FY21 and FY20) the LFL of 8.6% further demonstrates the strength of the offer.

The refreshment of our category mix to ensure it remains relevant for our customer is a constant element of our business model. During the year this included the introduction of a chilled and frozen offer to 127 stores within the Poundland Group, meaning that this new footfall-driving offer is now present in 207 stores with an intention to extend this to an additional 450 stores over the next two years. Within PEPCO, a further 827 store refits were completed to our latest layout and the phased introduction of complimentary, pick-up FMCG products such as nappies and baby wipes continues with strong initial results.

In addition, PEPCO continued to upsize or relocate stores, numbering 60 in the full year and began the first steps in updating branding in stores to reflect the new design that will represent PEPCO in our next phase of growth.

Poundland Group’s full year LFL of +3.1%, provides a clear indication of the strengthened customer offer and, in particular, strong performances across recently extended categories of frozen, chilled, clothing and homewares. The store renewal is being delivered to accelerate the renewal of the overall proposition by leveraging the new price architecture to better meet customers’ needs and deliver a compelling and competitive multi-price offering. In the year we achieved a notable milestone in more than a third of sales being at prices other than £1.

Reducing Cost of Operations

We continued to deliver operating cost improvement across the individual operating companies. In the year, the stronger trading performance has driven natural improvements in cost efficiencies which, alongside the numerous efficiency programmes, has driven the CODB ratio to 90bps lower than the prior year. Each of the businesses in the Group have their own bespoke plans to deliver further cost efficiencies. At their core we have a number of critical levers:

- the reduction of rent costs as we re-negotiate leases;
- the reduction of our labour costs through store operating efficiency programmes; and
- ongoing supply chain efficiency delivering lower levels of mark down, labour cost reduction and stock optimisation.

Considerable savings on our rental costs have been delivered, notably in the Poundland business where the volume of renegotiations and strength of negotiating position is yielding significant benefits. Alongside new sites being at attractive lease costs, 212 leases have been renegotiated during the year, saving on average 37% vs the prior lease agreement. We anticipate that these savings will continue with over 200 store leases due to mature in the next two years, providing further opportunity for rental reduction.

Our numerous store efficiency improvements drove significant benefits in the year, including a reduction in colleague hours required to continue serving customers and operate our stores to the same high standards. In particular, PEPCO's end-to-end supply chain work significantly reduced duplicated handling of products in stores and our technology investments in Poundland enabled more efficient store management across our estate

Across the supply chain, primarily led by PEPCO, we implemented a programme which analysed and optimised stock in the business at each stage of the lifecycle which has delivered lower overall stock holding, whilst improving true customer availability and reducing the volume of stock handling both in store and in distribution centres ("DCs"). Alongside these programmes, distribution network optimisation has continued to deliver major benefits which included the closure of one of the four UK DC's and significantly lowered trunking in the PEPCO business – reducing miles travelled by 18% in the year.

Alongside P&L benefits, the end-to-end supply chain programme in the PEPCO business has also dramatically improved terms with suppliers of core products which combined with the inventory optimisation supported an overall improvement of €129m in working capital during the year.

Investing in Infrastructure

In order to support the pace of current expansion and our strategic growth ambitions, it is crucial to invest and build high quality, scalable infrastructure.

The Group currently has three core components to infrastructure – our IT systems, distribution network and store opening capacity.

Our strategic IT systems are centred on developing and rolling out Oracle as the Group's core ERP, with supporting investment across HR systems including labour demand planning and stock optimisation tools. Combined, these represent a material set of programmes that will both transform how the businesses operate and enable significant scale. In the year we delivered the first phase of the ERP programme with the finance module going live in the UK. We continue development on stock, the second UK phase, with delivery due in 2022 alongside planning and design for future phases across CEE.

Our distribution programme is centred on growing and enhancing our DC infrastructure alongside improving the efficiency and effectiveness of our delivery network through effective use of technology and better stock planning. This year was the first full year of operation in the Gyal 2 mega DC near Budapest – a 100,000 square metre site that incorporates the most up to date technology and equipment available to enable significant improvements in both fulfilment and cost to serve. The change to our approach to stock alongside improved route planning, led to significant reductions in miles travelled and consequently significantly reduced cost.

Our ongoing store opening programme is centred on how we identify suitable sites and develop a significant pipeline and subsequently deliver on those sites across our new store opening teams, store fit contractors and store equipment. This year we have restructured and expanded the resources internally and externally to support an acceleration of store openings.

We believe that the ability for colleagues to build rewarding careers, enhances both the service we provide to our customers and our employment brand. We continue to invest in the capability of our people both developing our existing colleagues while introducing new, high calibre recruits into the business to continue to support and drive our growth agenda. Reflecting our commitment to the development of our colleagues, 86% of our store managers across the Group are internally promoted and even against the challenging backdrop the past year saw over 2,000 internal promotions.

