

**Pepco Group**

**Interim Results 2026**

**Webcast + Conference Call  
Q&A**

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Transcript



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## **Stephan Borchert, Pepco Group CEO:**

Good morning everyone and welcome to our FY26 half year results presentation. I am pleased to announce a very strong set of results this morning as we have continued to make huge strides in line with our strategic plan. Joining me on the call this morning are Willem Eelman, Pepco Group CFO, who I am sure you are all very familiar with by now, and Hugo van Santen, our Pepco CFO. I'll first run you through some highlights, followed by a detailed look at the progress we have made in the first 6 months of this financial year against each of our strategic pillars, before handing over to Willem and Hugo for the financial review. I'll then provide a quick summary at the end, as well as an overview of current trading before we open up to your questions. With that, let's begin...

Turning to slide 3...There are many achievements worth highlighting from this half, but a clear milestone is the consistent LFL performance we have delivered in Pepco, now onto our 6<sup>th</sup> consecutive quarter of positive growth. To deliver this in the face of such an uncertain macro and geopolitical environment is a real testament to our strategy and the hard work of our team in the stores and HQs. This, in turn, has enabled strong financial delivery with revenue up 5% and EBITDA up 17.5%, driven by our strong gross margin expansion of 250bps and even stronger profit after tax performance of plus 52%. Our stores in Western Europe continued to outperform delivering double digit LFL growth excluding FMCG. In Iberia, our converted Pepco Plus stores have delivered strong LFL and Store EBITDA margin improvements which I will touch on in more detail later in the slides. This positive development after 12 months of hard work has for us now created an inflection point which provides us with the confidence to accelerate our rollout in Western Europe. We now expect to double our store count by FY30 which we are really excited about. The launch of our mobile app and 'Pepco club' loyalty programme in Poland was a big success with results tracking ahead of our initial expectations. And, we have made good progress in line with our 250 net new stores guidance, opening 62 net new stores in H1 – though it is worth remembering this figure is inhibited by our 28 store closures in Germany. As previously announced, we are opening Pepco stores in North Macedonia, our 19<sup>th</sup> market, for the first time in June this year. What's more, we have today announced a pilot entry of Pepco into Ukraine. This is a huge market with vast potential for Pepco so I look forward to talking to you more about this later. Lastly, we made quick progress with our planned €200m share buyback which we completed last week, 12-18 months ahead of schedule. Today, we announced an additional one-off pro-rata tender buyback of up to €400m which we intend to complete in H2, delivering further returns to shareholders. Turning now to the next slide....

I am sure you have all seen before our five strategic pillars which build the framework for our business progress. With the first pillar of our strategic framework nearly complete, we are focused on the remaining 4 pillars to drive the growth of our business. I, therefore, wanted to share with you a little more insight on how we, internally, think about and categorize the future growth potential of Pepco. The easiest way to distil it down is into 3 core regional growth engines; North CEE, South CEE and Western Europe, each of which has their own specific attributes and role to play in our future growth. I'll touch on the dynamics of each region on the next slide. These growth engines are supported by the work we have done, and continue to do, on our success levers regarding customer proposition and operating model that are allowing us to grow sustainably and profitably. Onto slide 5...

Here you can see a quick overview of our three regions which, given this is the first time we are talking about our geographic split in this way, I hope you will find helpful in contextualising the profile of each. For North CEE, this is clearly a region we are well established in - we have very high penetration in some of the key markets in this region, like Poland. You can think of North CEE as a steady profit centre,

delivering low single digit LFLs and roughly 65 net new stores this year. For South CEE, you can expect higher store growth but also profit growth, resulting in mid-single digit LFL growth and roughly 110 net new stores in FY26. And lastly, Western Europe, which now presents a sizeable growth opportunity for Pepco, particularly in light of the beneficial market conditions in the region. Here we expect to be able to deliver mid-high single digit LFL growth and c.75 net new stores this financial year which will predominantly be in Iberia and Italy. With that in mind, let me now turn back to our five strategic pillars and update you on our progress against each one, starting on slide 7

Pillar 1 of our Strategy is all about simplification and streamlining the Group portfolio. With Poundland sold and the FMCG exit in Pepco complete, the only remaining piece of this pillar is Dealz. Dealz experienced challenging trading in H1 of this year with LFL revenue growth down -8.3%. This weaker trading in part reflects a strong comparative quarter in the prior year, as well as the impact from the current transition period Dealz is in. We remain firmly focused on its separation and I am pleased to report we are in discussions with several interested parties at the moment. We remain confident to separate Dealz by the end of this financial year.

Onto slide 8...As we near the completion of the Dealz divestment, I wanted to take a moment to draw attention to the differing financial profiles of Pepco and Dealz and highlight the benefit the divestment will bring to the Group. As you can see Dealz is only a small portion of Group revenue, less than 7%, and has delivered consistently weak LFLs. In addition, as a result of its FMCG focus, it has naturally lower margins which have continued to deteriorate. This is in contrast to Pepco where we have been able to drive significant margin improvements over the past 2-3 years. So, although the Dealz exit will slightly impact our topline revenue figure, it will significantly improve our profitability, as well as enabling greater strategic focus with the full attention of the Group on Pepco. We will provide more detailed disclosure, similar to the pro forma disclosure we provided on Poundland in September last year, at the appropriate time but I hope, in the meantime, this helps contextualise the exit and provides more clarity on the upside opportunity for the Group.

Onto Pillar 2; topline growth through measured expansion in CEE over on slide 10 which I will cover in terms of North and South CEE aligned with my earlier comments about the growth regions within Pepco...

First, let us look at North CEE which covers Poland, Czechia, Hungary, Estonia, Lithuania, Latvia and Slovakia. Vs H1 FY24, North CEE has delivered c.7% revenue growth despite a period of strong LFL underperformance during FY24 and early FY25. In H1 FY26 North CEE delivered 2.5% LFL revenue growth excluding FMCG. The significant majority of North CEE revenue is driven by Poland which continued to perform well this half, with LFL growth of 2.9% excluding FMCG and revenue growth of 4.5%. Profitability in Poland also continues to improve with its store EBITDA margin up 110bps vs H1 25. Poland is now showing positive LFL performance for 4 consecutive quarters, we are very pleased with the outcome of our turnaround efforts. We will continue investing further into our Poland business, amongst others, in store renovations and relocations. Let's have a look at an example of this on the next slide...

In Poland we have a number of undersized stores with c.250sqm of sales space which are significantly below our Pepco average of 450-500 sqm. These stores also tend to be in locations with reduced footfall, poor transport links and mismatched co-located stores all of which impacts LFL performance. In H1 we completed 19 store relocations in Poland. By relocating the store to a larger site in a modern retail environment, as shown in the image on the right, we are now able to display the full strength of the Pepco customer value proposition. On average, our relocated stores in Poland are delivering a +9% sales uplift. We continue and accelerate our store renovation and relocation activities in Poland. Turning to slide 12...

Another driver of stronger engagement in our Poland and North CEE markets is our upgraded marketing campaigns. This year, for the first time, we started running marketing campaigns featuring influential celebrities. Our first campaign was with Malgorzata Socha, who many of our Polish analysts and investors may be familiar with. She is a popular Polish actress and model with a strong social media following. We have revamped significant parts of our ladieswear range, and through this campaign are seeking to strengthen the reputation of Pepco as a go-to destination for desirable womenswear at market leading prices. The campaign initially ran in Poland and then went live in stores across all CEE markets. We have seen great results with a sell through rate of 73%. On the back of these strong results, we have just recently launched our second campaign and will continue to run these celebrity led campaigns through the year.

