LPP

2Q22/23

# 2Q22/23 RESULTS PRESENTATION

GDAŃSK, OCTOBER 6, 2022

RESERVED CROPP house MOHITO sinsay

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2Q22/23





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# 01

# Key corporate events

# Further Reserved development in the Middle East

Opening of another Reserved store in Tel Aviv in July 2022.

450 $m^2$ large flagship in TLV shopping mall.

This is the fourth store of the brand in Israel, but the only store with women collection solely.

Total floorspace of stores in Israel came in at 2,757 $m^2$.

# Continuation of dynamic Sinsay development

Opening of 56 stores and 57,904 $m^2$ of Sinsay brand space in 2Q22/23 (63% of all open stores).

Some 40% of Sinsay's sales in 2Q22/23 were online. Children's collection had the largest share in online sales (some 40%).

Some PLN 23m of Sinsay online sales in new markets (Greece, Spain, Italy) in 2Q22/23 - value similar to total sales of the pan-European Reserved store.


# Strong back-to-school effect

Favorable sales dynamics both offline and online, in all markets, supported by two effects: return to school and change of wardrobe for the Autumn season.

Diversification of clothing and accessories collections for children and teenagers – visiting collections and everyday garments. Successful choice of licenced items.

Strongest support for revenues of Reserved and Sinsay brands. Online is already 50% of sales of children's collections of these brands.


# Actions streamlining the logistics

**Launch of operations of LPP Logistics - separation of this company as a response to growing importance of logistics in the supply chain**

We create subsidiaries (logistics and IT) to:

- shorten the chain of command,
- increase responsibility for achieving corporate goals,
- allocate capital in our Group more effectively.

- The key customer of LPP Logistics are companies from LPP Group.
- In addition, LPP Logistics can provide external services in the field of: sea freight, customs, warehouse logistics (especially during the low season for the Group).

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# We continue our operations in Ukraine



**96 stores**
operating

**38 stores**
close to the front zone,
no possibility of reopening

**25 stores**
destroyed in war

**159 stores**
before the war


## OUR STORES AND E-STORES SUPPORTED BY REGULAR DELIVERIES.

| | |
|---|---|
| **01.22** | Growing risk of Russia's attack on Ukraine |
| **02.22** | Closing of all stores in Ukraine on the day of the Russian attack on Ukraine |
| **03.22** | Successive re-opening of traditional stores in selected regions of Ukraine |
| **04.22** | Re-opening of e-stores, deliveries only to places indicated by courier companies |
| **06.22** | Deliveries of goods to traditional stores are resumed |
| **08.22** | First deliveries of Autumn/Winter 2022/23 collection for individual brands |



# Finalization of the sale of the Russian company

| | |
|---|---|
| 01.22 | Growing risk of Russia's attack on Ukraine |
| 02.22 | Russia's invasion on Ukraine |
| 03.22 | Decision to suspend operations in Russia - closing all stores in this country |
| 04.22 | Decision to sell LPP's business in Russia |
| 05.22 | Agreement for the sale of shares in the Russian subsidiary Re Trading to an investor from Asia |
| 06.22 | Commencement of the liquidation process of LLC RE Development (the second Russian company) |
| 06.22 | Finalisation of transaction and loss of control over Re Trading |
| from 07.22 | Gradual flow of receivables for goods from stores in Russia |

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# Significant losses on the sale of Russian subsidiary

## SALE OF RUSSIAN STORES

| | |
|---|---|
| PLN 601m | selling price to be obtained by the end of 2026 |
| - PLN 304m | impact of discount factor (credit risk, time value of money) |
| = PLN 296m | discounted selling price |
| + PLN 27m | FX differences (US$, difference between the balance sheet and selling date) |
| = PLN 324m | receivables from sale shown on the balance sheet (all are long-term) |

| | |
|---|---|
| PLN 296m | discounted selling price |
| - PLN 913m | value of shares in the Russian company on the balance sheet of LPP SA as at the date of sale (30.06.2022) |
| = -PLN 616m | losses on the separate financial statements |
| + other elements recognised in consolidated statements | |
| = -PLN 347m | **loss on loosing control** |
| -PLN 107m | losses on the results of activities of Re Trading between II-VI.22 |
| PLN 403m | write-off reversal |
| = -PLN 51m | results on discontinued operations in 1H22/23 |

## SALE OF GOODS IN STORES IN RUSSIA

PLN 1.1bn of receivables for goods in Russian stores as at July 31, 2022.

