



2025 Financial Results Call od Zabka Group
6th August 2025

Moderator:

Good afternoon and welcome to the Q2 2025 Financial Results of Zabka Group conference call. After the speaker's remarks, there'll be a question and answer session. The webcast will be recorded and an archive of the webcast will be posted on the company's website. By participating in the Zoom call, you are agreeing that recordings made during this event may be shared by Zabka Group. For those of you who are joining us via Zoom, if you wish to ask a question during the Q&A, we ask that you please use the raised hand function at the bottom of your Zoom screen or if you've dialed in, please press *9. If you already have a question, please do this now. Once it's your turn, the moderator will introduce you, please then unmute yourself and ask your question. I would now like to hand the call over to Filip Paszke.

Filip Paszke:

Thank you very much. Hello everyone and welcome to our Q2 Earnings Call. My name is Filip Paszke and I'm Company Director responsible for Investor Relations and Governance. We have about 30 minute presentation, which will be followed by a Q&A session. I'll now hand over to Mr. Tomasz Suchanski, CEO of Zabka Group.

Tomasz Suchanski:

Thank you, Filip. Good morning or good afternoon and welcome to our meeting with the Zabka Group where we will be discussing results of second quarter of 2025. My name is Tomasz Suchanski, I'm CEO of Zabka Group and I'm joined today with two of my colleagues from the board; Marta, our CFO, and Tomasz, our Chief Strategy and Development Officer.

In the second quarter of 2025, I'm proud to announce that Zabka continue to deliver strong performance as we are building growth dynamics across all key financial and operational metrics. Sales to end customer reached 8.1 billion Polish zloty representing 14% year-over-year increase, supported by solid like-for-like growth of 6.1%. The consistent momentum confirms the strength of our customer proposition and operational execution, especially considering that May this year was not very good, was actually quite cold, which Marta would provide more details on during today's call.

Our store network drew farther to reach 11,793 locations across Poland and Romania with 1,256 openings over the last 12 months. This marks another quarter of accelerated rollout supported by a

robust pipeline and strong performance of newly open stores and I'm happy and pleased to announce that this allows us to upgrade our guidance for the stores opening for this year from over 1,100 stores, as we were discussing last time, to over 1,300 locations in Poland and Romania. And my colleagues will provide further insights on this results in just a moment.

All those allowed us to achieve significant profitability growth in the second quarter. Our gross profit was 1.327 billion Polish zloty, 19% increase from last year. Adjusted EBITDA increased by 20% year over year to 1.057 billion. And importantly, our core business, ultimate convenience stores in Poland, adjusted EBITDA margin improved by 0.9 percentage points year over year reflecting sales growth, continued operating leverage, and discipline cost management. Adjusted net profit reached 221 million, up 26% year over year in line with our seasonality profile discussed during the previous call. Finally, we continue to leverage with a financial debt/adjusted EBITDA improving to 1.2 times, down 0.5 times year over year supported by strong cash generation. In summary, we are very pleased with our second quarter and first half performance, which keeps us firmly on track to deliver on our guidance. Overall, the consumer environment remains stable, although there are few cautionary signs in the retail sales data or fluctuating consumer confidence reading. At the same time, Polish consumers seems to be feeling more optimistic about financial situation of their households. Tomasz will provide more on that front in just a minute. And in that setting, we have kept up strong momentum across all our strategic areas.

In the second quarter of 2025, Żabka accelerated its store rollout pace. As I mentioned, we are upgrading the guidance and are targeting over 1,300 new openings for the full year across Poland and Romania. This reflects our confidence in the strength of our execution, which is based on very good performance of our newly open stores. We opened 368 new stores in the second quarter, bringing the half year total to 804 locations. Our like-for-like growth reached 6.1% in second quarter and the first half of the year, consistently strengthening our market position.

In Romania, at the end of the first half of the year, our footprint expanded to 109 stores. We are proactively refining our customer proposition and business model in this market with many key performance indicators continuing to show very strong results to date. Our digital business continue to deliver this part of our ecosystem recorded dynamic growth with sales to end customers up 28% year over year in second quarter.