Next, on slide 13, we have South CEE which, as a reminder, is Romania, Serbia, Bulgaria, Croatia, Bosnia & Herzegovina, North Macedonia and Slovenia. South CEE has delivered strong revenue growth of 25% from H1 FY24 to H1 FY26, as well as strong LFL performance of +4.3% excluding FMCG this half. As with North CEE, one country, in this case Romania, delivers the bulk of South CEE revenue. However, this is diluting over time with the growth of other regions and the addition of new geographies, like North Macedonia where we will open our first Pepco stores in June this year.

As I mentioned at the start of this presentation, we are very excited to announce our plans to enter Ukraine this year. Ukraine presents a great market opportunity for Pepco with many complementary attributes that will support our success in the region. Firstly, we already have excellent brand strength in Ukraine as a result of the 4m+ Ukrainian people who took refuge in Poland, as well as the customers from Ukraine who regularly shop in Poland. There is also relatively limited competition for Pepco in the region. Our market assessments have created good first conviction that our value proposition will resonate very well with Ukrainian customers. The teams have been working hard to get us ready, and we plan to go live with an initial up to 10 store trial this year. These stores will be largely located in cities closer to the Polish border like Lviv & Kyiv. It is, of course, too early to say but given the size of the Ukrainian market and the potential for the Pepco offering, it may open up a huge opportunity for our business. Given its scale, Ukraine has the potential to be a 4th growth engine alongside North CEE, South CEE and Western Europe over time. We will, of course, carefully evaluate our performance in light of continued conflict, as well as ensure we prioritise the safety and wellbeing of our colleagues at all times.

Now onto Western Europe on slide 16 where we have delivered very strong progress...

In H1 we delivered LFL revenue growth of +13.5% excluding FMCG in Western Europe, with clothing and GM both performing strongly. This LFL growth has been supported by the success of our converted Pepco Plus stores which are performing extremely well. I will touch on this more shortly. Our H1 reported net store opening number is impacted by the closure of 28 of our 64 stores in Germany, as previously guided. It is important to remark that the remaining 36 stores in Germany are performing very well delivering double digit LFL growth. This development makes us cautiously but increasingly confident that our concept resonates well with the German consumer and that there may be strong opportunity for further growth of Pepco in this market.

Given we have successfully achieved our Proof of Concept in Iberia and Italy, we have today announced that we will be accelerating our store openings in Western Europe from FY27 onwards by at least 600 new stores over a period of four years. This will enable us to double our current store count in the region by FY30 – but more on that later....turning now to slide 17...

When we presented the FY25 results, we provided you with detailed information on our converted Pepco Plus stores, their performance and the improvement we expected in the future, so I wanted to provide you with a further update on these stores today. As a quick reminder, we converted 117 Pepco Plus stores to regular Pepco stores to facilitate Pepco's exit of FMCG largely completed between March and August 2025. We now have LFL data on how the earliest converted stores are performing after lapping their one year conversion date. We have 5 stores that were converted earlier, in January 2025, which gives us 11 or so clean weeks of LFL trading before the end of H1. We are strongly encouraged by the fact that these wave 1 stores delivered LFL performance of +12.2%, ahead of our regular stores which delivered LFL growth of +10.7%. What's more, since the half year end, we have lapped the conversion date of many more stores. LFL data for the first 38 stores that have now lapped their conversion date was +17.8% to the beginning of May. The improved performance gives us confidence in our FY revenue growth guidance which was of course impacted more severely in H1 due to the lingering FMCG impact. This effect unwinds during H2.

Equally encouraging is the improvement in Store EBITDA margin for these converted stores which you can see here on slide 18. At the end of FY25, the store EBITDA margin for the 117 converted stores was 7.4%, a drag on Western European performance, but with a full half of zero FMCG impact, this has now improved to 19.7%, in line with our regular stores in Iberia and well ahead of our prior target of 14.4%. What's more, the strategic initiatives we have run in the region combined with a strong focus on cost reduction has seen the store EBITDA margin in our regular stores increase by 12.7ppts vs FY24.

Now onto slide 19 – again these are charts you may remember from our Full Year 25 results presentation...Here you can see that all our converted stores are now profitable and delivering a material improvement vs FY25 and FY24. And on the right-hand side you can see that store EBITDA in both Iberia and Italy continues to trend closer towards group levels.

Onto our new store performance which you can see here on slide 20. We opened 22 new stores in Iberia and Italy in the first half of this year and, as well as the strong performance from these openings, I really want to draw your attention to the improvement vs the stores opened in FY25 across all metrics. This is a testament to our ongoing work across the business to improve our customer proposition, strategy and operating model.

Onto slide 21...The closure of 28 of our stores in Germany has significantly improved our performance in the region. The remaining 36 stores are delivering double digit LFL growth and the store EBITDA margin in Germany is up 510bps vs H1 25. We continue to believe there is a sizeable opportunity in Germany with the potential for over 2,000 Pepco stores. Given the performance of our current stores, we have decided to trial several more new stores in H2 of this year. Remember, the stores we previously closed were poorly chosen locations that had been selected in a rushed rollout under prior management. It was no reflection of the true potential of our concept in this market. We will be disciplined in our approach to new locations and, as with Iberia and Italy, we have set ourselves internal targets for a Proof of Concept. Upon successful achievement of these targets, we will review our next steps.

Lastly, on slide 22, I am excited to share with you the more concrete outline of our expansion plans for Western Europe. I have been convinced of the opportunity for Pepco in Western Europe since very early into my role as Pepco Group CEO. However, aware of historic missteps and the improvement work needed across the business we decided to take some time and a structured approach to fully prove the economics in Western Europe were viable before accelerating our expansion to take advantage of the significant

growth opportunity the region represents. There is an, at least, 1000 store whitespace opportunity in Iberia and Italy alone without considering other European geographies. Having been through the last few slides, I hope you will agree with me that the economics here are proven and, as a result, Pepco now has the justification to move forward with an accelerated store expansion in the region. We now plan to double our store count in Western Europe by FY30 from 586 stores today by adding at least 600 new stores during this period. These stores will be focused on locations in Spain, Portugal and Italy but also in some of our other existing Western Europe markets depending on opportunity. Please note that this accelerated expansion is planned to commence from FY27 and will not have an impact on our FY26 guidance. Any possible impact on our mid-term guidance will be updated at our Full Year 26 result announcement.

Turning now to Pillar 4 and progress on both our customer proposition and our digital ambitions over on slide 24....

I wanted to start with a quick reminder of the Pepco customer proposition, as I think there are several aspects that are often easily overlooked. A key attribute of the Pepco proposition is our close proximity store estate making it easy and convenient for customers to shop with us. We remain focused on maintaining market leading prices, which I will cover more shortly, and hold number 1 price positions in all our core markets. However, a common misconception is that leading prices means reduced quality and this is not the case with Pepco. We are focused on providing strong value to customers with our in-house designs and curated product sets. This half, we have taken additional efforts to improve our product lines, particularly in baby & kids wear and improve product freshness to drive newness in stores. This has been particularly effective in categories like toys where we are seeing strong traction as a result of increasing the refresh rate of the category. Lastly, supporting all of these areas, is our effort on digital, which is enabling a very different level of customer understanding, as well as targeted and personalized engagement with them, leading to increased footfall and sales growth in store. Turning to slide 25...