As result, recognition of:

- PLN 46.4m write-off on receivables, incorporation of credit risk,
- PLN 368m of FX gains from appreciation of rubble between the date of sale of the Russian company and the balance sheet date.

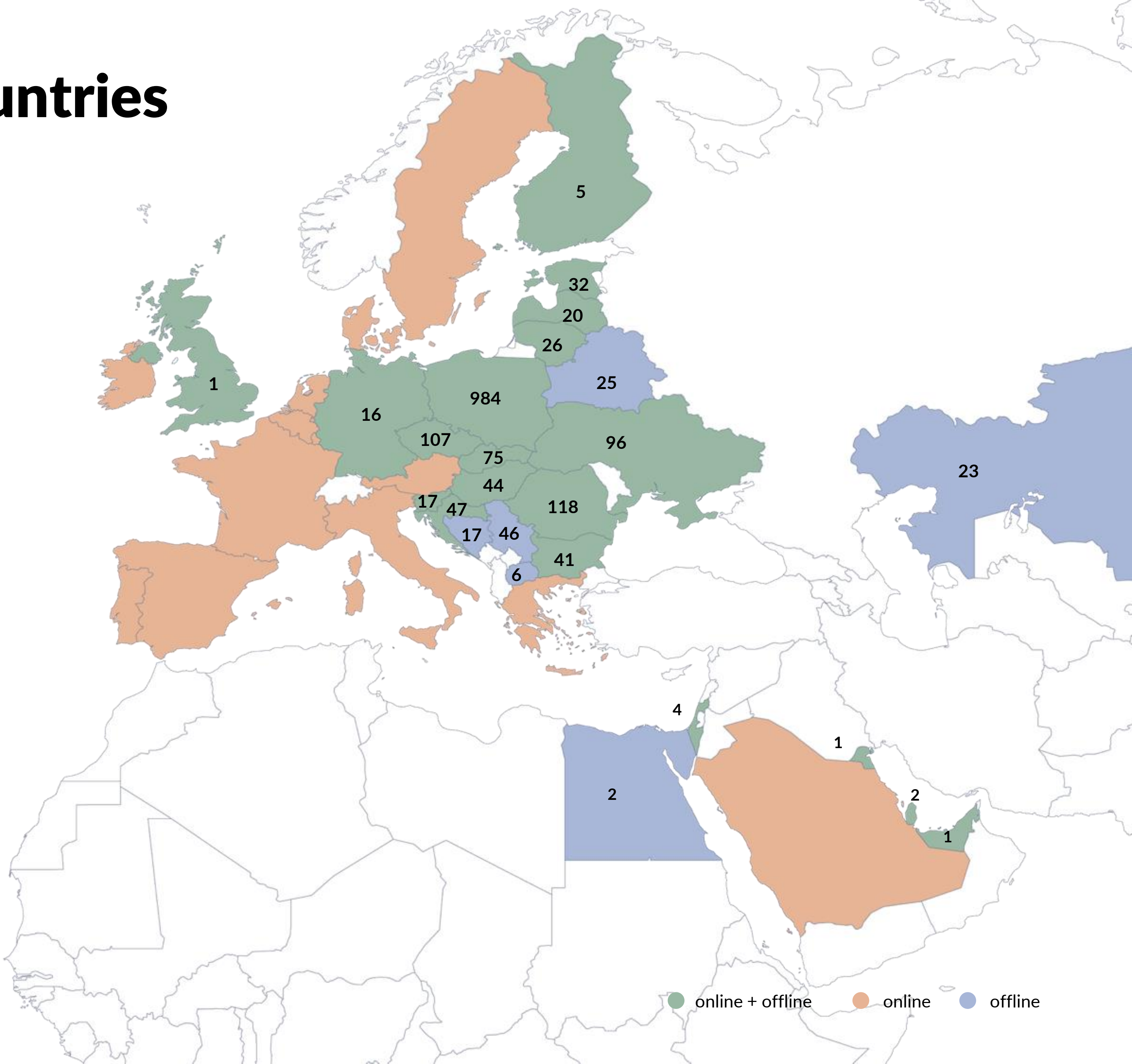
According to the schedule agreed with the investor, the outstanding amount will be repaid by the end of May 2023. The receivables were converted from rubble to US$ at the day of loss of control.