Mitigating headwinds

The Group has a very clear focus on identifying and mitigating risks to enable us to serve our customers, drive our profitable growth agenda and deliver our financial plans.

Towards the end of FY21, the return of consumer demand and business activity following the easing of Covid restrictions placed increased pressure on supply chains. For nearly all retailers, a reduction in raw material availability drove commodity inflation – further compounded by constrained container capacity which significantly increases shipping costs.

The Group acted quickly to alleviate these pressures taking decisive action across our operating model. For instance, our unique Far East direct sourcing operation, PGS, which has strong direct relations with suppliers and factories, allowed us to mitigate the impact of these headwinds.

We are confident that the Group is well-placed to weather the current global pressure, and are committed to maintain our attractive, discount customer proposition.

Financial Review

Trading Context

The financial year started with minimal Covid-19 disruption and with the vast majority of stores trading. However, subsequent waves of the pandemic have resulted in a variety of government driven restrictions in late Autumn 2020, continuing into May 2021.

Across FY21 PEPCO saw material levels of disruption, where 12% of trading weeks were lost, although stores remaining open saw some heightened levels of sales as customers changed behaviours. Poundland and Dealz, which are classed as 'essential retailers', were largely allowed to remain open throughout but were affected by lower footfall as consumer confidence was impacted by additional lockdowns, notably the UK-wide lockdown on the 6th January 2021.

As markets began to fully reopen from late May 2021, the Group's performance was extremely resilient, and the business benefitted from significant pent-up consumer demand. Furthermore, the pandemic has not distracted from management's key strategic focus of expanding the Group's store footprint which has continued at pace with the PEPCO brand now present in three Western European territories. Including Fultons, the Group opened 483 (+16.0%) net new stores and now operates from 3,504 stores in 17 territories overall.

		PEPCO (apparel-led multi-price)	Poundland Group (FMCG-led price-anchored)	Total Group
Revenue	€m	2,166	1,956	4,122
Total Revenue Growth (reported currency)	%	24.6	9.9	17.2
Total Revenue Growth (constant currency)	%	29.3	9.7	19.3
Like-for-Like Growth	%	9.8	3.1	6.5
Gross Profit Margin Growth	%	260bps	120bps	220bps
Underlying EBITDA	€m	457	195	647
Underlying EBITDA Growth	%	52.8	37.0	46.2
Total Number of Stores	#	2,464	1,040	3,504
Store Growth (Net New Stores) Versus Last Year	#	364	119	483
Store Growth (Net New Stores) Versus Last Year	%	17.3	12.9	16.0

Store Revenue and LFL Growth
Our total Group revenue in FY21 was €4,122m (FY20: €3,518m) and represents an increase of +17.2% (+19.3% constant currency). This is despite a challenging trading environment affected by Covid, in which approximately 9% (FY20: 6%) of trading weeks were lost due to store closures, PEPCO'S LFL growth was +9.8% for the full year, including the impacts of Covid-related store closures. This is driven by the strength of proposition, including our store and proposition refit programmes and higher levels of customer demand.

Poundland Group's full year LFL of +3.1%, provides a clear indication of the strengthened customer offer and, in particular, strong performances across recently extended categories in clothing and homewares and the introduction of a new frozen and chilled offer to 127 stores in the year. Alongside the renewal programme the proposition transformation continues to drive multi-price participation to 36.2% of sales (FY20: 25.9%).

Gross Profit Margin
Group gross profit margin of 42.9% represents a 220bps improvement YOY. This margin accretion is driven by a combination of ongoing sourcing benefits, a short-term Covid benefit from an enhanced general merchandise mix and lower levels of mark down relative to the more severely Covid impacted trading in 2020.

PEPCO's gross profit margin of 46.7% improved by 260bps through higher general merchandise sales reflecting the benefits of the store and proposition renewals and reduced markdowns. Process and systems enhancements in PEPCO have enabled a significantly more focused, targeted and tailored approach to the discounting of poor-performing ranges which, as an example, is now undertaken on a country-by-country basis rather than by applying the same discount to the product across all territories.

Poundland Group's gross profit margin of 37.7% in FY21 represented an increase of 120bps through a combination of continued buying benefits in addition to the margin mix benefit of general merchandise led sales growth and lower mark down rates through operational initiatives to improve inventory allocation in line with rates of sale.

Operating Costs
Underlying operating costs before depreciation and amortisation impact grew by 13.3% to €1,122m representing 27.2% of revenue (FY20: 28.2%). As referenced in the strategy section, the absolute increase primarily reflects the continued strategic investment in store openings across the PEPCO and Dealz businesses, with continuing cost efficiencies at Poundland. The improvement in cost productivity as a percentage of sales primarily reflects the operational leverage derived from positive like-for-like growth that was limited in FY20.

Within PEPCO, operating costs, excluding depreciation, amortisation and non-underlying costs, grew by 18.8% vs a store growth of 17.3% with cost increases primarily reflecting an investment in the infrastructure to deliver future growth.