The team recently completed a price analysis of roughly 2,500 products comparing similar items that are *crucially* of comparable quality across our relevant competitors. This piece of work has clearly confirmed that Pepco is a price leader across all our markets. Pepco has been indexed to 100 for comparative purposes and the two indexes are averages of peer prices. Our market leading prices are a key part of our customer value proposition, and we remain highly focused on maintaining this position across all of our markets. Turning to slide 26...

As well as price, we are equally focused on product quality. As a clearly differentiating element versus many of our competitors, our customers expect great value items from Pepco meaning – best quality at lowest prices. Our internal Quality & Garment Technology Team recently conducted GSM analysis – where GSM stands for grams per square meter – and is the most impartial method of measuring the quality of clothing items. I'm pleased to say that against two of our local Polish peers, Pepco's results showed a 10% higher quality level in both kids and baby wear. In Adultwear, our quality levels are more comparable to peers but we are working to also improve this. The focus on good quality paired with unbeatable prices is key to driving further brand trust, customer loyalty and ultimately revenue.

Turning now to our mobile app on slide 27...We were very excited to launch our mobile loyalty app in February this year. In the first 6 weeks since launch, we attracted 1.1 million app downloads and 530k Pepco Club customers. What is really great to see is that Pepco Club customers are spending, on average, twice as much with us as non-club customers. By using different types of offers and promotion mechanisms in the app we are able to drive engagement as well as incremental store visits and purchases.

Since the end of the half, the level of app downloads has continued strongly and as of the 15<sup>th</sup> May we reached almost 2m downloads and just over 1m club customers –encouragingly, conversion from registration to club customer is improving over time. Onto slide 28...

In H1, we began using AI to assist in our marketing efforts – in particular with the production of our photography assets. As a result, this enabled us to produce 9x more photos than we produced in H1 last year which is especially valuable having launched our new Pepco Customer Website and new mobile app which house many more of our products than we have ever shown online before. We began initially with single product shots and are now confidently using AI to generate complex images featuring multiple Pepco products, as well as AI generated models wearing our clothing – many of which are used throughout this slide deck as well as on this slide. This, combined with broader changes to our product photography production, has enabled us to already realize an €1m saving in our photography costs in H1 FY26.

Lastly, turning now to pillar 5 and the progress we have made on upgrading our operating platform. First with some highlights on slide 30...

Just after the half year end we announced the completion of our DC partnership with DHL. We had previously moved the management of 4 out of 5 of our DCs over to DHL and, in April, we moved over our Bucharest DC. DHL are an expert in this field, and their management will enable our DCs to run more effectively and efficiently. We are not currently accounting for any financial benefit, but we do expect there will be some recognizable cost savings delivered over time. As we continue to grow our store base in Iberia and expand the utilisation of our Spanish DC, we are achieving further cost savings. In H1, distribution costs in Iberia were down 240 bps. The DC is also supporting LFLs in the region with improved (faster and more accurate) access to stock. Across Pepco we have continued to optimise our processes and implement technology upgrades, particularly in our supply chain which is allowing us to keep better track of our stock and manage volumes more effectively. Lastly, our data lake is now up and running, which empowers an integrated CRM. Overall, our operating platform is in a much stronger position which is further illustrated over on slide 31....

The improvements we are making to our operating platform not only put us in a stronger position for growth, but they also build greater resilience into our business model and supply chain. PGS is now fully integrated with Pepco and having our own direct sourcing arm is a key strategic advantage for our business. We source 92% of our own label products through PGS, enabling us to avoid expensive third-party agents and be in full control of our high product quality levels. The quality of our supplier relationships, coupled with long term shipping contracts and our integrated supply chain puts us in a strong position which has been well demonstrated through the recent supply chain disruption caused by the Iran War. I am very pleased to say that thanks to earlier steps we had taken to modify our shipping routes and negotiate competitive rates with a diversified supplier base, we were largely unaffected by the crisis. 95% of our goods thankfully are already travelling round the Cape of Good Hope. Other than a small impact from increased fuel prices, we remained in a very robust position throughout with almost zero delays. Lastly, we have taken significant steps to improve stock freshness and reduce our aged inventory as you can see in the charts on the right hand side of this slide. Aged inventory is down 15 percentage points vs FY24 and both freshness and inventory are on track to be at our best levels since FY22 by year end. I hope this has given you a good overview of the strategic progress we made in the first half of this year. I will now hand over to Willem and Hugo for the financial review before coming back at the end to provide an update on our current trading and outlook before we take your questions. Willem – over to you....

**Willem Eelman, Pepco Group CFO:**

Thank you Stephan and good morning everyone, I'm looking forward to talking you through the strong set of results we've delivered in the first half of FY26. As Stephan mentioned, joining us on the call today is Hugo van Santen who is CFO of Pepco. I'll begin by covering a few quick highlights and then hand over to Hugo who will take you through some specifics on Pepco's performance. I'll then cover the remainder of our first-half financials, as well as details on our refinancing, capital allocation framework, and FY26 guidance before handing back to Stephan. So turning now to slide 33...

I won't go through each of these in turn but there are a few highlights I would like to call out; We delivered 250bps of gross margin improvement vs H125 which was driven by very strong performance in Pepco, offset slightly by a weakening margin in Dealz. Hugo will provide more details on this later with a focus on New Pepco, the relevant entity going forward. This gross margin improvement translated into underlying EBITDA growth of 17.5% to €516m. We delivered even stronger EBIT growth of 53% which reflects our topline growth and gross margin expansion, combined with a change to our depreciation policy to better reflect our actual store lease lengths which had a beneficial impact. Again, later I will go into more detail on this change. Our profit after tax growth was equally strong at 52%, taking us to €198m. We finished the half with unlevered FCF of 181m, which was up over 250% on H1FY25 driven by strong operating cash conversion of 78% combined with a significant improvement in working capital. Lastly, underlying EPS growth was up 56.6% at the end of H1, obviously reflecting the strong PAT performance but also reflecting the impact on share count from the share buyback programme which was ongoing during the half. At the end of H1 FY26 we were still executing the final tranche of the €200m share buyback program, but this was completed last week. Turning now to slide 34...

Here you can see a breakdown of our LFLs by banner and by Pepco region. We are showing these today in line with Stephan's earlier explanation of how we think about the growth profile of the business, so you'll see North and South CEE rather than Poland and Rest of CEE but the details on Polish LFLs are available in our release published earlier this morning. We delivered Group LFL revenue growth, excluding FMCG, of 3.6% which was driven by the strong 4.6% growth in Pepco LFLs, offset by -8.3% LFL growth in Dealz which experienced a challenging trading period while also annualising a tough comparative period. We achieved strong LFL growth in both North and South CEE of 2.4% and 4.3% respectively and even stronger LFL growth in Western Europe of 13.5%. These LFLs are a testament to the strategic initiatives we are running across the business to ensure we offer quality products across our categories that customers love at great value prices that encourage them to visit our stores again and again. I will now hand over to Hugo who has been in charge of Pepco since 2025 and who will take you through Pepco's performance in a little more detail. Let me remind you that he will focus on Pepco excluding Dealz unless it is called out specifically as 'Group', which includes Dealz. Hugo, over to you...