So now I will hand over to Tomasz who will walk you through the market environment and provide further detail on our strategic execution. Tomasz.

Tomasz Blicharski:

Thank you, Tomasz. Hello, everyone. Let's kick off with macro and consumer backdrop. Since we met the last time in May, we see some positive and optimistic trends among the customers. Having said that, there are also some hesitant indicators as well. If you look at the real wages growth, they continue to be positive, continue growing and the inflation has stabilized, somewhat decreasing. If we look at the

consumer confidence index, we had mixed readings in the last few months. We had a very positive reading in June, followed by a decrease in July.

What is not shown here, but important as well, which is the labor situation. We have seen some softening data in labor given the seasonality, slightly below the expectations in the last reading too. On the other hand, we see very optimistic and positive trends in the area of the consumer's assessment of their financial situation, which you see on the bottom of this slide. So overall, we see some positive momentum. Having said that, there are some indicators which also create some mixed picture. On this backdrop, the FMCG market growth in the second half of the year, and Q2 in particular, of 5.1% was relatively similar to prior quarters. You have seen also quite, I would call it traditional trends among the channels, so the discounter and our modern convenience channel grew the fastest while some other channels have been growing slower. What is important to mention here as well is that given the changing date of the Easter holiday from first quarter last year to second quarter this year, this market snapshot is a little bit more distorted than you would normally see in a regular quarter. For us, the Easter, as we mentioned a few times, doesn't have any particular impact, therefore our strong overperformance of the market, we grew close to three times faster than the market, is particularly encouraging and resulted in us increasing the market share to 10.6%, 0.7% year-on-year growth, which is somewhat faster than what we have seen in the last few quarters.

Moving on to the network expansion and franchisee area. As we have mentioned in the first half of this year, we opened 804 stores, 90 more than the last year, and this is the highest figure that we ever recorded. We currently have close to 12,000 stores and in the last 12 months, finishing in June '25, we opened more than 1,200 stores, which again is the highest pace of growth that we ever recorded in a nominal figures. On top of it, we have secured close to 1,700 contracts that are already kind of signed for the stores to be open in first half of '25, including the ones that we opened in the first half, which consists of the entire 1,250 for the current year and the close to 500 for future periods. And again, this is the highest number I think we've ever had. In that context, we have decided to revise upwards the pace of openings for this year to 1,300 while we see that we will maintain the industry-leading paybacks at the level that we have previously communicated.

Moving on to the franchisee situation, in the last 12 months, we recruited more than two and a half thousand franchisees, which is adequate number to cover the expansion needs as well as the rotation of the franchisees and the financial aspects of that. So, the revenue of the franchisee, the franchise margin, increased pretty much in line with the store sales and is in line with our expectations and we believe that this provides for positive financial momentum for the franchisees as well.

Moving on to the second pillar of our growth, so the like for likes, here in this last quarter, growing at 6.1% against, I would say, especially in the main negative weather environment, we are particularly proud of that number and one of the key pillars of the growth was again the QMS. We have concluded remodeling of the entire chain to include the Merrychef ovens as we previously communicated as well that we would do so. And on top of it, we have been working on improving the product offerings. Here we have included the hot breakfast into our offering and that result in the sales of 1 million hot

breakfasts in the first month, which is very encouraging for us going forward. Overall, the QMS has grown to double digit like for likes and it remains one of the fastest growing and most contributing growing categories among all for us.

Additionally, here, what we started and what we kind of accelerate is the introduction of Maczfit brand into Żabka stores. Maczfit is the direct-to-consumer meals brand that we operate within our ecosystem. We have close to 30 SKUs available at Żabka stores and that cements our positioning in terms of healthy and fresh foods.

In terms of digital initiatives, here, I think it's worthwhile to come back to something we have been discussing with you late last year, which is the retail media initiatives, which currently gains momentum. We have been installing screens in around 3,000 locations and more than 4,000 screens, which engage now 14 million customers. We have run 170 campaigns in '25 and we have values around 150 different brands. These initiatives, we see as a very positive addition to our business, both stimulating consumer in terms of like for likes as well as having positive impact on our bottom line.

