



Zabka - Q3 2025 Financial Results of Zabka Group – Conference Call
October 29, 2025

Moderator:

Good afternoon, and welcome to the Q3 2025 financial results of Zabka Group conference call. After the speaker's remarks, there'll be a question-and-answer session. This webcast will be recorded, and an archive of the webcast will be posted on the company website. By participating in the Zoom call, you are agreeing that recordings made during the 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 raise hand function at the bottom of your Zoom screen or if you've dialed in, please press star nine. 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'd now like to hand the call over to Tomasz Suchański.

Tomasz Suchański:

Good afternoon and welcome to our meeting with the Zabka Group, where we'll be discussing results of third quarter of 2025. My name is Tomasz Suchański. I'm CEO of Zabka Group, and I'm joined today with two of my colleagues from the board, Marta Wrochna-Łastowska, the group CFO, and Tomasz Blicharski, the group's chief strategy and development officer. I'm very pleased to inform you that in the third quarter of 2025, Zabka has delivered another strong performance, continuing to build momentum across key financial and operational metrics. Sales to end customers reached 8.5 billion Polish złoty, up 14% year over year, with like-for-like growth of 4.5% this quarter and 5.5% year to date. This result confirms the strength of our customer proposition and operational execution in the context of adverse weather conditions this summer. Marta will provide more details on our financial performance later during today's call. Our store network expanded to 12,099 locations across Poland and Romania with 1,296 openings over the last 12 months.

That means that in the last 12 months, we have already achieved our upgraded guidance of 1,300 new stores annually in the projected horizon. This is facilitated by our increased rate of stock conversion, which Tomasz will discuss later on. Profitability improved significantly in the third quarter. Gross profit was 1.5 billion, up 13% year over year, and adjusted EBITDA grew 14% to 1.3 billion. Our core businesses, ultimate convenience stores in Poland, delivered 0.2 percentage point margin improvement

driven by disciplined cost management. Adjusted net profit reached 505 million Polish złoty, a very strong 48% increased year over year, mainly as a result of a strong operational performance and our successful refinancing efforts, which significantly decreased our financial costs. Finally, we continue to de-leverage and achieved our goal of net financial debt to adjusted EBITDA to one times, down 0.4 year over year, supported by robust cash generation. This is in line with what we have told you during our Investor's day when we announced that we will recommend to the board of directors for the freed-up profits to be transferred to our shareholders in a form of dividends.

Overall, the customer environment remains rather stable. Similarly to the last few quarters, there are still a few cautionary signs in the retail sales data of fluctuating customer confidence readings, but at the same time, customer confidence has been rising over the last few months. Tomasz will share more in that area later during the meeting. Żabka has accelerated its store rollout pace in line with our upgraded guidance. We have just opened 12,000 store in Poland. We opened 323 new stores in the third quarter alone, bringing the nine-month total to 1,127 locations.

We are firmly on track to deliver our revised target of 1,300 plus openings this year across Poland and Romania. Like-for-like growth reached 4.5% in third quarter and 5.5% year to date, which was heavily impacted by weather conditions. As anyone who spent some time in the summer this year in Poland knows that it was actually no summer at all, and we assess the negative impact on our like-for-like from this to be between one or to 2% percent of all points in Romania. Our footprint expanded to 122 stores, with brand awareness improving and traffic closing at the gap total levels observed in Polish stores. Our digital businesses continue to grow dynamically with sales to end customers up 22% year over year in the third quarter, and we have several new initiatives in the pipeline. I will now hand over to Tomasz, who will talk more about that and other matters related to strategic execution, and we'll also, as usually walk you through the market environment. Tomasz.

Tomasz Blicharski:

Good afternoon, everyone. Starting with a macro backdrop on the consumer, compared to our previous meeting in August, we see that trends are similar. So we see continued real wages growth, we see the inflation that has been slightly declining, and we see that the customer confidence index has been increasing and is actually at the last reading the highest it's ever been. Having said that, we also see that the households assessment of financial situation has been fluctuating and not increasing similarly to the customer confident index. As well as we see that the labor market has somewhat behaved differently this summer compared to the prior summers, and the unemployment has very slowly but grew in that period of time. On that backdrop, the grocery market in Q3 increased as per Nielsen by four and a half percent, which is slightly lower growth, but similar to the prior quarters that we've seen between five and 6%. We believe that that was partially caused by the unfavorable weather, which impacted especially our channel.