**Hugo van Santen, Pepco CFO:**

Thank you Willem and good morning everyone. By way of quick introduction, I am Hugo van Santen, CFO of Pepco. I joined Pepco almost 18 months ago and it has been a very exciting period to join the business. I have been really impressed with the strategic delivery the team has achieved in such a short time. And that progress really shows through in today's results, so let me now turn to slide 36 for more detail on Pepco's revenue growth...

Pepco generated revenue growth of 6% in H1 FY26 driven by solid volume growth of 3.7% and the continued rollout of our new store opening programme. We opened 113 new stores in the half, however, as mentioned earlier in the presentation, we closed 28 stores in Germany to optimise our portfolio in the region which resulted in a higher level of closures and 62 net new stores overall. Of the 62 net new stores, approximately half were in ES, IT, PT and Greece. Overall this is in line with our plan for the year and we remain on track for 250 net new stores by the end of FY26. We remain focused on maintaining our market leading pricing, so I just want to flag here that the 1% increase in Average Unit Price you see is predominantly driven by sales mixing into higher value products. For instance, within Home and Everyday Home, higher value products like Candles and Bedding (each in double digit growth) were drivers of the AUP increase. Lastly, I want to highlight that revenue growth in H1 was impacted by our FMCG exit which created a growth headwind in H1 of over 3%. However, this will ease into the second half of the year standing at a 1.2% headwind in Q3 and only a 0.1% headwind in Q4 as we cycle the period where we exited FMCG last year. Turning now to slide 37

Here, you can see a quick segmental breakdown of Pepco revenue which has remained relatively stable half on half; By geography, Pepco revenue is split 54% in North CEE, of which 32% is Poland, 29% South CEE and 17% Western Europe. We delivered strong reported revenue growth across each region; up 5.1% in North CEE, 7.6% in South CEE and 5.9% in Western Europe. The Revenue growth in Western Europe is driven by +11.8% LFL growth contribution, -12.4% from the exit of FMCG, and +6.5% from net new stores. When it comes to the LFL growth in Iberia, 133 stores were not converted from Pepco plus and are therefore not impacted by the impact of an FMCG exit. The LFL growth in those stores was 10.7% in H1. LFL Sales growth for Poland (excluding FMCG) was 3.0%. Our category split remained relatively stable year on year – with a slight increase in GM sales – but overall we roughly maintained a 50/50 mix of clothing and GM. Turning now to our LFL performance on slide 38...

This top chart sets out the turnaround journey we have been on in Pepco and, as a result of the strategic efforts taken across the business, we delivered our 6<sup>th</sup> consecutive quarter of positive LFL growth in Pepco at the end of H1. Looking at this half in particular, we faced a slightly more challenging Q1 with a heavy promotional environment, and issues on stock freshness. However we can share that Pepco ended the Autumn / Winter season with significantly lower remaining stock levels of that season compared to last year. This means that the upcoming Autumn/Winter season will start with a more healthy level on stock freshness compared to this year. As we entered Q2, trading momentum improved with the launch of new product lines which also increased freshness, as well as targeted initiatives on some of our weaker categories like baby. And, as you can see from the bottom chart, this growth has been primarily driven by volume, as we focused on maintaining our price leadership position across our markets. As I flagged earlier, the increase in price you can see in Q226 is the “Average Unit Price” increase which predominantly results from the mix of items we sold during the quarter.

Turning to slide 39 – where you can see our two year LFL performance from the start of FY25 which has been steadily building quarter on quarter to +9.7% in Q2 FY26. This gives you a clear look through to our underlying growth trajectory, the traction we are building with customers and our improving momentum.

Onto slide 40 which shows Group gross margin expansion of 250 bps. The improvement was driven in part by mix, showing the benefit of exiting low c.30% margin FMCG products and growing the sales of our higher c.50% margin clothing and GM products, as well as improvements in product margin which includes the positive impact to cost prices from our “never out of stock” continuity products with long term contracts, from production efficiencies delivered by our engineering team, and from volatility in the

market due to the tariff war where Pepco benefitted as we are a loyal customer with long-term relationships with our suppliers. We also experienced favourable movements in FX for stock purchases in the period. This was slightly offset by an increased level of markdown as we worked to improve stock freshness and inventory clearance. As said on a previously slide, we ended H1 with significantly lower remaining stock of old seasons which should benefit us for the next Autumn and Winter season. The improvement in Group gross margin was driven by Pepco which delivered gross margin expansion of 310bps, slightly offset by Dealz which experienced higher levels of markdown in the period to drive footfall after an ERP-related supply chain disruption in November and a one-off €8m stock write off. Heading towards the full year, we have increased our FY26 margin guidance slightly from 48.4%, of which 40bps relates to our FMCG exit, to 49.4% reflecting the strong performance we have achieved to date. With that, let me now hand back to Willem to continue through the rest of the financial review.

**Willem Eelman, Pepco Group CFO:**

Thank you Hugo. Turning now to slide 42...Here you can see the movements driving our underlying EBITDA which was up 17.5% to €516m. This was driven primarily by our strong gross profit improvement, somewhat offset by store costs which were up year on year, largely due to inflationary pressure on our cost base, as well as our increased store count but I will cover this more on the next slide. Our underlying EBITDA margin grew by 230bps to 20.9% as we focused on improving EBITDA conversion. We remain focused on our cost base and prioritising efficiency across our business. Over the coming years, we strongly believe that there is more we can deliver to further reduce costs, particularly in our supply chain. Onto slide 43

Total operating costs were up 5.8% to €710m. This was largely driven by store operating costs which were up 6.9%, primarily reflecting a 4.5% increase in our store count and store labour inflation, as well as a small increase in SG&A costs, where we benefitted from a one off credit of €12m relating to an insurance claim payout relating to the BlueYonder outage in Q1 FY25. As a percentage of revenue, store operating costs were up just 40bps to 20.7%, driven by inflationary pressure in store labour costs, partly offset by efficiencies in our distribution costs which were down 20bps half on half. Onto slide 44

SG&A costs were up €6.5m to €199m. However, I already flagged that this includes a €12m benefit from an insurance payment we received relating to the Blue Yonder incident that impacted Pepco in Q1 FY25. Excluding this benefit, SG&A costs were up c.€18m half on half. On a percentage of sales basis, SG&A costs were down 10bps to 8.1%. However, removing the benefit from Blue Yonder, SG&A costs were up 30 bps to 8.5% of sales, from 8.2% in H1 25. The increase relates to higher spend on transformation initiatives such as accelerating our data & digital capabilities, enhancing our IT platform, as well as driving efficiencies in our operating, finance and supply chain processes which we have guided on for the year. Stephan highlighted in his section already the concrete business benefits that we are accruing from these investments. Turning now to slide 45...