In the Poundland Group, operating costs excluding depreciation and amortisation were 80bps lower versus the previous year with Poundland continuing to drive operating cost efficiencies in line with the Group's strategy while also benefiting from Covid driven governmental schemes such as business rates relief. There were increases in the cost bases of the Dealz businesses as we continued to expand through new store openings.

Underlying EBITDA
Underlying EBITDA of €647m (FY20: €442m) benefited from continued store expansion, gross profit margin upside through better sourcing and mix improvement, alongside tightly managed operating costs. Underlying profit before tax of €244m (FY20: €49m) represents a fivefold improvement.

Investment Activity
FY21 represented another year of continued expansion with YoY investment in property, plant and equipment and intangible assets increasing by €18m (FY21 €181m vs FY20 €163m). The key drivers are two-fold:

- Ongoing strategic programme to invest in new store openings, relocations, enlargements and refurbishments (€147m), illustrated by the net increase in stores of 483 across FY21, including entry into 3 new markets of Austria, Serbia and Spain.
- As a critical enabler to achieving efficiency savings, our ERP and system infrastructure programme (€34m) through which our existing central systems will be replaced with Oracle as the Group's core ERP application, continued at pace across the Group with the first Finance module going live in the Poundland business in July.

Whilst the delivery of our ERP programme continues unchanged, a pronouncement by the IFRS Interpretations Committee ("IFRIC") in April 2021 to clarify the interpretation of the accounting standard IAS38, has led to a significant change in the way that SaaS costs will be recognised going forward. Following this change in accounting standard, Pepco Group is in the process of conducting a detailed exercise to consider the impact on the existing SaaS costs to determine whether they should be capitalised, expensed or prepaid, dependent upon the clarified IAS38 criteria. Further details of this IFRIC interpretation are set out in note 1.28 of the financial statements in the Group's Annual Report, however, the Group expects a significant portion of the €64m previously capitalised costs (which are then depreciated over the life of the asset, typically c. 7 years) will need to be reclassified as expense or prepayment.

This is a significant departure from the previous interpretation and one which creates an exceptionally complex set of analysis, which requires significant input and involvement from the Group's implementation partners and some inherent contradiction within the interpretation. As such, and with the agreement of Mazars our auditor, we have deferred the implementation until such time that the Group's analysis is robustly complete and when there is further clarity and precedent with regards to the practical implementation of this change in accounting standard.

Acquisitions

On the 8th of October 2020 the Group (via Poundland Limited) completed the acquisition of 100% of the share capital of the Fultons frozen food business (Viewtone Trading Group Limited). Fultons operates a chain of discount frozen food stores across the north of England. The acquisition enabled access to capacity and capability to rapidly roll out the transformative frozen and extended chilled categories across the Poundland business.

In June 2021 PEPCO (through Pepco Poland sp. z.o.o.) entered into a framework agreement for the takeover of up to 29 commercial store lease agreements from CCC Austria Ges.m.b.H, an apparel and footwear retailer. PEPCO will utilise this agreement to expand its store portfolio in Austria.

Cash and Net Debt

The Group continues to be strongly cash generative with closing cash of €508m (FY20: €400m) and net debt of €1,202m (FY20: €1,239m) reflecting continued underlying business growth and actions developed with key suppliers across 2020 and 2021, alongside significant stock efficiency programmes to reduce the required stock levels and enhance the Group's working capital cycle. These actions allowed strategic capital investment in opening new stores and new infrastructure to continue throughout another Covid-impacted year.

During the year, the Group repaid all of its existing external and intergroup debt at a considerably lower interest rate. The group has deleveraged during the year, increasing headroom on financial covenants significantly.

Non-underlying items

The Group manages performance on an underlying basis after adjusting for non-underlying items; defined as material, one-off and unusual in nature. Non-underlying items in FY21 totaled €47.5m (FY20: €31.8m) and include fees associated with the IPO, the IPO related refinancing and VCP scheme.

True and Fair Statement

The Board of Directors 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.

Explanatory Notes:

1. The Group financials are prepared on an audited basis for the twelve-month period ending 30th September 2021. Within this the 'PEPCO (Apparel-led multi-price)' segment operates on a calendar month ending on 30th September 2021, and the 'Poundland Group (FMCG-led price-anchored)' segment primarily operates on a trading week basis ending on 26th September 2021.
2. Foreign currency revenues translated at the average rate for the month in which they are made.
3. 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.
4. Underlying EBITDA is quoted on an IFRS16 basis and does not include any costs relating to the IAS38 IFRIC pronouncement on cost classification of SAAS implementations.
5. Net debt and the year-on-year reduction is an Alternative Performance Metric and quoted on an IFRS16 basis.
6. Net financial debt and the year-on -year reduction is an Alternative Performance Metric and quoted excluding store lease liabilities to present clarity on the coverage to financial liabilities

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Financial statement extracts accompanying the preliminary results announcement