# Presence in 38 countries

2Q22/23



| As at 31.07.2022 | No of stores | YoY |
|---|---|---|
| **LPP GROUP** | **1 756** | **- 265** |
| Poland | 984 | + 58 ↑ |
| Europe | 618 | + 145 ↑ |
| Other regions | 154 | - 468 |




Other regions consist of Ukraine, Belarus, Kazakhstan and the Middle East countries. Number of stores in Ukraine at the end of 2Q22/23 includes only operating stores.


# 2Q22/23 financial results

# Disposal of the Russian subsidiary has a sizeable impact on financial statements

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| | 2Q21/22 (before restatement, full consolidation of the Russian subsidiary) | 2Q21/22 (after restatement, Russian subsidiary as discontinued operations) | 2Q22/23 (Russian subsidiary as discontinued operations) |
|---|---|---|---|
| Statement of comprehensive income | Russian company as part of continuing operations, results published in 2Q21/22 financial statements. | Russian subsidiary shown as discontinued operations. | Russian subsidiary shown as discontinued operations. |
| Statement of financial position (balance sheet) | Russian company as part of continuing operations, results published in 2Q21/22 financial statements. | Russian subsidiary shown as continued operations, not as discontinued operations. | Receivables from sale of stores and sale of inventory on the balance sheet. |
| Statement of cash flows | Russian company as part of continuing operations, results published in 2Q21/22 financial statements. | Russian subsidiary shown as discontinued operations. | Impact of growing receivables from the transaction on operating cash flows, cash flows from discontinued operations. |