So overall, we are very pleased with how this quarter went in terms of like for likes and we are encouraged for the second part of the year given the momentum that we had in the light of the, let's say, not so favorable May weather.

And with that, I want to pass over the mic to Marta to cover the financials. Thank you.

Marta Wrochna-Lastowska:

Thank you, Tomasz. Hi, everyone. We delivered a solid set of results in the second quarter of 2025 with strong execution across all strategic priorities. Building on the momentum from first quarter, we continue to see healthy like-for-like growth further margin improvement in both our core Polish operations and the digital convenience ecosystem as well as with accelerated store openings. Sales to end customers reach more than 8 billion Polish złoty demonstrating solid 14% year-on-year growth driven by increasing sales at our stores and new openings.

Despite a high base effect of the second quarter of 2024 and unseasonably cold weather in May, in the second quarter, we delivered a solid like-for-like growth of 6.1%. As a reminder, unlikely many other retailers and particularly discounters our like-for-like is not significantly impacted by the timing of Easter. And therefore the like-for-like performance was broadly consistent in second quarter with the first quarter of this year.

Our like-for-like momentum continues to be driven by recent strategic initiatives including the updated customer app, personalized campaigns within retail and media, Tomek discussed and the rollout of new street food offerings. Along with strong performance in key categories, most notably QMS which delivered double-digit like-for-like growth.

Looking at our solid H1 performance and current trading trends, we remain confident in achieving mid to high single-digit like-for-like growth for the full year. In the second quarter, we also continued to accelerate our expansion opening in the first half of 2025 was 804 new stores in Poland and in Romania. It was 90 stores more than in first half of 2024. New store performance remained strong. It is very important for us and we have built a robust pipeline of over 1,700 high quality locations for this year and for the next years.

Given that and given our continuous ability to attract new franchisees, we are confident that in 2025 we will be able to open more than 1,300 high quality stores across Poland and Romania. Adjusted EBITDA reached 1,057,000,000 Polish złoty, a solid 20% year-over-year increase with 65 basis points margin expansion on the back of strong performance of our Polish business and increasing and positive EBITDA for our digital convenience offering.

Given our first half results and continued strong performance of our core business, we remain confident in delivering of our full year adjusted EBITDA margin guidance. The adjusted net profit margin came in at 221 million, up 26% year over year delivering a margin of 2.7%. And as you know from our previous discussions, we expect continued improvement in recurring adjusted net profit margin to 3% in the near term.

Finally, moving to cash flows driven by strong operational momentum and over the past 12 months effective working capital management and disciplined CAPEX, we have delivered free cash flow of more than 1 billion Polish złoty up 14% year-on-year and significantly reduced our leverage profile to 1.2 times EBITDA down from 1.7 a year ago. When you look on our profit and loss, sales to end customers growth in second quarter of 2025 was driven by healthy mix of organic growth. We have like-for-like of 6.1 store expansion and increased contribution from new growth engines.

Our like-for-like performance varied significantly across the month of the quarter. It was in a high single digits in April and in June driven by higher volume, higher pricing, and a positive mix effect while in May it was notably weaker. However, with overall like for like still in positive territory. As you may recall, last year in 2024, May was exceptionally warm in Poland. It resulted in high base. This year the weather was poor and it was the coldest May in over 30 years in Poland.

This had a negative effect on our overall second quarter like-for-like performance. When you look at EBITDA, we delivered a strong 20% increase in adjusted EBITDA and 65 basis point increase in the margin. And it was on the back of strong performance of the Polish business where EBITDA margin increased by 91 basis points and it was driven by improved terms of trade with suppliers based on the higher scale, lower energy costs and disciplined cost management also supported by increasing and positive EBITDA for our digital convenience offering.

We also increased our franchisees payout. By the way, the growth in the second quarter is partially non-recurring and non-cash. IFRS-related Easter timing effect linked to inventory buildup across quarters. The H1 figure is therefore more representative of the underlying franchisee cost dynamics. Report

EBITDA amounted 1 billion and 2 million up 16% year over year, including a 51 million expense related to IPO award and long-term incentive plan.