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CONSOLIDATED INCOME STATEMENT

for the year ended 30 September 2021

€000	Note	Year to 30 September 2021	Year to 30 September 2020
Continuing operations			
Revenue	5	4,121,801	3,517,879
Cost of sales		(2,352,908)	(2,084,755)
Gross profit		1,768,893	1,433,124
Distribution costs		(1,123,960)	(1,052,987)
Administrative expenses		(345,859)	(253,432)
Other operating income		4,480	5,363
Other expenses	6	(21,119)	(12,060)
Operating profit from continuing operations	7	282,435	120,008
Financial income	8	1,000	1,601
Financial expense	9	(87,098)	(105,957)
Gain on disposal of subsidiary		–	1,995
Profit before taxation from continuing operations for the period		196,337	17,647
Taxation		(41,367)	(17,245)
Profit from continuing operations for the period		154,970	402
Loss from discontinued operations		(173)	(939)
Profit/(loss) for the period (attributable to equity holders of the company)		154,797	(537)

	2021 Euro Cents	2020 Euro Cents
Basic earnings per share from continuing operations	27.0	0.1
Basic earnings per share	26.9	(0.1)
Diluted earnings per share from continuing operations	26.8	0.1
Diluted earnings per share	26.7	(0.1)

(Full disclosures to the financial statements will be available in the Annual Report)

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

for year ended 30 September 2021

	Year to 30 September 2021 €000	Year to 30 September 2020 €000
Profit/(loss) for the year	154,797	(537)
Other comprehensive income		
Items that are or may be reclassified subsequently to profit or loss:		
Foreign currency translation differences – foreign operations	34,828	(40,216)
Effective portion of changes in fair value of cash flow hedges	58,077	(7,488)
Net change in fair value of cash flow hedges reclassified to profit or loss	5,028	(6,865)
Deferred tax on items that are or may be reclassified subsequently to profit or loss	(10,797)	1,423
Other comprehensive income/(expense) for the period, net of income tax	87,136	(53,146)
Total comprehensive income/(expense) for the year	241,933	(53,683)

(Full disclosures to the financial statements will be available in the Annual Report)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 September 2021

	30 September 2021 €000	30 September 2020 €000
Non-current assets		
Property, plant and equipment	439,506	378,968
Right of Use Asset	957,343	806,854
Goodwill and other intangible assets	889,809	810,117
Trade and other receivables	3,043	3,200
Derivative financial instruments	1,589	1,488
Deferred tax asset	58,053	49,741
	2,349,343	2,050,368
Current assets		
Inventories	597,121	566,676
Tax receivable	3,572	3,043
Trade and other receivables	57,803	45,689
Derivative financial instruments	66,235	3,961
Cash and cash equivalents	507,702	400,167
	1,232,433	1,019,536
Total assets	3,581,776	3,069,904
Current liabilities		
Trade and other payables	744,190	610,564
Current tax liabilities	19,012	5,196
Lease liabilities	260,020	247,345
Borrowings	65,758	4,135
Derivative financial instruments	5,232	5,630
Provisions	19,692	9,854
	1,113,904	882,724
Non-current liabilities		
Other non-current liabilities	5,408	16,809
Lease liabilities	839,298	671,517
Borrowings	545,034	706,066
Derivative financial instruments	216	969
Provisions	70,265	38,168
	1,460,221	1,433,529
Total liabilities	2,574,125	2,316,253
Net assets	1,007,651	753,651
Equity attributable to equity holders of the parent		
Share capital	5,750	5,705
Share premium reserve	13	–
Cash flow hedge reserve	47,409	(4,899)
Merger reserve	(751)	(751)
Translation reserve	(14,803)	(49,631)
Share based payment reserve	23,809	11,800
Retained earnings	946,224	791,427
Total shareholders' equity	1,007,651	753,651

(Full disclosures to the financial statements will be available in the Annual Report)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 September 2021

	Share capital	Share premium	Cash flow hedge reserve[1]	Translation reserve[2]	Merger reserve[3]	Share-based payment reserve[4]	Retained earnings	Total equity
	€000	€000	€000	€000	€000	€000	€000	€000
Balance at 1 October 2020	5,705	–	(4,899)	(49,631)	(751)	11,800	791,427	753,651
Total comprehensive income for the year								
Profit for the year	–	–	–	–	–	–	154,797	154,797
Other comprehensive income for the year	–	–	52,308	34,828	–	–	–	87,136
Total comprehensive income for the year	–	–	52,308	34,828	–	–	154,797	241,933
Transactions with owners, recorded directly in equity								
Shares issued during the period	45	13	–	–	–	–	–	58
Equity settled share-based payments	–	–	–	–	–	12,009	–	12,009
Total contributions by and distributions to owners	45	13	–	–	–	12,009	–	12,067
Balance at 30 September 2021	5,750	13	47,409	(14,803)	(751)	23,809	946,224	1,007,651