That is convenience, that is impulse channel. Having said that, on that backdrop, our growth of more than 12% has been actually not dissimilar to prior quarters. We continue to increase the market share

this time to 10.7% and this is the highest reading we ever had, similar to prior quarters because as you see on the right hand side, we consistently grow our market share over the last several quarters. If you look at the growth drivers that contributed to that growth, firstly starting with the expansion, we have opened more than 1,100 stores in the first nine months of the year, which is a significant acceleration compared to the prior year because we opened more than around 130 stores more compared to last year and in the LTM period, so that which includes the Q4 last year, our expansion reached close to 1,300 stores and we are therefore on track to achieve what we have told you recently about, so our revised opening targets of more than 1,300 stores in this year.

It is also important that we reached yet another milestones and our network have crossed 12,000 mark in recently. If you look at the sources of expansion, so sources for the locations, what we see is that there is an increasing trends of direct conversions. That is true for all the types of locations, all the city sizes where this conversions have crossed 30%. They are currently at 32% of all the sources for all the stores, but it is increasingly true for smaller locations, smaller cities, where this ratio reaches close to 40% and has increased similarly to the whole network. And what is important to mention here is that that is in the context of still close to 50,000 of small, independent or loose franchise network stores operating in Poland, which every year a few thousand disappears of them and as I said partially we convert them directly into Zabka stores.

Obviously, in order to open the store, we also need the franchisee, and here we've been continued to successfully recruit the franchisees. In the last 12 months, we recruited 2,600 franchisees, which is an ample number to both grow the network and be able to supply the rotation for when the rotation of a franchisee happened. What is important as the success of a franchisee is important for the success of our business. We continue to provide favorable financial terms for the franchisees, and the income of the franchisee have grown over that period of time.

During the last investor day, we shared more information about Romania, and what I'm happy to say here during this meeting is that we are very satisfied with the performance in Romania. In the first 12, 15 months of operations, we opened more than a hundred stores in Romania. We currently have more than 120 stores in the country, and we were the fastest growing retail chain in food related retail over that period of time. What is also important is that these stores perform very well. In the last month, the number of visits in Romanian stores have reached the average for Poland, which is above our expectations.

What is also important is that the customers choose our QMS products even more frequently than in Poland the share of QMS is north of 30% and is on the same benchmark as the top Asian very mature convenience operators. What is also important is that the brand awareness has been growing and is now closing to 50% in Bucharest, which is the key market in which we started our expansion and all of that compared with some data that we drew from the first 15 months of operation have made us to reassess our long-term white space potential for Romania and increase the potential for the long-term from four to close to 8,000 stores that we will ultimately operate in this country.

Coming back to Poland and looking at other drivers of our growth, so the like-for-like and digital businesses starting with like-for-like, we continued very positive growth of quick meal solutions and street food, which is not directly on the slide, but worth mentioning it. It was yet another quarter of this category being the biggest contributor to like for likes and growing as the fastest category. But I want to draw attention to two new initiatives that helped us in the last few months and will increasingly help us to grow our sales in the next few quarters. So the first one is AI-based hyper diversification of store formats. This is another phase of this project which we have been using for the last several years. Effectively, we use the data and the models to tailor the assortment to the location. What we did now is we have further adjusted the product categories as well as the products themselves to the location which resulted in the increased growth of sales of the stores and we'll continue to build on this in the next few quarters and further employ the next iteration of these models as well as supported by the commercial and operational actions to drive sales based on this methodology. And secondly, we have increased the POS assisted sales.

We have been using a new tool, gamification, among the sales assistants in the last few months, and based on that, they've increased their efforts, and that resulted in increased sales of products which are recommended during the checkout time for the customers, especially for the snacking business. That resulted at double-digit like-for-like in this category in Q3, which was significantly higher than the market. Moving on to the digital businesses here in terms of existing businesses, we've been expanding the e-grocery business to third city, Wrocław, over this last quarter, and we are very satisfied with the adoption rate. That business has been growing very nicely. We also used Vault platform on top of existing assets or on top of the apps, as well as the Zabka app to support this first phase of growth, and we see that that works very well. We have that market being at this stage, very successful, given this new kind of period and the new city.

But we also are launching two additional digital or digitally related services. First one is the Easy Drop, the commercial name, which is the fully integrated but asset-light ecommerce courier that is available for the customers at Zabka stores. So when I'm a customer at Zabka, I can now order my online shopping and pick it up at Zabka. The logistics will be done by Easy Drop, or most importantly, return the parcel that I already bought at Zabka store using Easy Drop Logistics. What is different compared to between this service and some other services that are at the market is that it very much uses existing Zabka logistics. So there is no incremental costs, and the free space in the trucks and in the logistical centers that we have, and that makes it highly synergetic and therefore cheaper to operate. Therefore, this will be targeting economy sector of customers and use cases that do not require very fast delivery times, but at the same time, the price for the customer will be considerably cheaper than anything else on the market, and that is possible because of the use of existing assets, logistical assets, and therefore the synergies that we have with the core business.