In H1 FY26, we took the decision to extend our depreciation policy and amend the accounting estimate for the useful economic lives of our leases from 5 years to 10 years which reflects our intention to remain in stores for longer periods and more accurately reflects the true average lease length of our stores. This decision was made following the sharpened business strategy with a focus on the Pepco banner and improving store profitability in FY26. As part of the new strategy, Pepco has consequently revised store operating assumptions, including the continued use of stores beyond initial break points, extended refurbishment cycles and align capital investment decisions with longer lifespans. Also, with the closure in H1 FY26 of 75 loss making stores, our store portfolio is very healthy with less than 1% being loss making.

As of April 2026, the weighted average lease period of the Pepco portfolio across 18 countries was nearly 9 years, and this includes some 1,700 stores opened since 2022, reducing this average. In the table on the left we are providing a breakout of the impact to our financials pre and post the UEL change for H126 which we hope will help in adjusting your models. The change in accounting estimate has been applied from 1 October 2025, the start of our current financial year. The right of use assets have been recalculated based on a 10-year useful life. This has resulted in an increase in the net liability position of our Right of Use Assets and Lease liabilities under IFRS-16, of €21m (excluding the impact on deferred tax assets which is an additional €5m increase). There is also a modest reduction of IFRS-16 ROU depreciation but an increase in IFRS16 interest of €13m. When combined with the €34m reduction in depreciation, made up of a €30m reduction in PPE depreciation and a €4m reduction in right of use of assets, this leads to a net positive PBT impact of €21m in the H1 FY26 accounts. There is no impact on cash flow and similarly no impact to our 0.5-1.5x leverage target as this is a pre-IFRS 16 target and therefore excludes leases.

Onto slide 46...This is a slide you will already have seen at the FY results so I won't spend too much time here but just remind you of a few key points. The refinancing we completed in November 2025 put us in a much stronger position with maturity extended by over 3 years, a significantly reduced average coupon and an annualised interest cost saving of €14m. Since the year end, we have also extended our RCF from €300m to €330m. At the end of H1 our pre-IFRS 16 leverage stood at 0.2x, below our target 0.5-1.5x range. However, today we announced our intention to undertake a one-time levering of our balance sheet which will bring our leverage to c.1.0x, back within the target range. Alongside existing cash reserves we intend to raise additional financing to fund an up to €400m one-time capital return in H2 this year. We are currently in discussion with our banking partners and will provide a further update as appropriate.

Turning to slide 47...As a result of the refinancing, we reduced our average coupon from 6.4% to 4% which, combined with an increase in interest income and offset by a reduction in FX gains, resulted in a €9m interest cost saving on our external loans in H1 26. However, this improvement is offset by the one-off refinancing cost of €12m. Without this, the pre-IFRS 16 interest cost would have been €12m and our total net interest €46m. From FY27 onwards the true benefit of our refinancing will show through in our finance costs. As previously mentioned, the €13m increase in IFRS 16 interest is a result of the change in our UEL policy from 5 to 10 years.

Onto slide 48...We delivered significant net profit growth in H1 FY26, up 52% on H1 FY25. This was first and foremost driven by strong operational earnings growth of €72m, supported by a positive impact from our UEL change (€16m) and a €12m one off benefit from an insurance payment relating to the Blue Yonder outage in Q1 FY25, offset by the €12m refinancing costs and a €21m increase in tax. Despite a headwind from underperformance in Dealz, Group underlying ETR was down 60bps, driven by Pepco which experienced a 140bps reduction in its underlying effective tax rate during the period continuing the positive trend we have seen in FY25.

Onto slide 49, where you can see the movement in our cash position over the half which both started and ended at €464m. We generated unlevered free cash flow of €181m which was up €130m on H1 FY25, driven by strong EBITDA growth and a significant reduction in our working capital outflow – standing at just €12m in H1 26 vs €146m in H1 25. This improvement was driven largely by a reduction in inventory as we increased markdowns during the half to clear older stock and increase freshness across our product range. Free cash flow conversion in H1 26 was 91% of underlying profit after tax, a significant improvement on H1 FY25 of 39%. Please remember that although capex was just €48m in H1, our guidance for the full year is €160-180m and we expect to be towards the top end of that range as we ramp

up our investment in IT & Digital and accelerate the store openings in H2 FY26. Despite that, we remain on track to meet our upgraded guidance and deliver unlevered free cash flow of at least €250m in FY26.

Onto slide 50...Capex in H1 was €48m, just under 2% of revenue and broadly in line with H125. We invested c.€28m in opening 138 gross new stores (up from 144 gross new stores in H1 25) and €6m on store maintenance, including €3.6m for the 'New Look' programme approved in December. We also increased our IT spend from roughly €3m in H1 FY25 to c.€14m in H1 FY26 as we began to increase investment in enhancing our IT systems and digitising our operations. Despite just €48m capex invested in the first half, we reiterate our FY capex guidance of €160-180m so you can expect to see a jump up in spend in H2 and we ramp up our digital transformation.

Onto slide 51 where we have a slightly revised overview of our capital allocation framework which is a sharpening of our capital allocation framework we announced at the CMD in 2025. Our priorities remain the same; to invest in organic growth including new stores, technology initiatives and our supply chain, to maintain a strong balance sheet and to deliver returns to our shareholders. These returns are by way of ordinary dividend with a payout ratio of at least 25% and the return of excess levered FCF via buybacks or special dividends. So far in FY26, we have returned €150m to shareholders via buybacks, which includes two traditional €50m open market buybacks, one of which finished just last week, and an additional €50m participation in the Ibex placement of our shares. In addition we paid out the FY25 dividend of €53m in April. I'd like to share a little more detail relating to our leverage and returns to shareholders over on the next slide....

At our CMD in March 2025 we provided a target leverage range of between 0.5x to 1.5x pre-IFRS 16 net debt to EBITDA. As you can see from the chart on the left, we have been operating either at the bottom end or well below that range in recent years, despite returning over €200m of capital to shareholders so far in FY26. This morning, we announced our intention to take action to move our leverage closer to 1.0x in FY26 to ensure an efficient balance sheet and a lower cost of capital while also retaining financial flexibility. On the right-hand side of this slide you can see the percentage of unlevered FCF we returned to shareholders in FY25 and so far in FY26 via both dividends and buybacks. We remain committed to returning all excess cash, after investments in growth, to shareholders. And, in line with this, we've today we announced our intention to provide an additional capital return to shareholders of up to €400m by way of tender offer. The tender will be funded through a mix of existing cash reserves and external debt financing and will include pro-rata participation from Ibex, our majority shareholder. In addition, we've clarified our mid-term capital returns policy. From FY27 we plan to return all levered FCF via dividends and share buybacks, and have announced that over time we will be increasing our dividend payout ratio from the 25% paid in FY25 towards 40%.

Now, onto slide 53. I wanted to take a moment to highlight the changes to our share count over the past 6-12 months. Our €200m share buyback programme, which concluded last week, has resulted in a significant reduction to the Pepco Group outstanding share count on both a basic and diluted basis since the start of the financial year. Our weighted average shares outstanding for H1 FY26, to be used for basic EPS calculations, is 559m shares vs our shares in issue of c.577.5m. The dilutive potential share count has been restated to reflect the fact that the vast majority of the previous 17m dilutive shares had not met the relevant performance criteria as at 31 March 2026 and therefore should not be included in the dilutive potential share count. The weighted share count for diluted EPS is therefore 564m for H1 26. As at the end of H1 FY26, the number of shares in treasury was just over 26m which resulted in a shares outstanding figure of c.551m at the period end. I would like to encourage all to reflect this into their models as

combined with the intended Tender, this will have a material impact on our share-count and therefore EPS.