1 The cash flow hedge reserve represents the cumulative effect of fair value gains and losses on cash flow hedges in the Group.
2 The translation reserve represents the cumulative foreign exchange differences on the translation of the net assets of the Group's foreign operations from their functional currency to the presentation currency of the parent.
3 The merger reserve represents the difference between the cost of the Company's investment in its subsidiaries acquired using the principles of merger accounting and the aggregate carrying value of assets and liabilities of the acquired.
4 The Group implemented a Value Creation Plan (VCP) for its Executive Directors.

for the year ended 30 September 2020

	Share capital	Share premium	Cash flow hedge reserve[1]	Translation reserve[2]	Merger reserve[3]	Share-based payment reserve[4]	Retained earnings[5]	Total equity
	€000	€000	€000	€000	€000	€000	€000	€000
Balance at 1 October 2019	5,705	–	8,031	(9,415)	(751)	–	792,524	796,094
Total comprehensive income for the year								
Loss for the year	–	–	–	–	–	–	(537)	(537)
Other comprehensive income for the year	–	–	(12,930)	(40,216)	–	–	–	(53,146)
Total comprehensive income for the year	–	–	(12,930)	(40,216)	–	–	(537)	(53,683)
Transactions with owners, recorded directly in equity								
Equity settled share-based payments	–	–	–	–	–	11,800	–	11,800
Distributions[5]	–	–	–	–	–	–	(560)	(560)
Total contributions by and distributions to owners	–	–	–	–	–	11,800	(560)	11,240
Balance at 30 September 2020	5,705	–	(4,899)	(49,631)	(751)	11,800	791,427	753,651

1 The cash flow hedge reserve represents the cumulative effect of fair value gains and losses on cash flow hedges in the Group.
2 The translation reserve represents the cumulative foreign exchange differences on the translation of the net assets of the Group's foreign operations from their functional currency to the presentation currency of the parent.
3 The merger reserve represents the difference between the cost of the Company's investment in its subsidiaries acquired using the principles of merger accounting and the aggregate carrying value of assets and liabilities of the acquired.
4 The Group implemented a Value Creation Plan (VCP) for its Executive Directors.
5 The Group acquired loans from a parent company at an amount greater than their fair value. The resulting loss has therefore been treated as a distribution.

(Full disclosures to the financial statements will be made available in the Annual Report)

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 September 2021

	Note	Year to 30 September 2021 €000	Year to 30 September 2020 €000
Cash flows from operating activities			
Profit/(loss) for the period:			
Continuing operations		154,970	402
Discontinued operations		(173)	(939)
Adjustments for:			
Depreciation, amortisation and impairment		103,385	90,561
Right of use asset amortisation		222,136	199,832
Financial income	8	(1,000)	(1,601)
Financial expense	9	87,098	105,996
Gain on sale of non-current assets		–	(1,995)
Loss/(profit) on sale of property, plant and equipment		204	(45)
Equity settled share-based payment expenses		15,426	13,300
Taxation		41,367	17,245
		623,413	422,756
(Increase)/decrease in trade and other receivables		(21,435)	19,570
Increase in inventories		(18,578)	(50,745)
Increase in trade and other payables		140,696	238,394
Increase/(decrease) in provisions and employee benefits		29,413	(11,907)
Settlement of derivatives		(1,513)	10,261
Cash generated by operations		751,996	628,329
Tax paid		(49,580)	(48,758)
Net cash from operating activities		702,416	579,571
Cash flows used in investing activities			
Proceeds from sale of property, plant and equipment		161	729
Interest received		3,153	1,367
Acquisition of a subsidiary net of cash acquired		(6,034)	–
Disposal of a subsidiary net of cash disposed		–	(3,510)
Additions to property, plant and equipment		(147,140)	(139,170)
Additions to other intangible assets		(33,753)	(24,774)
Net cash used in investing activities		(183,613)	(165,358)
Cash flows from financing activities			
Proceeds from the issue of share capital		58	–
Proceeds from bank loan net of fees incurred		606,897	53,000
Repayment of borrowings		(489,152)	(53,000)
Interest paid		(30,399)	(19,865)
Payment of interest on lease liabilities		(36,443)	(40,660)
Repayment of lease liabilities		(219,669)	(182,669)
Repayment of loan to group undertakings		(246,287)	–
Net cash from financing activities		(414,995)	(243,194)
Net increase in cash and cash equivalents		103,808	171,019
Cash and cash equivalents at beginning of period		400,167	246,974
Effect of exchange rate fluctuations on cash held		3,727	(17,826)
Cash and cash equivalents at end of period		507,702	400,167

(Full disclosures to the financial statements will be made available in the Annual Report)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Significant accounting policies

Pepco Group N.V (the "Company") is a public limited liability company incorporated in the Netherlands (registration number 81928491) and domiciled in the United Kingdom, the Company has a primary listing in on the Warsaw stock exchange. The registered address is Unit B, 120 Weston Street, London, England SE1 4GS.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The parent company financial statements present information about the Company as a separate entity and not about its Group.