The second new service, Żappo, which is our way of venturing into FinTech world, is buy now pay later service that we are currently testing among the quite wide group of customers. So effectively a service whereby you pay using this service, you don't have to pay immediately at Żabka store, you have up to 30 days of no interest delay.

And here we see that this test has very high adoption. There is five times more users as compared to the similar phases of other services that we have seen before. And what is important, the way it impacts the customer behavior is such that the average basket of the customer that uses this increases significantly. And with that, I'd like to pass the microphone to Marta and move on to the financial. Thank you very much.

Marta Wrochna-Łastowska:

Thank you, Tomek. As you see, we delivered a robust set of results in the third quarter of 2025, demonstrating strong execution across all strategic pillars despite the headwinds posted by an unusually cold weather in Poland this summer. To give you a tangible data on this, all the months in the third quarter of 2025 were colder and there was more rain than in the third quarter of 2024 and the weather impact on our like for like was between one and two percentage points.

In this context, we achieve a healthy like for like growth in the third quarter, which was pretty similar to the like for like which we achieved in the first half of this year. When you look on this data, we also delivered double-digit year-on-year growth in all the key financial metrics including revenue, reported EBITDA, and importantly, also net profit. Margin expansion continued across both our core Polish operations as well as digital convenience ecosystem, reflecting disciplined cost management and operational efficiency.

Sales to end customers reached 8.5 billion Polish złoty in third quarter, up 14% year-on-year. Revenue growth remained strong as well with a double-digit pace of 13% year-on-year. This is a solid growth, especially considering the base from third quarter last year and the drag from colder weather I mentioned. In the third quarter, we delivered like for like 4.5% despite the challenges we have discussed.

Our performance was supported by continued progress in QMS, the premiumization of our product offering. This momentum reflects the impact of recent strategic initiatives like further format diversification, which was mentioned by Tomek, marketing initiatives and new products within that digital space, including our app. Our strategic categories continue to perform in line with our expectation with QMS again leading the way.

Additionally, we accelerated our store rollout strategy in line with our new guidance of targeting 1,300 new locations in Poland and Romania annually, an ambitious step that underscores our commitment to market leadership and long-term growth. Over the first nine month of 2025, we open 1,127 new stores across Poland and Romania, 130 stores more than in the same period last year, like it was shown already by Tomasz.

Moreover, we are very proud of our performance in Romania. As at the end of September, we had 122 stores in Romania and our most mature stores cohort are delivering already a positive contribution,

which reinforces our confidence in continued expansion. We plan to open more stores later this year and also throughout the coming years.

In the third quarter of 2025 adjusted EBITDA reached 1.3 billion Polish złoty with a margin expansion of nine basis points. It was driven by strong performance in our Polish operations, disciplined cost management, and continued improvement in profitability of our digital convenience offering. As a result, adjusted EBITDA margin for the nine-month period increased by 26 basis points.

As you may recall, our previous guidance for the adjusted EBITDA margin anticipated a stable outlook for 2025, mirroring the 12.8 margin, which we achieved in 2024. However, in light of our robust year-to-date results and the strong performance of our core business, we are now increasingly confident in delivering a modest improvement to our full year adjusted EBITDA margin. We now expect it to be at the upper end of 12, 13% range.

Moreover, our adjusted net profit for third quarter reached 505 million, an impressive 48% increase year over year. This growth reflects not only our strong operating performance, but also the successful execution of refinancing initiatives and improvement of our effective tax rate. I'm proud of our consistent progress in improving the bottom line.

I'm now highly confident that this year we will achieve our near-term adjusted net profit margin target of 3% with we've continued growth in the coming years towards our mid-term target of 4.5. Finally, when he looked in our cash flows, strong operational momentum, disciplined capital expenditure and improved profitability helped us deliver free cash flow of over 600 million in third quarter 2025. Many of you will recall our announcement during the investor presentation recently where we confirmed our readiness to initiate the dividend payments once the net debt to EBITDA ratio reaches 1X. I'm pleased to share that Żabka group has now once again delivered ahead of schedule. As you all can see on this page, we are already there. We have achieved the leverage ratio of 1x.

Looking at our profit and loss. Żabka delivered strong year-over-year growth in sales to end customers in third quarter with double-digit growth across all key metrics. We increased franchisee payout with franchisee margin rising from 16.7 to 17.1. The increase was primarily driven by the group's continued investment in strengthening relationship with our franchisee partners, an area we committed to as a key pillar of our growth model.

Our gross profit continues to highlight the strength and resilience of our business model. Even in a particularly challenging environment, the margin experienced only a slight decline entirely due to the recognition of our LTIP and IPO related bonuses expenses in the current year. Excluding those one-off costs, our quarterly margin would have increased by 10 basis points, reaching 18% instead of the reported 17.8.