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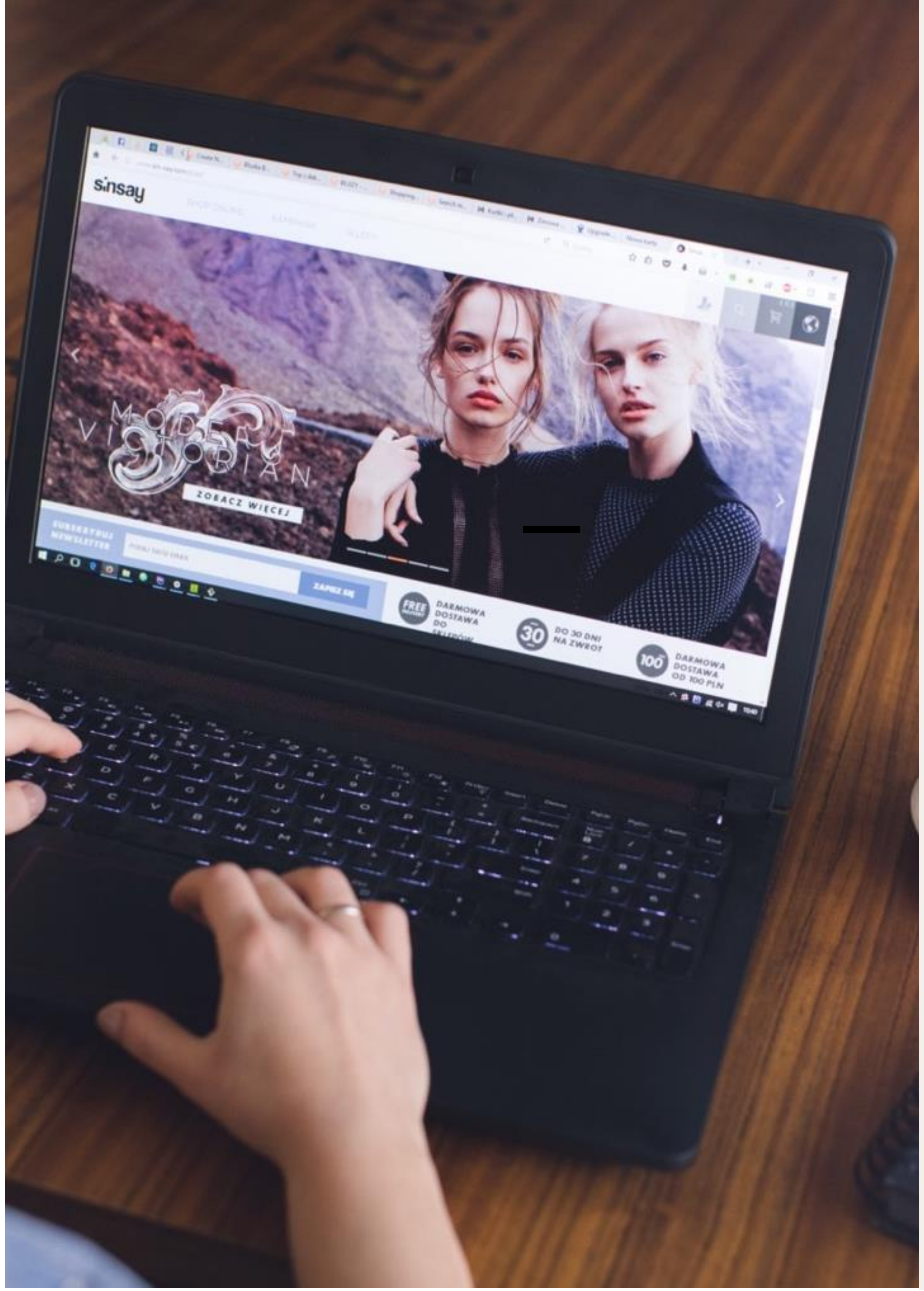
# Towards omnichannel



**38**
COUNTRIES

**+23.0%**
GROUP REVENUES

Data for 1H22/23 does not include Russia, YoY dynamics refer to data for 1H21/22 before restatement.




## OFFLINE

**1,756**
stores

**-9.7%**
$m^2$

**+30.3%**
LFLs

**25**
countries

## ONLINE

**32**
countries

**+24.2%**
revenues

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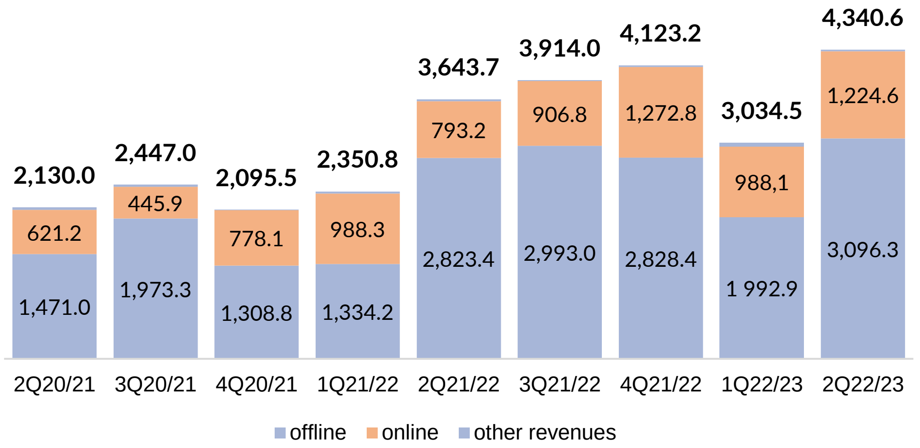
# Further double-digit revenue growth