Finally, onto slide 54 for our FY26 guidance. I hope you'll all have seen the announcement on 22 April in which we upgraded our EBITDA guidance from at least 9% growth to low-teens % growth and our Net Earnings guidance from at least 25% to at least 50%. In addition, and for consistency, we are also today announcing an increase to our FY gross margin guidance from at least 48.4% to at least 49.4%. Note that this includes the 40bps contribution from FMCG we have flagged previously. In addition, we announced an increase to our unlevered free cash flow guidance from over €200m to over €250m. Our revenue guidance remains unchanged at 6-8% as does our capex guidance of €160-180m. As I mentioned earlier, we expect capex this year to be towards the top end of this range. With that, let me hand back to you Stephan....

**Stephan Borchert, Pepco Group CEO:**

Thank you Willem. Let me now quickly summarise before turning to our current trading and outlook.

We have delivered a very strong set of financial results this half, in particular our 250bps gross margin improvement and 52% improvement in profit after tax. We have announced the acceleration of our Western European rollout from FY27, with our store count in the region set to double by FY30. What's more, we are trialling small numbers of new stores in both Germany and the Ukraine this year which both represent a potentially large market opportunity for Pepco and our geographic expansion extends further with new stores set to open in North Macedonia next month. Our growth is not just fuelled by new store openings but by strategic initiatives across our business. A key one of these is the Pepco Loyalty App. We are really pleased with the progress in downloads and Club customer numbers and even more so in the increased engagement we are seeing from Pepco Club customers. Lastly, but importantly, we have announced some key changes to our capital allocation framework today. Later this year we plan to return up to €400m via a pro-rata tender buyback, and from FY27 we are committing to returning all excess levered free cash flow to shareholders via dividends and share buybacks. In addition, we aim to increase our dividend payout ratio from 25% in FY25 to 40% over time as we remain focused on delivering strong returns to our shareholders. Lastly, onto current trading and outlook over on slide 57...

In the 6 weeks to 16 May, Pepco delivered +1.5% LFL growth excluding FMCG. April trading was impacted by unseasonably cold weather in some of our core CEE markets, with North CEE particularly affected. This delayed the normal transition into summer clothing ranges and weighed on volumes. Adding to this, Easter was earlier this year than the prior year so some of the benefit fell into Q2. Looking at a combined March & April view to neutralise the timing of Easter, Pepco delivered LFL growth of 2.1%. Western Europe continued to perform strongly delivering double digit LFL growth in the 6 weeks to 16 May. Since the start of May, we have seen significantly improved momentum in Pepco which generated +11.6% LFL growth in the 2 weeks to 16 May, driven by both clothing and general merchandise with a positive LFL contribution across all countries. Looking forward, in H2, as I have mentioned already, we intend to launch an up to €400m pro-rata tender buyback. And, for the FY we are on track to meet the guidance Willem outlined for you earlier including low-teens EBITDA growth and at least 50% Net Earnings growth. As for our mid-term guidance, we will provide an update on this with our FY26 results in December. With that, I would like to hand over to your questions...

**Conference Operator:**

Thank you very much, sir. Ladies and gentlemen, if you'd like to ask an audio question, please press \*1 on your telephone keypad and just make sure your line is not muted to allow your question to reach your signal. You can also submit your questions to webcast. So \*1 for audio questions. We'll pause for just a moment. Our first question today is coming from Mr. Michael Potyra of UBS. Please go ahead. Your line is open. Thank you.

**Michael Potyra:**

Hi, morning everyone and thank you for a comprehensive overview. I have three questions if I may. So the first one is about the gross margin, in particular the gross margin sustainability. We've noticed that the gross margin have been strong across the sector. Definitely FX was supportive. So if you could perhaps comment how sustainable do you think those levels are and what factors could lead to a potential normalisation from those levels should we expect any inflexion, any impact from higher oil prices, et cetera. So that's the first question. Thank you.

**Hugo van Santen, Pepco CFO:**

So let me take the question. Good morning. So first it's important to say that we have upgraded our guidance from 48% to 49% plus 40 basis points coming from FMCG. So that reflects our view that we believe that the gross margin is sustainable. If we look at the drivers, then it's important to also note that on FX we continue to see tailwinds for the balance of the year. We are hedged into FY27. When it comes to other drivers like our cost prices that have been negotiated, these also have been locked in for the balance of the year. So on that basis, we believe that this for FY26 is a sustainable delivery.

**Michael Potyra:**

Thank you. Another question on Western Europe, you really showed solid improvement on those markets, especially on EBD level. Could you perhaps provide more colour what has really changed in those stores in that business that suddenly from a drag that region starts looking promising? Thank you.

**Willem Eelman, Pepco Group CFO:**

Thanks, Michael. I will take that one. We have actually spent a lot of time explaining that, I think, already in the past, but let me just summarise. It's a mix of many levers that we've pulled, but as we've grown volume in growth in GM and clothing over the last year and a half now, our warehouse that was recently opened has allowed us to reduce distribution costs. So that's one lever. But also importantly, the distribution centre opening in Iberia as such has helped us tremendously drive product availability and product freshness in our stores being an underpinning driver of our life for likes. We've also implemented measures to drive store efficiency as our new leader, Jorge Gervasi, has strongly focused on that as well, driving store efficiencies, a further lag into the improvement of store EBITDAs. Underlying gross margin also benefited clearly from the improvements that we've seen elsewhere across the group.

So all in all, these combined effects drive help explain the material step up of EBITDA that we've seen both in regular stores and then notably in the Pepco Plus stores as we exited the low margin FMCG product and replaced and enriched with much higher margin clothing NGM. So that's underpinning and we believe this is a very sustainable trend. As you could see, we're approaching group levels now for these two key markets for us.

**Michael Potyra:**

Thank you. So maybe the last bit on Ukraine, you highlighted Ukraine as a potential growth opportunity. I understand it's early stages, but maybe you could help us size this opportunity a little bit more in terms of stock and revenue, profitability, and what are the first kind of milestones you're looking at on those markets? Thank you.

**Stephan Borchert, Pepco Group CEO:**

Yeah, I'll take that one. Thank you very much. Yeah, look, it's very early stage, as you just said, so we will not really guide on store count potential so on. So what we said is let's look at a couple of facts. First of all, we believe we have a very, very strong brand awareness and brand strengths already in the country. More than four to five million Ukrainians have lived in Poland for a large part of time and we have a large customer base already coming back and forth also shopping with us. So we have, in addition, conduct a lot of market assessments there. So we are very convinced now that our value proposition would resonate very, very significantly with Ukraine. I mean, it's a large country, 35 million plus inhabitants and also consumers in there. Plus I believe the current situation also drives customers into strong value seeking offers.

So we are very convinced on this. Second, operational efficiency. As you know, we do have infrastructure around the whole country, whether that's Hungary, Poland, or Romania. So we will operate from there. This is already set up from our side without massive pre-investments. So we believe that this will be quite efficient and at the end, ultimately, highly profitable operation for us. And to the pilot, we don't want to disclose too much. As we said, we'll be very cautious. As we have been with Western Europe, we go in, test, set up a couple of stores up to 10 max maybe in the first round, see how it goes and look at whether we can achieve our internally set targets, review, and then decide on the pace of acceleration. That is really it. And of course, on top of that, we monitor very, very closely the current and forward situation in the country.