Adjusted EBITDA rose by 14.3% with a nine basis point margin improvement, underscoring our ability to drive operational effectiveness. Reported EBITDA reached zł 1,226,000,000, 12. 2% year-on-year growth,

negatively impacted by the recognition of 51 million expenses related to LTIP and IPO award. Our net financial results now clearly reflect the positive impact of our refinancing initiatives.

In third quarter, we successfully concluded our negotiations on our main credit facility agreement and recognized a gain of approximately 90 million from the loan modification, driven by a reduction in the margin on our main credit facilities. As a reminder, in the second quarter, we recorded a non-cash charge of around 50 million related to early repayments of the previous loan.

In the third quarter, we have improved our effective tax rate from 27 in the third quarter of 2024 to 22 in the third quarter of 2025. Consequently, our adjusted net profit amounted more than 500 million Polish złoty in third quarter, up 48% year-over-year. When you look on the next slide, we highlight Żabka adjusted EBITDA, which increased by more than 14%, rising from 1,119,000,000 in third quarter, 2024 to 1,279,000,000 in the third quarter of 2025. Despite the challenging environment in the third quarter, growth was driven primarily by strong performance of our core business in Poland, ultimate convenience, supported by both like for like growth and continued store expansion alongside a modest cross-profit margin improvement. This margin expansion reflects improved terms of trade with our suppliers, higher volumes, and more effective promotional activity, particularly through our upgraded customer app.

On the other hand, poor weather conditions, which we discussed, affected sales of the impulse categories and impacted negatively our product mix, especially sales of soft drinks. Operational discipline continues to be one of our key strength. Over the past quarters, we have maintained a sharp focus on the cost efficiency. The inflationary pressure we had observed until recently have eased. The inflation we are currently seeing in our cost base and the key CapEx expenditure remains below our like for like sales growth, which positively contributes, as you see, to our profitability. When you look on the central costs, including marketing, tech and G&A in the third quarter of 2025, they remain flat year-over-year as a percentage of sales, G&A and tech costs showed a slight higher dynamics in third quarter, primarily due to catch-up effect following lower spending levels in the second quarter. So this is mostly phasing.

Turning to the new growth engines, which now includes both digital convenience offering as you remember and Romanian operations, the segment posted a minor negative impact of 1 million in EBITDA and this reflects the early-stage development of our Romanian business, while digital convenience offering continues to generate positive and growing EBITDA, demonstrating its operational maturity and consistent performance.

Finally, when you look on this page, the adjustment and reclassification, which you see on this bridge, 52 million, they include 20 million of non-cash IPO award costs granted to the franchisees, our employees and B2B contractors, 31 million of LTIP expenses, and 1 million of reclassification primarily related to the minimum tax in Romania. As a result, the reported EBITDA was 1,226,000,000 in the third quarter of 2025.

Now moving to cash flows. As you may recall, our cash flow generation continues to follow a clear seasonal pattern. Historically, the first and the fourth quarter are the weakest quarters. The second quarter is structurally the strongest, and the third is more neutral, remaining a cash flow positive as you see. In the third quarter of 2025, we generated over 600 million of free cash flow, slightly below last year.

The decline is due to a one-off sale and leaseback transaction of 123 stores in the third quarter last year, in third quarter 2024, which added around 120 million to the last year's results. Excluding this impact, the free cash flow year-on-year growth show growth driven by strong adjusted EBITDA growth and the disciplined CapEx as you see. Those includes investment in the store expansion and digital development.

We also saw a small net working capital outflow of 17 million, when you look on this chart, which is a typical for third quarter. Last year, third quarter was positively impacted by a calendar effect with more receivables repaid with in-depth quarter as June 2024, so the end of second quarter ended on a Sunday. Overall, the results of the third quarter confirm our ability to generate positive cash flow while in the same time to continue invest in our growth.

Now moving to the leverage. As you may recall, during our investor day meeting, we announced our dividend readiness subject to achieving a net debt to EBITDA ratio of 1X. I'm pleased to report that as of today, we have reached this level. Our successful leveraging now will allow us to redirect the generated excess cash to our shareholders. In line with our strategic guidance, we remain firmly committed to maintaining leverage around 1X over the medium term, ensuring financial flexibility and supporting sustainable growth.