**GROUP REVENUES**

(PLN m, data until the end of 2021/22 before restatement)




**OMNICHANNEL REVENUES**

| PLN m | 2Q21/22 before restatement | 2Q22/23 | YoY |
|---|---|---|---|
| **LPP GROUP** | **3,643.1** | **4,340.6** | **19.1%** |
| Reserved | 1,439.6 | 1,582.3 | 9.9% |
| Cropp | 448.4 | 390.0 | -13.0% |
| House | 381.8 | 354.2 | -7.2% |
| Mohito | 312.3 | 309.2 | -1.0% |
| Sinsay | 1,033.9 | 1,685.3 | 63.0% |

Difference between Group revenues and brand revenues consists of other revenues.

- Group's revenues in 2Q22/23 increased by 19.1% YoY, despite loss of the Russian market and part of the Ukrainian market.
- High growth in Sinsay revenues due to intensive openings of new traditional stores and growing popularity of value-for-money segment, both offline and online.
- 10% YoY increase in Reserved brand revenues due to dynamic increases in Poland and other European markets.
- Fall in Cropp, House and Mohito revenues due to loss of a significant part of Eastern markets.
- Increase in Group's sales/ m$^2$ in 2Q22/23 by 17.9% to PLN 972/ m$^2$ (excluding sales in Russia). Growth in Group's offline sales/ m$^2$ by 18.8% to PLN 707/ m$^2$.

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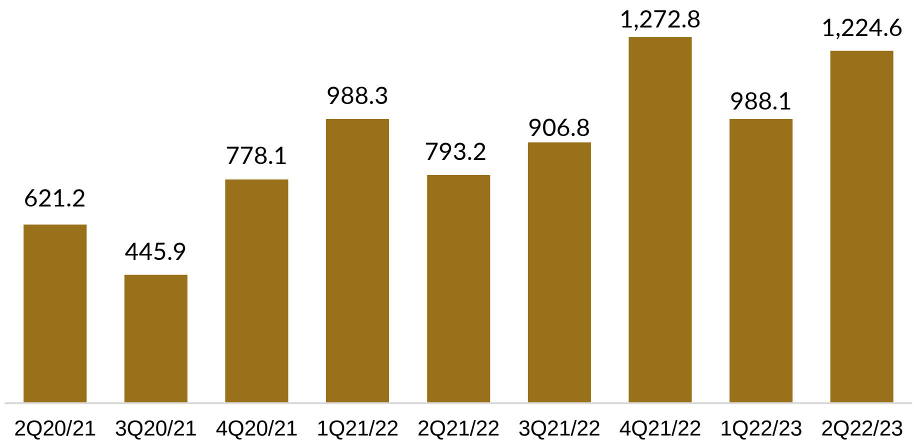
# Over PLN 1bn e-commerce revenues