And it will be no surprise that we start the pilots more in the Western region of the Ukraine. But we will report on that and discuss that much more in probably the end of the full year fiscal 26 meeting.

**Willem Eelman, Pepco Group CFO:**

Yeah. If I may, Michael, we will both on Western Europe, which clearly is in advanced stage compared to the Ukraine, disclose more on impact on our guidance at the end of the year for fiscal 27 guidance. And on Ukraine, we are announcing a test. We have proven that we are disciplined as a management team. We will do a number of stores we will evaluate and then we'll make a decision and that will be in FY27 that we will be clarifying that further. But on Western Europe, more details to be provided in fiscal and year-end December announcement. The same is true for Germany, I would like to stress. Five stores proof now with new stores, the potential and only then, when will we make the decision if not or if to accelerate. So discipline is the keyword in this team.

**Michael Potyra:**

Makes sense. Thank you. Maybe just one follow-up, a very technical one. I mean, do you see any scope to further reduce your effective tax rate in the coming years? Thank you.

**Willem Eelman, Pepco Group CFO:**

Let me take that question. We are very pleased with the progress we've achieved with our effective tax rate. I highlighted and it's all in the detailed notes to the accounts, but we've had really good further progress in Pepco, new Pepco, slightly offset by the losses and deals, which of course then the presses are reported effective tax rate. You have to reflect that we are expanding now more aggressively into territories with a slightly higher underlying effective tax rate than our average in Central Eastern Europe, notably Italy and Spain, but we also have historical losses to help us offset partly that. So there will be a complex mix on our effective tax rate, but we do expect to be landing in that indicated 21% to 22% range over time as our stable effective tax rate for the company, which is a significant reduction from where we were in 23% and 24%. Was that helpful?

**Michael Potyra:**

Thank you. Yes, very much. Thanks. Thanks and have a great day.

**Stephan Borchert, Pepco Group CEO:**

Thank you. Thanks.

**Conference Operator:**

Thank you as your question, sir. Ladies and gentlemen, once again, if you have any questions, please press \*1. We'll now move to Matt Clements calling from Barclays. Please go ahead.

**Matt Clements:**

Morning. Thank you very much taking my questions and congratulations on a very impressive turnaround and good to see these results coming through. Three questions, if I may, the first on external, so pricing environment into late 26 and early 27. Obviously amid the cost inflation we're seeing any view on what you might see in terms of spring summer pricing next year. And then related to that, can you also talk a bit about what you're seeing in terms of sourcing capacity and some of your key sourcing markets? So putting input cost inflation aside for a moment, how have terms evolved with your supplier base both in terms of your scale but also supply capacity in those markets? That's the first question. I'll come back to the other two.

**Willem Eelman, Pepco Group CFO:**

Okay. Thanks, Matt. Hugo? Yeah?

**Hugo van Santen, Pepco CFO:**

So I think it's important to say that when it comes to the sustainability of the gross margin, which is what you're alluding to also when it comes to the question on potential cost inflation to spring summer 2027, we are not guiding here on the FY27 margin, but we have upgraded our gross margin for this year. We are now saying we are going from 48% to 49% in FY26 plus 40 basis points on FMCG. And when it comes to costs, we are a very reliable customer to our supplier. We have deep integration with the suppliers. We

predominantly source direct and not versus not fire agents and we have relatively low markdown levels as we are not a fast-fashion retailer. So we have lots of potential to manage our gross margin also going forward.

**Stephan Borchert, Pepco Group CEO**

I think to add to this because you also asked about sourcing and input cost, Hugo just alluded on this. We do have a very well established since many, many years sourcing structure in Asia across all of Asia. So at the moment, and we said that we don't see an impact on sourcing and input costs. And as you know with long lead times, we are contracting far out already. So that goes far into next year. We will of course monitor closely. Nobody can predict, but definitely we feel that far beyond H1 next year already, we are well contracted and therefore to be seen what's happening. At the moment, we would not see this as a bigger issue.

**Matt Clements:**

Very clear. Thank you. The second question is on Germany, obviously widely perceived as a very competitive discount market. You put quite a punchy potential white space opportunity out there. Obviously you're talking about tentative trials at the beginning, but can you just remind us on how you perceive Pepco's relative positioning in that market, how you think about the current concept and its resonation and also as well as site availability, given that was an issue or the quality of the sites was an issue in the last phase of expansion. Thanks.

**Stephan Borchert, Pepco Group CEO**

Yeah, good one. I mean, let me start with the latter site availability. And look, I think the situation we were in and when I joined had to find, it was no real representation of the true potential of Pepco in Germany. So it was a very unstructured site acquisition done by previous management and we decided to cut down those stores we have guided on. The remaining stores are performing extremely well. We are seeing strong double-digit like-for-like and a strong customer acceptance. So we know now and as we've done in Italy and Spain, we've identified the two to three segments in a market which we really want to have and which works for us. So over time we believe there is ample of sites available for us, particularly you also see a strong consolidation in the German market. There's a lot of insolvencies there that make space for us.

Positioning wise, as I said before, we believe we will fine tune a bit more, but we believe as in many, many other also Western European mature markets, our almost unbeatable value proposition to customers resonates as well. I've personally travelled many, many stores in Berlin and others. It's visible. You have in currently subdued consumer sentiment environments, you see customers stronger looking at value. So the value seeking segments are becoming bigger, but customers in this segment are also more selective and you need to have a strongly curated, spot-on value proposition product offering, which we believe we have. It's this combination of GM and apparel that we have now for many years created and particularly over the past two years, strongly improved in Baby and Kids-wear, in toys and in many other categories that I think makes us very attractive. So we strongly believe there is a space for us in Germany.

However, as Willem alluded on also there, based on our current base, we will now slowly and cautiously add more stores to test basically our segmental structure in the market and see whether our internal targets are achievable, but we believe there is a strong opportunity for us in there. Absolutely.

**Matt Clements:**

Great. Thank you. And the final question on your digital initiatives, clearly calling out a positive reception to that work in Poland. What's the next major step in your development of the digital proposition for Pepco? Key learnings from the initial rollout and also how would you plan on leveraging, I'm presuming the much better data you're going to be getting on customer behaviour, how are you going to leverage that going forward? Thank you.

**Stephan Borchert, Pepco Group CEO**

First of all, as I said, we are very pleased with our current development. It's ahead of our expectations and it shows us the need our customers had. They wanted to have a better engagement tool, almost like a window to Pepco in the pocket. So that's what we have now with our loyalty app. What are the next steps? First of all, we will, further accelerate the app downloads and the app penetration in Poland. We continue to now learn and also increase our marketing activities around that. And your question on what is the objective; really is DISS, so 'digitally influenced store sales'. We will first of all understand customers much better. It's important to understand that we not only created the app, but we also set up a totally new digital environment behind with an integrated data lake, BI systems and so on. So we understand customers better.