Looking at other costs impacting net profit below EBITDA, depreciation was in line with our expectation and as a percentage of sales was slightly below last year and financial costs were impacted. It is important to mention they were impacted by non-cash charge of 50 million related to repayment of 1 billion of debt, primarily reflecting arrangement fees and IRR revaluation adjustments excluding these non-cash items, other financial costs as you see in the financial statements decreased. They were 3.5% of sales in the second quarter of 2024 and they declined to 3% in the second quarter of 2025. This improvement was mainly driven by lower net debt reduced margin on our main financing facility, as well as attractive pricing on the newly issued bonds. Despite these non-cash costs, adjusted EBITDA came in at 221 million, up 26% year over year delivering a margin of 2.7% fully in line with our expectations. Given the recent changes in our financing structure, including margin improvements and the bonds insurance, we expect a decline in financing costs as a percentage of sales, which will support an increase in net profit.

In the near term, as I mentioned, we anticipate that the net profit margin will move towards 3%. For the full 2025, we expect also an improvement in effective tax rate compared to the previous year when the ETR stood at 25% as you may recall. When you look on the EBITDA breach, you see that our adjusted EBITDA increased from 881 million in the second quarter of 2024 to 1,057,000,000 this year.

The strong growth was driven mainly by excellent performance of our core business, so ultimate convenience in Poland as shown in the first part of the breach. In Poland, we recorded incremental sales from both like-for-like growth and new stores opening and delivered in the same time, 90 basis points improvement in EBITDA margin. The margin expansion was given by improved terms of trade with our suppliers reflecting higher volumes and more effective promotions based on our app and were further reinforced by our cost-conscious approach and continued operational efficiency gains.

For the past few quarters, we have remained strongly focused on effective cost management. It has enabled us to reduce energy cost per store by securing the energy at the lower prices and by reducing the consumption of the energy at our stores, we also decreased logistics cost as a percentage of sales through the process improvements including better vehicle load optimization, as well as increased scale of our new automated distribution centre near Warsaw.

We have also leveraged data and digital tools to optimize field force routines. As you see on the bridge, economics of scale and cost discipline helped us deliver a hundred basis point gross profit margin improvement at Żabka Polska. Marketing costs in the second quarter were slightly higher year over year driven by a national QMS campaign supporting the launch of our new street food offering QMS. Central cost for Żabka Polska, which include GNA as well as technology remain broadly stable as a percentage of sales in second quarter. And when you look on the data for the first half of the year, the central cost growth remained below the pace of sales growth.

Looking at the bridge, new growth engine now includes, as you remember, the digital convenience offering as well as Romanian operations, which have been part of the segment since March 2024. Sales

of new growth engine grew by 30% in second quarter 2025 to 382 million Polish złoty and investment in new growth engine increased from 11 million last year, second quarter last year to 21 million second quarter this year mainly reflecting the ongoing development of the Romanian business and the rollout of new stores.

Finally, as one of the last element on the bridge, you see the adjustments and reclassifications which as you remember include the non-cash costs of 17 million related to IPO award to be granted to Żabka to our franchisees, our employees, and B2B contractors in October 2025 and the LTIP expenses which were 34 million Polish złoty in this quarter. The reclassifications primarily related to the minimum tax in Romania, which under IFRS is reported within operating expenses, but for the purpose of comparability and the analysis we presented in the tax line before the net profit.

Now moving to the cash flows, as you know, our cash flow and especially free cash flows generation follows a clear seasonal pattern. The first and the fourth quarter typically being the weakest quarters and the second quarter is structurally the strongest. Historically, second quarter has contributed over 60% of annual free cash flow and this year results clearly reflect this trend.

As highlighted in our previous discussion, third quarter is also cash generative. Cash flow is positive while in fourth quarter it tends to be free cash flow negative due to lower EBITDA and the outflow from a working capital. In line with this typical, seasonal trend in the second quarter of this year, the group generated a very positive, very strong free cash flow of over 1 billion. It was supported by solid operational performance and the release of cash from working capital.

And it was partially offset by increased capital expenditure as you can see, which were mainly driven by accelerated pace of the network expansion and the completion of the street food rollout across the entire store network. The strong free cash flow, which you have seen on the previous page continued helped us to reduce further our leverage, bringing the net debt to EBITDA ratio excluding leases down to 1.2 times EBITDA as of June 2025.