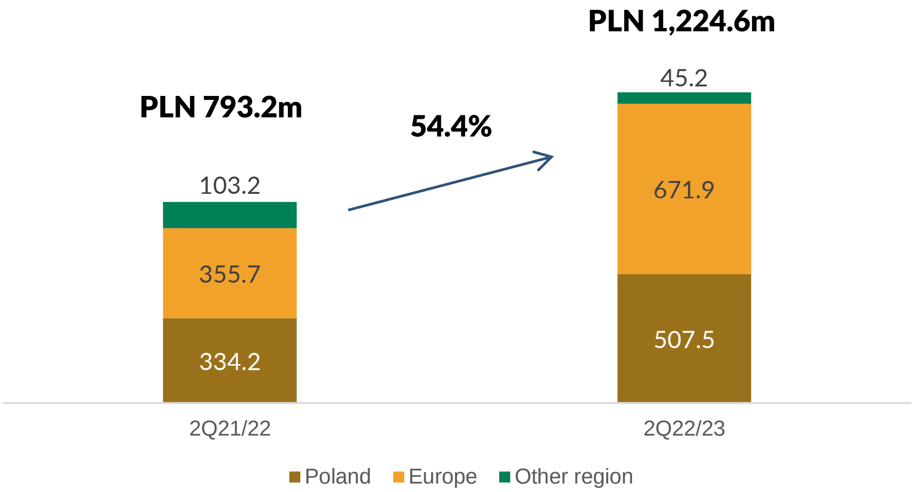
**ONLINE SALES**

(PLN m, data until the end of 2021/22 before restatement)




**ONLINE BY REGIONS**

(PLN m, 2Q21/22 before restatement)



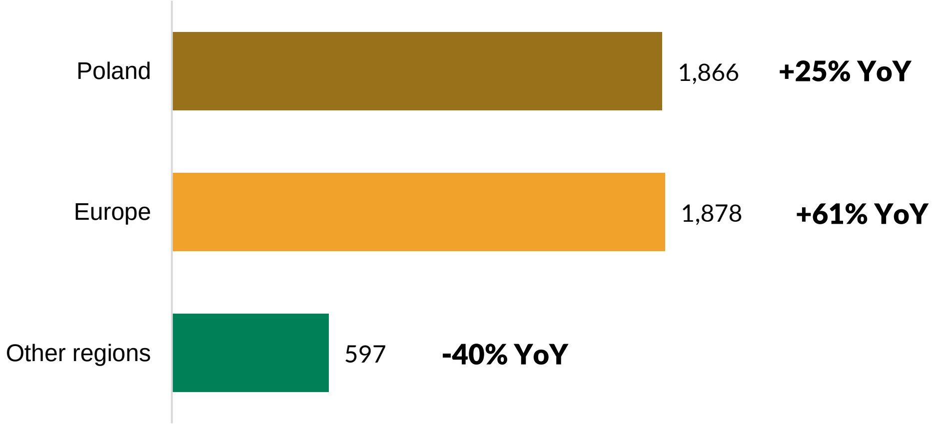

- High online sales (PLN 1.2bn) in 2Q22/23 due to development of online stores in new markets, increased marketing activities and continued popularity of online shopping.
- Online sales in 2Q22/23 accounted for 27.2% of revenues from Poland (22.5% in 2Q21/22) and 28.2% of the Group's revenues (21.8% in 2Q21/22).
- 88.9% increase in online revenues on the European market in 2Q22/23 due to dynamic expansion of Sinsay online abroad (including new countries). Growth in Poland at + 51.8% YoY in 2Q22/23. 56.2% YoY decline in online sales in Eastern Europe (shown in other regions) due to closing down of online stores in Russia and limited operation of online stores in Ukraine.
- In 2Q22/23, 87% of visits and 70% of purchases were made via mobile devices.

# Foreign revenues higher than domestic ones



## REVENUES BY REGIONS IN 2Q22/23

(PLN m, 2Q21/22 before restatement)




## 2Q22/23 FLOORSPACE

(by regions, 2Q21/22 before restatement)

| ths $m^2$ | 2Q21/22 | 2Q22/23 | YoY |
|---|---|---|---|
| **LPP GROUP** | **1,616,5** | **1,459.3** | **-9.7%** |
| Poland | 619.6 | 699.8 | 12.9% |
| Europe | 457.9 | 612.9 | 33.9% |
| Other regions | 539.0 | 146.6 | -72.8% |