That said, the 1X target is an indicative target and you might see some seasonal variations in the range of 0.1X. The last point I would like to discuss today is the new capital allocation policy, which we announced during our investor day. As you recall, it is designed to deliver long-term value creation through growth. Growth is and always will be our key priority. This is our DNA. We have revised our expectation guidance upwards, as you have seen, from 1,000 to 1,300 new stores annually across Poland and Romania between 2026 and 2028. We have the target leverage of 1X, as I have already mentioned. This is on the pre-IFRS basis. And I would like to ensure you that the medium and long-term plans, which we have prepared, are prepared while maintaining the net leverage of approximately 1X, as well as retaining appropriate liquidity to maintain operational flexibility, which is very important for us. We also will have the optionality to allocate capital to synergetic bolt-on M&A. Organic growth will always be our primary focus, while we will continue to evaluate selective value accretive M&A opportunities to expand our capabilities or geographic footprint. And the dividend distribution of surplus capital after funding our growth investments was introduced within the capital allocation policy. So as we already shared, starting from 2025 financial year, we intend to recommend a dividend payout of 50% of consolidated current year net profit. And going forward, our policy is to distribute between 50 and 70% of net profit depending on our investment needs.

The policy also allows us for incremental dividends in years with one of earnings or temporary reduction in payout if the strategic investments such as M&A projects, for example, require it. Dividend recommendation will be made annually to the general shareholders meeting based on the group's consolidated net profit, reported net profit. This framework gives us the flexibility to scale, invest, and return capital to the shareholders while staying financially resilient and strategically agile.

When you look at our results, overall we are very pleased with our results in the first nine months of this year and I'm confident that we'll deliver to our promises we shared with you over the recent meetings. And with that, I would like to hand over to Tomasz who will conclude the presentation with our updated midterm guidance.

Tomasz Suchański:

Thank you, Marta. Let me turn to our updated midterm guidance, which reflects both the acceleration of our growth ambitions and the formalization of our shareholders return strategy. Starting with growth, we have increased our store network target to 16,000 locations by the end of 2028, which is 1,500 more than previously guided. This translates into an annual rollout of 1,300 plus stores up by 300 versus our initial plan. Like-for-like sales are expected to remain in the mid-single digit range for the full year of 2025 with a mid to high single digit trajectory over the medium-term.

On margins, we continue to operate with discipline. As Marta previously highlighted, for the full year of 2025 we now anticipate a modest improvement of our adjusted EBITDA margin toward the top end of our 12 to 13% range. Meanwhile, our adjusted net profit margin continues to strengthen confidently on track to reach our near-term guidance of 3% this year, with our medium-term target of 4.5% unchanged. In terms of cash flow, we reaffirm our leveraged target of one times net debt adjusted EBITDA post-rent, excluding leases. This remains a cornerstone of our financial strategy, ensuring flexibility and resilience. Finally, on dividend payout, as said before, we formalized our policy to distribute 50 to 70% of consolidated net profit annually. This includes the potential for incremental payouts.

Our goal and commitments are focused on consistently delivering these results and driving accelerated expansion in the convenience sector. And with that, this actually concludes our presentation. Thank you for your attention and let us now go to Q&A session.

Q&A Session

Moderator:

If you wish to ask a question, we ask that you please use the raise hand function at the bottom of your Zoom screen. Or if you've dialed in, please press star nine. Our first question will come from Jędrzej Łukomski from Rockbridge TFI. Please unmute your line and ask your question.

Jędrzej, your line is unmuted. Please go ahead and ask your question. As a reminder, if you would like to ask a question, you can use the raised hand icon at the bottom of your Zoom screen. Or if you've dialed in by phone, please press star nine. Just returning to Jędrzej, your line is unmuted if you'd like to ask your question. Okay, we'll move on for now. We'll go to Wojciech Knap from General Pension Fund. Please unmute your line and ask your question.

Wojciech Knap:

Hi, this is Wojciech Nap from General Pension Fund. Could you share with us some data about first implementation of sugar tax? What was impact on like-for-likes in your network? This is first question.

Marta Wrochna-Łastowska:

So I would say that every year, what we can see on the Polish market recently is the increase in excised tax and recently also in sugar tax. It has some impact on our like-for-like, but it has not significant impact. As you may expect, there was some movement coming from the different volumes of sales, but in general I would say it does not have a significant impact on our like-for-like.

Wojciech Knap:

Second question is about fourth quarter. This is a more regular quarter in terms of weather as I think and as I would expect. Should we see acceleration in like-for-likes comparing to third quarter?

Tomasz Suchański:

I mean, we are in the middle, so it's a little bit too early to say. That's the first thing. And surely we'll inform you about that at the beginning of next year when we would close the fourth quarter and the whole... Yeah, I don't know, Tomasz if you want to add something on that.

Tomasz Blicharski:

No, I think, well, it's even less than the middle, right? It's just first month. And the trends that we see in this quarter are similar to what we see. The weather impact is yet unknown. So we haven't seen the weather for the full year obviously. But what is important is that the Q4 weather generally speaking has less of an impact on our business because, well, the weather is already worse, as it is typically in Poland in that quarter.

Wojciech Knap:

Okay, thank you.