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Marta Wrochna-Lastowska:

In line with our guidance, we remain committed to further deleveraging with a medium-term target of bringing the ratio below one times a BDA. And the last point which I would like to cover before I hand over to Tomasz is the buyback. So as presented during the IPO, you may recall that in 2024, we introduced a long-term incentive plan covering the three years, 2025 through 2027. The plan is designed to align the interest of our key people with long-term value creation and shareholders return. Under the LTIP, awards are granted annually in the form of PSU and the form of RSU. These awards will be settled in shares following the approval of audited financial results for their respective periods. PSU vesting is conditional not only on continued service but also, as you recall, on performance targets.

The targets include a BDA growth, sales growth, and selected ESG metrics. The first delivery of shares to employees under the LTIP is expected to be in April 2026 following the approval of our financial statements for 2025. In this context, we have decided to proceed with a buyback strategy to secure

shares for delivery with launch plan for today. The program will follow standard market-based pricing practices.

This approach reflects both our commitment to deliver the full-year guidance and our conviction about the company's current undervaluation. In addition, it avoids dilution and provides control over timing of execution. The volume would cover up to 4.1 million shares for a wider group of our key employees. And with that, I will hand over to Tomasz to summarize our presentation.

Tomasz Suchanski:

Thank you, Marta. To conclude our call, Żabka continues to deliver consistently strong results and remain confident in the medium-term outlook shared previously. In the first half of 2025, we maintained robust financial and operational performance with like-for-like growth reaching 6.1%. Our groups adjusted a BDA margin expanded by 36 basis points to 11.2% in line with our guidance. This was driven by operating leverage and disciplined cost control. We remained focused on executing our strategic growth pillars. In the first half of the year, we expanded our network to 11,793 stores up 11% year-over-year.

We are also upgrading our guidance to over 1,300 stores opening this year in Poland and Romania. We also made further progress in our digital customer offering in Q2, a segment which grows nearly twice as fast as the group. Looking ahead, we remain confident in delivering our guidance in the near term and in 2025 and upgrading it in terms of the new store openings.

So like-for-like growth in the mid to high single digit range in 2025, revising guidance upwards in terms of network expansion from over 1,100 to over 1,300 new stores opening across Poland and Romania in 2025. Adjusted EBITDA margin towards the top end of our 12 to 13% range in the near term and midterm.

And in the end, continued improvement in adjusted net income margin to 3% in the near term. Ladies and gentlemen, that concludes our presentation and now we are ready for your questions. Thank you.

Moderator:

Thank you. If you wish to ask a question, we ask that you please use the raised hand function at the bottom of your Zoom screen or if you've dialed in, please press star nine. Once you've been invited to ask your question, please unmute and ask your question.

If you've dialed in, please press star six to unmute. We'll pause for just a moment to allow the questioners to enter the queue. Our first question will come from Grzegorz Kujawski from Trigon. Please unmute yourself and ask a question.

Grzegorz Kujawski:

Grzegorz Kujawski from Trigon, good afternoon. Congrats on site results, especially considering the broader market backdrop. I have three questions please. First on gross margin, could you clarify the main drivers behind this 100 basis points improvement at Żabka, in particular, it would be helpful to understand relative weight or contribution of each factor, especially QMS proposition and better terms of trade. And can this improvement be indicative to some extent in quarters ahead?

Marta Wrochna-Lastowska:

Thank you, Grzegorz. Thank you for this question. In terms of the key drivers, there are a number of factors which all helped us to achieve this good result. So as I mentioned during the presentation, we were able, based on the increasing scale, improve our terms of trade with suppliers. We were also more effective in terms of promotions. So we used data and our digital tools, including primarily the app to personalize the promotions and therefore to optimize the promotion spending.

On the top of that, we were very focused on the cost side as well. So for number of quarters, we have introduced the operational improvements which help us to build the results and it were across the entire organization, especially as I mentioned within the logistics area where we benefited from the automated distribution center and the enhanced operational efficiency which we could achieve with this new distribution center.