We can communicate to them much more targeted and we use smart couponing to also really, really almost on a personal level, drive them into our stores, want to make them obviously buy one or two products more in the basket. But that is now a large opportunity for Poland. We are now at two million downloads, rough one million Pepco Club members. The potential is high in Poland. We are, as we speak, working on rollout countries. So it's a very replicable new, very state-of-the-art technology, but we have not yet guided which country we want to go next. We will take this probably in the next ... We'll probably guide on this in the full year as our results where we go next. But I mean, just think about the potential. The current Pepco Club customers basically on average by 2x more than the non-club members. And I mean, this is huge and we know that once we get customers into our shop, we convert and therefore we will take decision on which country next in the course of this year.

**Matt Clements:**

Brilliant. Thank you very much for your time.

**Stephan Borchert, Pepco Group CEO**

Very welcome. Thanks, Matt, for your questions.

**Conference Operator:**

Thank you very much for your questions, sir. As we have no further audio questions, Cristina, I'd like turning the call over to you for next questions submitted through webcast.

**Moderator:**

Thank you. Thanks, George. Yes, we do have a few questions from the webcast. Our first one is, "how has the Iranian war crisis impacted the supply chain of Pepco, including freight costs on imports from Asia?"

**Willem Eelman, Pepco Group CFO:**

Cristina, do you know who asked the question?

**Moderator:**

This is from Maciej Utraki at PZU.

**Willem Eelman, Pepco Group CFO:**

Okay, thank you.

**Hugo van Santen, Pepco CFO:**

So I can take the question. I think it's important to say, as I believe we have communicated before that predominantly the ships that sail for Pepco from Asia into Europe sail around Africa. So our ships do not pass Iran and only very, very limited 5% or less of our ships go through the Suez Canal. So that means that we are very, very resilient to the war when it comes to oil prices and sailing. And therefore, also what you have seen in the gross margin that has been presented to you is that there's a very limited impact or to zero impact from this in our margin. It did not deteriorate as a result of this. Equally so our distribution costs on land, which of course have been impacted a little bit by the higher fuel prices, but it's not to the materiality that we've had to call out today.

**Moderator:**

Thank you very much. Another question from Maciej. "We saw on one of your first slides that you are looking to increase share buyback by another EUR 400 million. Why is that and how is it going to be financed?"

**Willem Eelman, Pepco Group CFO:**

I will take that question. So why is that? Well, we are well outside of our range of our guided leverage ratio. We have guided consistently in the past also on 0.5x to 1.5x EBITDA multiple pre-IFRS. We are today at 0.2x. That's an inefficient balance sheet driving up cost of capital, which is negative to our shareholders and share price. And therefore we believe that with this one-off €400 million share buyback through tender mechanism, we will bring us back into a more healthy and competitive balance sheet structure. We will use internally generated funds, a significant portion of it. We will then seek a small increase on gross debt to fund the balance, which is again helping us then achieve at that 1.0x ratio as we indicated in the press release. We are discussing with our partner banks and have seen good response to that already, but more details will follow when we announce details on the tender as such.

**Moderator:**

Thank you very much. And we have a couple of questions on a Dealz sale from Kacper Grzegorzczak and Elzero. "Could you elaborate on the Dealz sale? What is the expected schedule and cash flows? Do you expect any additional costs related to disposal? And also is it planned to distribute any potential proceeds from the sale of Dealz to shareholders as a special dividend?"

**Willem Eelman, Pepco Group CFO:**

So let me take that question. We made it very clearly that we did not expect a material impact of the Dealz transaction on our balance sheet. Let's be very clear. At the moment, we are in a process where we still have several potential buyers in the final stages of the process. So you will appreciate I cannot comment on financial terms and conditions because that would be sensitive in the process. When we have clarity on the deals and we will announce, we will also announce further details on the terms and conditions on the transaction. But we've been clear that the Dealz transaction is very similar in nature to the transaction that we did on Poundland.

**Moderator:**

Thank you very much. Our next set of question is from Fabian Knemeyer. "Could M&A become part of Pepco's growth strategy or is the focus firmly on organic expansion and returning excess cash to shareholders?"

**Stephan Borchert:**

Yeah, thank you. I'll take this. I mean, as you have seen from the outline we again also have provided today, we strongly believe now in the recalibrated Pepco Group as such, so Pepco, as you said, is I think a new European growth champion going forward. We know we have ample of opportunity in white space. We have a very efficient store format and standardised store format system that we want to roll out. And as Willem also alluded on, we see that all our new store openings perform very, very well. So having said that, we strongly believe in organic growth going forward and do at the moment not see M&A as an opportunity or necessity for us. And in that respect, we have updated our capital returns framework where basically all excess leveraged free cashflow will be returned to shareholders.

**Moderator:**

Thank you. And another one from Fabian, "have you received any indication from IBEX regarding whether it intends to participate in the planned pro rata tender buyback?"

**Willem Eelman, Pepco Group CFO:**

As we disclosed in the announcement, we say that our IBEX will participate pro rata. We are clear backing from IBEX for this plan. It is a managed reduction of share count overhang and it's a very fair mechanism as a result to all shareholders who will have equal opportunity to participate in this standard. But details on the tender will be announced in due course and then we'll be clear on the mechanisms and the follow-up with Polish banks to execute the standard, but this will be later in H2.

**Moderator:**

Thank you. And another question from Maria Kolesnikova from Millennium. "Could you please talk us through the current trends separately in Poland and in South CEE markets? Polish consumers seem to remain strong and happy to spend more, is that a true assessment? While other CCE markets might see consumers under increased pressure, how is it reflected in your sales and pricing volume/mix sales, and strategy?"

**Stephan Borchert, Pepco Group CEO:**

Let me maybe start on the strategic level and if all wants to add some of the facts. Look, so I think overall, as I said before, we as Pepco feel perfectly positioned in various of those market dynamics. So on Poland, we absolutely agree with the statement that in Poland there is a strong consumer segment. As a strong consumer, there is plenty of, let's say, disposable income for consumption, but consumers are selective. Also in Poland, consumers are selective, they're value seeking and they are looking for best value for the price. And this is exactly where we are in the sweet-spot. And after our operational improvement, particularly last year, we see now a nice 3% like-for-like increase in Poland in the first half. South CEE cannot be generalised. As we all know, Romania has gone through and is still going through some political trouble with VAT increases and also increases of various other charges that impact consumer spending power.

So what we at Pepco do is we of course adjust pricing and promotion mix accordingly, but also in Romania we have seen slightly reduced but still positive like-for-like revenue growth. So therefore, I don't think it's a generalisation. The rest of South CEE is performing really, really well for us. It's one country that has probably slightly more macro headwinds, but I'll hand over to maybe Hugo, if you want to add something to that.

**Hugo van Santen, Pepco CFO:**

I think it's important to say that the business is growing in its core market, Poland, that we have spent a lot of time and energy on that and the growth is 3% excluding FMCG, which reflects the interest from customers in our value proposition. That's mostly to underline the comments made by Stephan.

**Moderator:**

Thank you very much. These are all the questions we have time for, so I'll hand back over for closing remarks.

**Stephan Borchert, Pepco Group CEO:**

Yeah, thank you very much. It was a rather rich announcement for this half, but I hope you agree with me. We have a couple of really good messages to the market, also to all stakeholders. We are very pleased with the result of this half year and we'll update you more with the full year results announcement in December on the various topics around mid-term guidance and investing in Europe expansion and so on. For now, I'd like to thank you for your attention and for your interest and wish you a good day.