Moderator:

Thank you. We'll just try Jędrzej's line one more time. Your line is unmuted, so please go ahead, unmute locally and ask your question. Okay, so we have a written question coming in. The question is, what is the main reason for lowering the full year LFL guidance to mid-single digits? Weaker LFL in Q3 '25 or weaker trends also observed in Q4 '25?

Tomasz Blicharski:

Well, Q3, after three quarters of 2025, our accumulated like-for-like is just north of 5%, right? So in fact it is... Well, it is mathematics. In order to get to high mid-single digits, the implied like-for-like for Q4 would have to be substantially double-digit. And obviously if you look at the last few quarters, you see that our business is generally very stable and we didn't have, since the inflation abated, quarters with double-digit like-for-likes, right? And we have not guided for that. So I would say the mathematics have a lot to do with that.

Marta Wrochna-Łastowska:

Yeah, and on top of that, as you recall, our seasonality implies the bigger impact of the second and third quarter on our sales. So especially the third quarter, and to be precise, from May to September, those are the months which are, from the sales perspective, the most important for us as the traffic in Poland during the summer months is the highest. So given that we are already after the summer period in Poland, the impact of the fourth quarter on our like-for-like is of course lower than the impact of the third and second quarter.

Moderator:

Okay, as a reminder, if you would like to ask a question on the webinar, please use the raised hand feature. If you've dialed in, please press star nine. Once you've been invited to ask your question, please unmute and ask your question. Okay, so we have another question from Michał Potyra from UBS. Please unmute your line and ask your question.

Michał Potyra:

Hi, good afternoon. Thank you for taking my questions. I have two questions, please. The first one, if you could comment on your marketing expenditure that seems to be flat year-over-year or down as a

percentage of sales. I'm wondering if this is just some movements or is it a new trend that the marketing expenses should not be growing in line with sales? So that's the first question.

And the second question is if you could give a little bit more color on this one-off gain in the financial income. I can see that you have not bothered to adjust your net profit for that thing, which seems to be one-off to me. So if you can comment on that please, and also perhaps share if your dividend will be paid from the reported net profit or adjusted net profit, how we should think about this payout ratio going forward? Thank you.

Tomasz Blicharski:

Yeah, so maybe I'll comment on the first one first, and I'll let Marta do on the second and the third one. But generally speaking, the marketing in the last few years have been following our sales. Having said that, what is happening also is that, and this is a result of this, is the fact that there are some underlying changes in the way we spend the money. So first of all, as we discussed with you, we have, generally speaking, seen movement. We have been rolling out the retail media, so our own screens, and we've been migrating content from third-party assets, physical and digital into our screens as well as into our app. So that is kind of a structural shift that has been happening as we grow our digital ecosystem, and it helps us to be more efficient from that perspective.

Secondly, we generally see across the board in many aspects that inflation has been abating on the cost side, and that has been happening I would say even a little bit faster than what we have seen before. And that is also true for the marketing cost in some aspects. So I think these would be the two main factors that contribute to this.

Marta Wrochna-Łastowska:

Hi, Michał, thank you for the question. In terms of financial costs, so when you recall our meeting during the IPO, we promised that we'll deliver the restructuring of our financing. And what we have done over the last 12 months, we have, as you remember, we have adjusted our margin just after IPO on our main credit facility. Then in May we have issued the bonds, one billion of Polish bonds with a lower margin compared to the main facility. And finally, in September this year, we have renegotiated successfully our senior facility agreement extending the tenor of this agreement, but also agreeing with the bank's lower margin.

As a result, in line with the IFRS 9, we have recognized the gain on the modification of loan agreement. In fact, what the gain represent is the expected profit coming from successful contract renegotiation. So the expected cash flow related to the new agreements are lower from our perspective. So more positive on us compared to the old agreement, and therefore we see the positive impact on the profit and loss. So from our perspective, it is very positive news. It is the delivery of commitment we have shared with you during the IPO. We are very happy to have the financing, which is less expensive and very competitive, I would even say, currently on the market. We see continued support from our financing

partners, and I would say it is very positive news. We have not adjusted that, because we have also not... This is a standard, I would say, IFRS treatment of the amendment, significant amendment in the contract. When you recall, in the first half of the year, in the second quarter, we have recognized a non-cash cost related to early repayment of part of our facilities, and we have not adjusted for additional costs.

The costs were approximately 50 million in the second quarter of this year, and right now, we have a gain. But in general, I would say it is very positive. It impacts positively also our dividend capacity because we will pay the dividend based on the reported profits. So we are happy to... that this gain is supporting the expected dividend payment. So very positive news from our side Michał.

Michał Potyra:

Thank you for the explanations. If I may have one extra question, please. Maybe you could comment on the evolution of the franchisee margin that seems to be growing, and actually, that growth rate seems to be accelerating versus the first half of the year. So maybe you could comment what is your expectation for that margin in the medium term? Thank you.