We also improved the scheduling for our deliveries and the routing based on the data and the digital tools, which helped also to minimize costs. On the top of that, we lowered the consumption of dry ice, which is also quite costly, which impacted positively the cost base as well. We reduced the energy cost and there was a positive market trends in terms of the energy prices as you know for sure. And it helped us in terms of the results.

And on the top of that, across the entire organization, including headquarters, but primarily also the field force. We used the data and the digital tools to optimize the processes and build the efficiency. So I would say that number of factors impacted the good results. And what is important, I think that the operating leverage and the cost efficiency, which you could see in the first half of the year, they will support us also in the second half of the year.

What remains unknown is the consumer and the market condition and the weather of course, but on the cost side, we will benefit from the changes we've done also in the second half of the year.

Grzegorz Kujawski:

Thank you. Your answer is also connected with my second question around the guidance of adjusted EBITDA margin which is maintained and might be too conservative. Looking at the second quarter where

you already reach 13% and looking at the H1, when you deliver 40 basis points improvement year-on-year and H2 is typically seasonally stronger.

So are we overlooking potential headwinds such as weather in Q3 or investments in engine-related businesses? Could you answer that?

Marta Wrochna-Lastowska:

So I think, Grzegorz, we prefer to stay on the conservative side and therefore we stick to our full-year margin guidance, which we shared in the beginning of the year. There are of course some uncertainties around the consumer and Tomasz discussed that in the beginning of this call. So there are some mixed signals in terms of the consumer environment. And on the top of that, there is also weather which we cannot control. So given that, we will prefer to stay on the conservative side and not to change the guidance. But as I mentioned, the positive, especially costs improvements, which you see in the first half of the year will be continued in the second half of the year.

Grzegorz Kujawski:

Okay. The last one for me is around expansion in Romania where we saw a lower openings in second quarter to first quarter while you increased the guidance for the store opening this year. So is Romania also included in the upgrade guidance? Any update there?

Tomasz Blicharski:

You mean lower openings in Romania in the second quarter, second part of 2025 you mean, or '24?

Grzegorz Kujawski:

I mean quarter-on-quarter.

Tomasz Blicharski:

Quarter-on-quarter. I think look at when we provided the guidance 1,300 stores, this includes both Poland and Romania. And in terms of Romania, we mentioned a few times already that we will be ready to share more material update in the second part of '25 and we'll do so briefly, well, probably in next or one of the next meetings with you, which would include some more granular information.

At this stage, we're still in the early days of Romania, there could be some variances. Therefore, we're testing a few things still already. And what we can say at the moment is we maintain what we disclosed already for Romania, which means that we're encouraged by some of the things including the customer feedback, including the traction of the customers, especially with the QMS.

But we also fine-tune some of the things including the store format for residential areas, assortment, etcetera. So I think at this stage we would like to conclude Romania with this information.

Grzegorz Kujawski:

Okay, thank you.

Moderator:

Our next question will come from Piotr Łopaciuk from PKOBP. Please unmute yourself and ask your question.

Piotr Łopaciuk:

Hello. I have several questions. I guess four, maybe I will ask them sequentially. So first, starting with the quick one, the outlook for openings, it's gross openings or net openings?

Marta Wrochna-Lastowska:

Gross openings. We always provide the guidance for gross openings and what we also shared during the IPO is that the closures of our stores will be below 1% per annum.

Piotr Łopaciuk:

Great, thank you. So I have a second question concerning to your revenues. The item related to revenues to sales into increased stores. Inventory seems particularly high this quarter and this position seems quite volatile and definitely influencing the results on several levels.

And so my question is, would you provide maybe the ratio of inventory versus sales or inventory rotation for the network of stores, which would give some idea how to forecast this change on average?

Marta Wrochna-Lastowska:

It's very good question. Thank you, Piotr, for that. So the reconciliation for everyone, the reconciliation between sales to end customers and the revenue is provided in the management report and you can clearly see what is the story inventory change.

So what is important to understand is that for us, as long as we open new stores, store inventory change will be always positive because it represents the inventory at newly open stores.