The Group financial statements have been prepared in accordance with International Financial Reporting Standards, as adopted by the EU ("Adopted IFRSs"), and also comply with the statutory provisions of Part 9, Book 2 of the Dutch Civil Code.

The accounting policies adopted are consistent with those of the previous financial year as reported in the Pepco Group Limited Annual Report.

2. Going concern

In determining the appropriate basis of preparation of the 2021 Consolidated Financial Statements, the Board of Directors are required to consider whether the Group and the Company can continue in operational existence for the foreseeable future.

At the time of signing the financial statements, the Directors have a reasonable expectation that the Group has sufficient resources to continue in operation for the foreseeable future, which is not less than twelve months from signing these financial statements. The Group undergoes a rigorous and comprehensive annual budgeting and long-term planning process which is reviewed and challenged by various stakeholders across management and the Board. This financial plan, which is ultimately approved by the Board, is then utilised to measure business performance and it also forms the 'base case' upon which the going concern analysis has been based.

In assessing going concern, the Group has considered a 2-year period to the end of FY23, beyond the minimum requirement of twelve months form the date of signing the financial statements. The directors have considered a severe but plausible downside sensitivity and a reverse stress test. The analysis suggested that despite the harsh scenario assumptions, which the management judge to be very unlikely, the Group still retains sufficient headroom across the assessment period and is able to meet all the requirements of its lending covenants. It should also be noted the Group continued to meet its convent obligations and maintain significant liquidity headroom throughout the Covid-19 pandemic restrictions in 2020 and 2021.

Further information regarding the Group's business activities, together with the factors likely to affect its future development, performance and position including the ongoing store expansion strategy and the continued response to Covid-19, is set out in the CEO and CFO's reports. Whilst Covid-19 continues to cause disruption across some of the markets the Group operates in, we expect that the impact will be lessened given the significant operational learnings the Group has acquired over the last 18 months alongside consumer behaviour adaption and vaccine rollout. Our robust performance in FY21 and conservation of cash to support any disruption gives us confidence that we will be able to navigate any future Covid-19 driven challenges.

As part of the IPO process the Group also signed a new Senior Facilities Agreement in May 2021, the terms of these new borrowings comprising of (i) a 3-year €300m term loan facility; (ii) a 5-year €250m term loan facility; and (iii) a 5-year €190m multi-currency revolving credit facility, all of which are well beyond the going concern assessment period.

Given the above, the Directors have deemed the application of the going concern basis for the preparation of these consolidation financial statements to be appropriate.

(Full disclosures to the financial statements will be made available in the Annual Report)

3. Accounting estimates and judgements

The preparation of these financial statements requires the exercise of judgement, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities, income and expenses. Estimates and judgements are continually evaluated and are based on historical experience and various other factors, including expectations of the future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period impacted.

The Group makes estimates and assumptions concerning the future. By definition, the resulting accounting estimates will seldom equal the related actual results. The Directors continually evaluate the estimates, assumptions and judgements based on available information and experience.

Key sources of estimation uncertainty

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below.

Impairment of intangible assets (goodwill and right-of-use asset)

The Group assesses whether there are any indicators of impairment as at the reporting date for all intangible assets. Goodwill is tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value in use calculations are undertaken, the Directors must estimate the expected future cash flows from the cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. The key sources of estimation uncertainty are the future business performance over the forecast period (five years), projected long-term growth rates and the discount rates applied.

Life of brand asset

Subject to initial recognition, prior to 2019 intangible assets with an indefinite useful life were measured at cost less accumulated impairment charges. Management had assessed the brand to have an indefinite useful life assessing the factors outlined in IAS 38; however, following a review of industry trends and best practice and in light of the ongoing challenges in the retail sector (wage and business rates inflation, weak consumer spending growth and the shifts in shopping habits to large online retailers), management considers a finite useful life to be more appropriate on an ongoing basis. The useful life is considered to be 40 years which represents management's best estimate of the period over which the brand will be utilised based on the trading history of the business, future financial projections and ongoing investment in the business, along with the retail segment occupied by Poundland and the active proposition development happening within the business. The brand will be amortised on a straight-line basis.

Key judgements

The judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below.

Lease discount rate

Where a rate implicit to the lease is not available, the selection of a discount rate for a lease is based upon the marginal cost of borrowing to the business in relation to the funding for a similar asset.

Management calculates appropriate discount rates based upon the marginal cost of borrowing currently available to the business as adjusted for several factors including the term of the lease, the location and type of asset and how often payments are made.

Management considers that these are the key details in determining the appropriate marginal cost of borrowing for each of these assets.

Leases

Management exercises judgement in determining the lease term on its lease contracts. Within its lease contracts, particularly those in respect of its retail business, break options are included to provide operational and financial security should store performance be different to expectations. At inception of a lease, management will typically assess the lease term as being the full lease term as such break options are not typically considered reasonably certain to be exercised.