Marta Wrochna-Łastowska:

Thank you for this question. In fact, the franchisee margin may fluctuate between quarters, and it is visible this year as well. We see... So it is better... When you look on the margin, it is always better to look for the longer period of time. So for the year-to-date period. This growth is more representative than the growth in a given quarter.

In fact, what we've seen this year, we see the very positive development and the dynamics of our QMS and fresh products and ready meals. Those products for us have more positive margins and therefore we also share with our franchisees the higher margin on sales of those products, especially given that there are some losses also related to the fresh products, as you may expect.

What we also see going forward is that the expected minimal wage salary increase next year is significantly smaller than for this year and for the last year, which should positively impact our franchisee costs next year. And assuming the weather will be normalized, I would say next year, we should not see the increase in franchisee costs next year similarly to this year. So we expect that the growth will be significantly smaller next year compared to what we see currently.

Michał Potyra:

Thank you.

Moderator:

Thank you. Our next question will come from Ryszard Miodoński from Insignis TFI. Please unmute your line and ask your question.

Ryszard Miodoński:

Hi. Thank you for your presentation. I would like to ask you questions regarding the new legislation that is coming into Poland. The first one is regarding the ban on the sale of alcohol at petrol station, which is already in a draft bill. And the second that is potentially introduced in a big cities, the ban of sale of the alcohol between specific hours in the night.

So the first question would be, how do you see the probability of this legislation to be passed? And the second, of course, assuming that you cannot answer the first one, what would be the theoretical impact of that ban on your net income? [inaudible 00:51:48] estimating that it will give you additional 10 to 15% of net income growth once it's passed. So thank you.

Tomasz Suchański:

So yeah. So you're referring to two changes. First one is the ban of alcohol sales in petrol stations and the second is about the hours with a ban of alcohol sales, overall, between 10:00 to I think six o'clock. That was what is in the pipeline. So, probability. I mean, it's... I cannot give the answer. Of course, we prepared our... prepare ourselves to that, but you never know what parliament will do, and then what the president will do.

So it's difficult to comment on that. If you talk about impact, of course, the first one, the petrol stations, the impact will be positive. The second one, we believe... we not only we believe. We know that also will be positive or neutral. And why we know that? Because 4,000 stores that we have from 12,000 that we have are already banned from selling alcohol between these hours, right. So it's Poznań. It's part of Warsaw. I think it's Kraków. So it's a lot of big cities that already introduced that, and we see a positive or neutral impact on our sales of alcohol.

Tomasz Blicharski:

Yeah. And the reason why this is, for those maybe that do not live in Poland, is that among the 50,000 mom pop stores. There are also, and I can't quote what the number is. I think in Warsaw alone, it's a few hundred stores that only sell alcohol, and they are 24/7. And these stores, majority of their sales is at night. That's their business model. And obviously, when the hour for regulatory hour changes, they're impacted the most, and we take over the business, but obviously only within the hours that we operate.

Moderator:

Thank you. And our next question will come from Elena Jouronova from J.P. Morgan. Please unmute your line and ask a question.

Elena Jouronova:

Hello. Congrats with good results. A few questions, please. So, you're quite still convinced that you can deliver around mid-single digits like-for-like for this year. Are you seeing any signs of acceleration of your like-for-like sales growth in October? And maybe you can walk us through the monthly performance of your like-for-like in Q3, and apologies if I missed it from the presentation.

Tomasz Blicharski:

I think we do not. We have shared the answer on the Q4. I think we see similar trends to what we have seen in the last few quarters in this quarter, with the hindsight that obviously the Q4 is generally a quarter that is less impacted by weather events, given that the weather is skewed anyway towards colder weather.

I think it's what is fair to say on the last few quarters that the biggest impact, generally speaking, in month-to-month performance has been around the weather, right. So, any variance which is generally limited compared to many other businesses, our business is very relatively more stable, given our market situation and the nature of small purchases... of small but frequent purchases that we do. So, any variance between the months was typically caused by the weather factors, right.

So you compare the weather between the different years, and you had good weather last year and better weather this year, or vice versa, you had some variance. But if you look at that across the board across the few... last few quarters, starting from Q3 last year, generally speaking, these quarters were relatively close to each other. And if you look at the variance for the last quarter, like what we mentioned, the variance was large extent caused by the weather between one to 2% of negative impact on the weather front last quarter. So I think from that you can get the feel.

Elena Jouronova:

Okay, thank you. And if we think about next year, you have good inflation probably decelerating. As you've mentioned, there's been a lot of disinflation on the supplier side. So, ultimately, it's going to translate to on shelf prices.