When we accelerate the expansion in the first half of 2025, you see that also the higher increase in store inventory change. That's first point. But you referred also in your question, particularly to the high increase in the second quarter. And this is driven by the different timing of Easter this year compared to last year, and inventory replenishment at our stores ahead of the spring season.

So when assessing store inventory change, it will be better. It will be more accurate when you look on the H1 figures, so year-to-date figures, not necessarily figures for the second quarter, because they are distorted by this phasing effect. So last year the seasonal inventory build up before the spring season took place in the first quarter of the year, whereas this year, the replenishment took place in the second quarter. And as a result, when you look on store inventory change, particularly in the first quarter this year, it was 70% lower than in the first quarter last year, and in the second quarter it was in the other way around. So the inventory change was higher this year compared to last year. Therefore, it is more representative to look on the first half figures. I'm not, Piotr, if it was clear for you, and-

Piotr Łopaciuk:

Yes, yes, it's clear, but just the element I asked would be the inventory to sales ratio.

Marta Wrochna-Lastowska:

The rotation, the rotation of-

Piotr Łopaciuk:

Rotation or whatever in the network. Yes.

Marta Wrochna-Lastowska:

Yeah. There is no significant change in rotation of inventory within our network. You can see that when you look on the receivables and the rotation of receivables, there is not significant change. There may be some, but it is not very significant. So we don't see any particular increase in the rotation of inventory at our source.

Piotr Łopaciuk:

And I mean, could you share the rotation, not the change, but the level of inventory versus sales?

Tomasz Blicharski:

I think it is in the management report, it is the receivables from the franchisees that represent the stock on the store level. Therefore, it is in the report which you can have access to.

Marta Wrochna-Lastowska:

Yeah. It's not 30 days, but yeah.

Tomasz Blicharski:

And you have also the history, et cetera. So there are all the data points over there.

Piotr Łopaciuk:

Okay. So the next one would be concerning the acquisition of franchisees. The data in the presentation this time show that there is 17% increase in the franchisee acquisition in last 12 months versus last 12 months, a year ago, while a quarter ago the dynamics was 10%. Seems quite a change for one quarter. I mean, I know there's a little bit faster pace of shop openings, but have you recorded increased potential of franchises or why the change is that significant, I would say, for one quarter?

Tomasz Blicharski:

Yeah. The rotation remains at the very similar level to prior quarters. What we have done here is, as you have rightly pointed out, on one hand increase the expansion, but secondly, we also reduce the number of stores per franchisee slightly.

Piotr Łopaciuk:

Okay, thanks. And the last one probably related a bit to the previous question concerning the sales inventory. So I guess this also influences the gross margin level. Yeah, operating leverage, and probably it's also a factor which, I mean, the operating leverage, it also influences your gross margin level, I guess, this quarter positively.

Marta Wrochna-Lastowska:

Yeah. I think when you see the improvement in the gross margin, I think the data for the first half of the year will be more representative for the longer period of time. There are always some variances between the quarters, so therefore I would prefer to look at the first half data.

Piotr Łopaciuk:

Okay, thank you. And the last one, sorry for the long list. The question about, I mean, when I look about, let's say per square meter this quarter, year-on-year it looks like plus 2.5% while the likes are 6.1. Is it the opening timings that new stores opened mainly in the end of the quarter, or why? I mean, I know it's influenced by the process of maturing the new stores, but the difference seems quite high. I mean, is it the timing of openings focusing down of the quarter or was the reason, I mean, in first quarter the reason was shorter calendar, I mean, shorter February? Now what can be the reason?

Marta Wrochna-Lastowska:

I think that the main reason may be accelerated expansion. So where you have more non-mature store within the network.

Piotr Łopaciuk:

Okay. Thank you very much for answering this a bit long list. Thanks.

Marta Wrochna-Lastowska:

Thank you.

Tomasz Blicharski:

Thank you.

Marta Wrochna-Lastowska:

Thank you, Piotr.

Moderator:

Our next question will come from Ryszard Miodonski from Insignis TFI. Please unmute yourself and ask your question.