As stated in the accounting policies, the discount rate used to calculate the lease liability is based on the incremental borrowing rate. Incremental borrowing rates are determined quarterly and depend on the lease term, currency and start date of the lease. The incremental borrowing rate is determined based on a series of inputs including the risk-free rate based on government bond rates, country specific risk and entity specific risk.

(Full disclosures to the financial statements will be made available in the Annual Report)

4. Segmental analysis

Operating segments are defined as components of the Group about which separate financial information is available that is evaluated regularly by the chief operating decision-maker (CODM), or decision-making group, in deciding how to allocate resources and in assessing performance.

The Group has identified two significant revenue-generating operating segments, being “multi-price” and “price-anchored” businesses. The multi-price segment refers to the businesses trading under the PEPCO banner. The price-anchored segment refers to businesses trading under the Poundland and Dealz banners. A third “other” operating segment includes the Group’s sourcing operations, Group functions and other activities that do not meet the threshold requirements for individual reporting.

EBITDA is the primary profit metric reviewed by the CODM and has been presented by operating segment with a reconciliation to operating profit. EBITDA is defined as operating profit before depreciation, amortisation, impairment, profit/loss on disposal of tangible and intangible assets and other expenses.

Tax and interest are not reviewed by the CODM on an operating segment basis.

Segment assets and liabilities are measured in the same way as in the consolidated financial statements. These assets and liabilities are allocated based on the operations of the segment and the physical location of the asset. Investments in subsidiaries within the Group are included within the “other” segment and the consolidation adjustments and eliminations are presented within “eliminations”. Inter-segment trade balances and borrowings are included within the relevant segment and the consolidation adjustments and eliminations are presented within “eliminations”. Group external borrowings and other activities that do not meet the threshold requirements for individual reporting are included within the “other” segment.

All income statement disclosures are for the continuing business only. The total asset, total liability and capital expenditure disclosures are for the entire Group including discontinued operations.

	Year to 30 September 2021 €000	Year to 30 September 2020 €000
External revenue		
PEPCO (Apparel-led multi-price)	2,166,247	1,737,956
Poundland Group (FMCG-led price-anchored)	1,955,554	1,779,923
Group external revenue	4,121,801	3,517,879
Underlying EBITDA (see note 6)		
PEPCO (Apparel-led multi-price)	456,961	298,971
Poundland Group (FMCG-led price-anchored)	194,995	142,314
Other	(5,414)	1,038
Group Underlying EBITDA	646,542	442,323
Reported EBITDA		
PEPCO (Apparel-led multi-price)	455,420	298,971
Poundland Group (FMCG-led price-anchored)	187,508	135,304
Other	(13,649)	(11,651)
Group Reported EBITDA	629,279	422,624
Less reconciling items to operating profit*		
Amortisation of right of use asset	(222,136)	(199,832)
Depreciation of property, plant and equipment	(91,270)	(80,263)
Impairment of property, plant and equipment	(419)	(53)
Amortisation of other intangibles	(11,407)	(10,245)
Impairment of other intangibles	(289)	–
Loss on disposal of property, plant and equipment	(204)	(163)
Other expenses (note 6)	(21,119)	(12,060)
Group operating profit	282,435	120,008

(Full disclosures to the financial statements will be made available in the Annual Report)

4. Segmental analysis (continued)

	Year to 30 September 2021 €000	Year to 30 September 2020 €000
Depreciation and amortisation		
PEPCO (Apparel-led multi-price)	180,916	156,696
Poundland Group (FMCG-led price-anchored)	141,916	131,916
Other	1,981	1,728
Group depreciation and amortisation	324,813	290,340
Impairment of property, plant and equipment and intangible assets		
PEPCO (Apparel-led multi-price)	419	53
Group impairment of property, plant and equipment and intangible assets	419	53
Total assets		
PEPCO (Apparel-led multi-price)	3,059,440	2,574,490
Poundland Group (FMCG-led price-anchored)	1,474,222	1,319,994
Other	1,021,127	1,183,599
Eliminations	(1,973,013)	(2,008,179)
Group total assets	3,581,776	3,069,904
Total liabilities		
PEPCO (Apparel-led multi-price)	1,062,779	766,668
Poundland Group (FMCG-led price-anchored)	1,091,645	1,002,335
Other	593,731	720,568
Eliminations	(174,030)	(173,318)
Group total liabilities	2,574,125	2,316,253
Additions to non-current assets		
PEPCO (Apparel-led multi-price)	378,681	279,874
Poundland Group (FMCG-led price-anchored)	180,459	127,155
Other	1,729	1,923
Group additions to non-current assets	560,869	408,952

* Items presented in the reconciliation between operating profit and EBITDA include discontinued operations as is consistent with the presentation in the operating profit note 7.