You have a 3% minimal wage hike as opposed to much stronger, what, 8% minimal wage hike this year. So how realistic is it that you can accelerate volume growth, right, because we're running this year at five, 6% like-for-like, best case? So how can you maintain this with probably a headwind from inflation? Where does the acceleration of like-for-like volume come from?

Tomasz Blicharski:

Yeah, I think commenting on this. On the inflationary front, on part of our assortment, for example, alcohol, there is excise increase that is planned, and also on tobacco that is planned for the next year. Typically, what we are able to achieve given our scale is even though the excise increases, we're able to keep the margin and the sales on the value front increase as well. So if you look at the last several years of these kind of increases, which were frequent, that I would say contributed mildly positively to our like-for-like sales and not negatively towards the margin front.

And secondly, we have quite a lot of things in our bag. One thing that is worth to mention is that QMS continues to be one of the strongest contributor to our like-for-like sales. It is... On the retail market, it is a unique kind of offering that we have. We are still kind of developing it even though we have finalized the remodeling of the chain, but only at the middle of this year. So there will be kind of a period of time where last... and part of the stores in the first part of the year that we historically didn't have this full offering, and the next year we will.

So, on that backdrop, I think we are able to kind of... And historically, we've been able to have better like-for-likes in the market. And if you look at the average excluding inflationary periods, it was in the range of five to 6%. So if you combine these two some initiatives, the excise, as well as the historical like-for-likes that we had, I think we see some positive signs on the... or some positives on potential re-acceleration next year.

Tomasz Suchański:

Maybe to add to that, we were informing you that this year, like-for-like was impacted by weather. So the base for the next year like-for-like should be lower.

Elena Jouronova:

Yes, I appreciate that, but it's very difficult to model weather next year, to be honest. If I can push you a bit more on that.

Tomasz Suchański:

But we do it on the averages, right. And of course, this year it happened, but when we do our models, based on the averages for the last years, and that for surely this year was unusual.

Elena Jouronova:

Yes, I agree. But I'm sorry, I need to push you a bit more on that because when you entered this year, your guidance range was from mid-single digit to high-single digit like-for-like, and it's a very broad range-

Tomasz Suchański:

And we're still in range.

Elena Jouronova:

... from... yeah, from five, five to nine. So the reality is that if we are coming at closer to mid-single digit and not high, there was something in the market that clearly did not go in line with expectations. And was it really just the weather effect in your opinion, or is it something else in how the market is changing or the consumer is behaving that actually led to this situation, and what of these factors could reverse next year?

Tomasz Blicharski:

I think we see this as a weather impact. If you look at our... this year compared to last year, I think it's fair. The best is to compare the rainfall and or temperatures in a given month. And majority of the months is actually negative, which is the first time it happened in the last several years. And as much as anyone, it surprised us.

If you look at the... From our part, if you exclude that, and we run quite detailed models on this to exclude the impact on certain categories, you would see I will... you'd see that the consumer has been average, right. We have not included in our forecast, and I think we even discussed it in some meetings, a strong consumer rebound. We see that the consumer has been kind of average if you look at the last 10 to 15 years, right.

I'm talking about this and also excluding, I would say, the inflationary time, which obviously distorts the situation, and we see this from that perspective. And of course, we... when you look at the like-for-like for the last several years, this is what we were able to... well, this is what we were achieves other than the weather impact that I mentioned.

Elena Jouronova:

Thank you. One final, very quick one. So franchisee margin. The share-based payments that you started recording in Q3, can you remind us if this is one-off or it's going to sustain in Q4 and in future years?

Marta Wrochna-Łastowska:

The IPO bonus is a one-off. So the payment to the franchisee B2B contractors the bigger employee group is a one-off, and it will be paid in the... the shares will be given in November on the first anniversary of IPO. And the LTIP, it's going to be recurring from the perspective of the plan. But as we explained, Elena, I think six months ago, I think, that the impact from the P&L perspective is the highest in the first year based on IFRS treatment. So the following years... in the following years, you will see the cost, but those cost will be lower compared to what you see this year.

Marta Wrochna-Łastowska:

And I think we provided details k in one of the presentations.

Elena Jouronova:

But we're talking about what sits in gross margin, not in OPEX.

Marta Wrochna-Łastowska:

This will be one-off because this relates to the franchise mostly. Yeah.

Elena Jouronova:

Okay. Nothing in Q4 then?

Marta Wrochna-Łastowska:

Nothing in Q4. Yeah, nothing substantial. Yeah.

Elena Jouronova:

Thank you.

Moderator:

Thank you. Well, there are no further questions, so this concludes today's call. Thank you, everyone, for joining. You may now disconnect.

Marta Wrochna-Łastowska:

Thank you.

Tomasz Suchański:

Thank you.