Ryszard Miodonski:

Hi, Ryszard Miodonski, Insignis TFI. Thank you for your presentation and congrats on your results. My question will be regarding the opportunity in the ads market. On page 10, you are mentioning I think for one of the first times the opportunity that you have around 4,000 screens right now in the 3,000 stores that you have. And the question is, what kind of opportunity you see over there, whether you are planning only to sell those at inventory to yourself or also to the external partners, how big might that be? What kind of margins are achievable? And that's the first question.

Tomasz Blicharski:

Yeah. Thanks Ryszard, and good to hear from you. So we are still in the process of installing screens, so we haven't finalized it, this process. We're still kind of adding additional screens and there is still some way to grow that number. We want to be one of the key players in that market overall. If you look at our number of screens with impact on the number of customers, we could be the leading or one of the leading players on the entire Polish market, irrespective whether this is retail or not retail. And that gives us several opportunities. So firstly, we already cooperate with a number of different brands. As you see, we have 170 campaigns sold, which includes the external parties and that includes both the

suppliers to Zabka as well as completely third party, complete third party. So the companies that do not have existing business as a supplier with Zabka.

So in fact we have a triple opportunity. One is to promote our own products, our own brands or whatever we decide. Secondly is to sell it to the suppliers of products. And thirdly is to sell it to third parties, which are not suppliers. We already do this. Having said that, we are still in the ramp up phase and growing that business. We believe that this has two benefits. Firstly with this first two parts have impact on the top line as well as the bottom line. So we see from the current business that this has somewhat of an impact on like-for-likes as well as obviously from the third parties have impact on the bottom line as well. In terms of the products which are not sold at Zabka store, so the third bucket that I mentioned, this obviously includes, this doesn't have an impact on like-for-likes but has impact on the bottom line.

Overall, the profitability of this business is very high. So you can, well there are some benchmarks from other retailers. So this is a very, very profitable business if you look at as percentage of revenue. Having said that, we're still in this phase where we ramp it up. The marketing-selling cycles are long. We have launched it late last year, which was too late for this first cycle because these are annual and we're preparing with our inventory, so the screens for this year's marketing cycle, which is towards the end of this year. But overall we're encouraged by both impact on the customers. That's why we mentioned it here, but also in terms of interaction with the third parties.

Ryszard Miodonski:

Thank you. My second and final question would be regarding also the advertising part of the business that you might be expanding over the future. Whether any result of that is included already in the guidance regarding the DCEO part or the guidance for the Zabka, or should we treat that as the add-on?

Tomasz Blicharski:

Sorry, I didn't fully understood your question. Which other business?

Ryszard Miodonski:

I mean whether the advertisement part of the business that we are talking about right now, whether it is included in the guidance or not.

Tomasz Blicharski:

When we presented the long-term plan, this was not really included because it was too early.

Ryszard Miodonski:

Thank you.

Moderator:

As a reminder, if you would like to ask a question, please use the raised hand feature. If you've dialed in, please press star nine. Once you've been invited to ask a question, please unmute and ask your question. I'll just allow another moment to allow any more people to form a queue. Our next question will come from Grzegorz Kujawski from Trigon. Please unmute yourself and ask your question.

Grzegorz Kujawski:

Yes, I will. The final question regarding sharp increasing franchise margin in Q2, I would like to grasp to what extent did the increased results from category mix and the growing share of higher margin categories also benefit franchises or any other factors? And is the growth indicative of the quarters ahead or should we take a broader view of the context?

Marta Wrochna-Lastowska:

Yeah, I think that, Grzegorz, the increase, particularly in the second quarter as a result of what we discussed in terms of change in inventory and the timing of replenishment of the inventory at stores. So the fact that particularly in the second quarter there was a difference in dynamics of revenue and difference in dynamics of sales and customers impacted also the increase which is visible for the second quarter. Therefore, when you think about the indicative numbers, more representative is the number for year to date. So 0.3, 0.4 percentage point increase is this something what we can expect and which is more representative for the more longer period of time.

Grzegorz Kujawski:

Thank you. That's helpful.

Marta Wrochna-Lastowska:

Thank you, Grzegorz.

Moderator:

Well, that concludes the Q&A session.