5. Revenue

Revenue comprises the consideration paid for products by external customers at the point of sale in stores, net of value added tax and promotional sales discounts. The Group's disaggregated revenue recognised relates to the following geographical segments:

	Year to 30 September 2021 €000	Year to 30 September 2020 €000
United Kingdom	1,589,638	1,503,591
Poland	1,060,653	879,161
Rest of Europe	1,471,510	1,135,127
	4,121,801	3,517,879

(Full disclosures to the financial statements will be made available in the Annual Report

6. Non-underlying items

The Group believe underlying profit, an alternative profit measure, is a valuable way in which to present business performance as it provides the users of the accounts with a clear and more representative view of ongoing business performance. Non-underlying items, which are removed from the reported IFRS measures, are defined as one-off, unusual and material in nature.

Underlying performance measures should be considered in addition to IFRS measures and are not intended to be a substitute for them. The Group also uses underlying financial performance to improve the comparability of information between reporting periods and geographical units and to aid users in understanding the Group's performance. Consequently, the Group use underlying financial performance for performance analysis, planning, reporting and incentive-setting.

	Year to 30 September 2021 €000	Year to 30 September 2020 €000
Reported EBITDA from continuing operations	629,279	422,624
Group Value Creation Plan ('VCP')	15,426	13,300
Other non-underlying items	1,837	6,399
Underlying EBITDA from continuing operations	646,542	442,323
Reported Operating profit from continuing operations	282,435	120,008
IPO related expenses	21,119	12,060
Group Value Creation Plan ('VCP')	15,426	13,300
Other non-underlying items	1,837	6,399
Underlying operating profit from continuing operations	320,817	151,767
Reported Profit before taxation from continuing operations for the year	196,337	17,647
IPO related expenses	21,119	12,060
Group Value Creation Plan ('VCP')	15,426	13,300
Other non-underlying items	1,837	6,399
IPO related refinancing expenses	9,122	–
Underlying profit before tax from continuing operations	243,841	49,406

IPO related expenses: IPO related expenses relate to project costs associated with this listing of the Company on the Warsaw stock exchange (prior year costs related to a previous aborted transaction).

IFRS 2 charge: A Value Creation Plan ("VCP") was approved by the Board of Directors in March 2020 as a reward tool to incentivise the top management of the Pepco Group. The scheme is one-off, material and unusual in nature; the awards will be granted once under the VCP to the management team.

Other non-underlying items: During the year the Group undertook head office cost reduction and strategic change to rationalise the supply chain network. The €1.8m (2020: €6.4m) relates to costs associated with stock moves, short-term productivity under utilisations, third-party transitional storage and HR costs relating to redundancy and retention.

IPO related refinancing expenses: IPO related refinancing expenses relate to the cost of securing new financing and the write off of capitalised financing costs relating to the previous financing activity resulting from the necessity to refinance existing debt prior to the IPO.

(Full disclosures to the financial statements will be made available in the Annual Report)

7. Operating profit

	Year to 30 September 2021 €000	Year to 30 September 2020 €000
Operating profit for the period has been arrived at after charging:		
Expense relating to short-term, low-value and variable leases	21,351	45,532
Depreciation of tangible fixed assets and other items:		
Owned	91,270	80,263
Amortisation of right-of-use assets	222,136	199,832
Impairment of property, plant and equipment	419	53
Amortisation of other intangibles	11,407	10,245
Impairment of other intangible assets	289	–
Cost of inventories recognised as an expense	2,146,101	2,043,978
Write downs of inventories recognised as an expense	23,935	18,441
Auditors' remuneration		
Fees payable to the Company's auditors and their associates for the audit of the Company's annual accounts[1]	216	216
Fees payable to the Company's auditors and their associates for the audit of the Company's subsidiaries[1]	1,215	649
Fees payable to other auditors and their associates for the audit of the Company's subsidiaries	591	251
Fees payable to other auditors and their associates in the current year in relation to prior year audit	451	68
Total audit fees	2,473	1,184
Other services	160	165
Total assurance-related fees	160	165
Total auditors' remuneration	2,633	1,349

1 Audit fees are payable to Mazars Accountants N.V, the auditors of the company.

8. Financial income

	Year to 30 September 2021 €000	Year to 30 September 2020 €000
Bank interest receivable	668	946
Other interest receivable	332	655
	1,000	1,601

9. Financial expense

	Year to 30 September 2021 €000	Year to 30 September 2020 €000
Interest on bank loans and amortisation of capitalised finance costs	29,144	37,657
Interest on lease liabilities	36,443	40,660
On amounts owed to Group undertakings	11,570	18,251
Ineffective element of hedging	1,360	–
Unrealised foreign currency losses on borrowings	(541)	9,389
	77,976	105,957
Non-underlying financial expenses[1]	9,122	–
Total financial expense	87,098	105,957
Discontinued operations[2]	–	39

1 Non-underlying financial expenses relate to interest costs incurred on the early settlement of loans.
2 Finance expenses relating to discontinued operations.

(Full disclosures to the financial statements will be made available in the Annual Report)