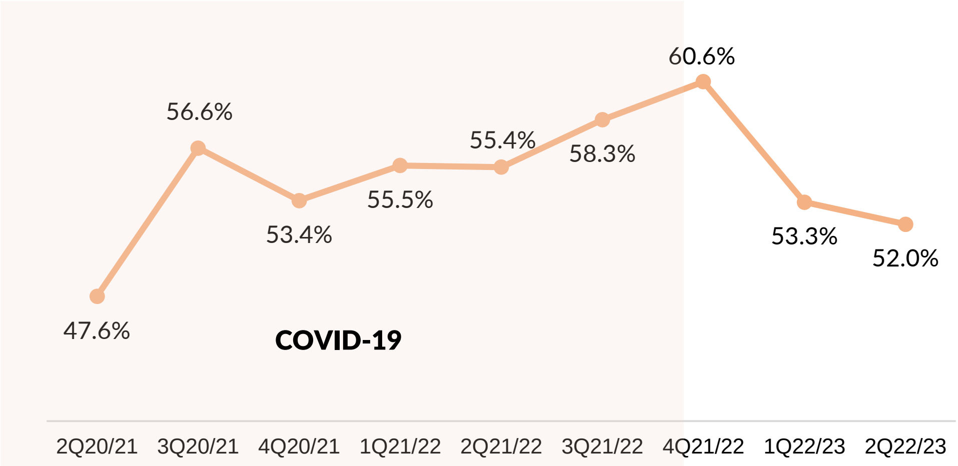
- Sales abroad higher than in Poland in 2Q22/23. Poland accounted for 43.0% of Group's revenues.
- Sales growth in Europe in 2Q22/23 in all countries as a result of high LFLs (highest in Sinsay) and high online sales.
- Top3 countries outside Poland in terms of revenues in 2Q22/23 were: Romania (PLN 349m), Czech Republic (PLN 284m) and Germany (PLN 200m).
- 63.9% YoY increase in sales in pan-European Reserved e-store.
- Significant fall in sales in other regions due to outbreak of war and fall in retail floorspace (closing down of stores in Russia and a limited number of operating stores in Ukraine).

# Inventory secured for Autumn/Winter 2022/23



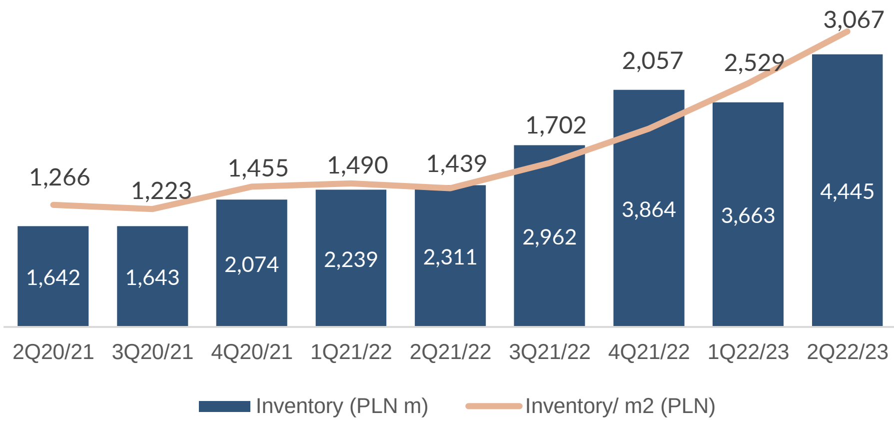
**QUARTERLY GROUP GROSS PROFIT MARGIN**

(data until the end of 2021/22 before restatement)




**INVENTORY AND INVENTORY/ M²**

(data until the end of 2021/22 before restatement)




- Favourable reception of Spring/Summer 2022/23 collection of all brands, especially Reserved and Mohito women's collections, despite price increases. Gross profit margin in 2Q22/23 lower YoY mainly due to lack of sales in Russia (3 pp higher margin in 2Q21/22 before restatement).
- 92.3% YoY inventory growth and 113.2% YoY increase in inventory/ m$^2$ due to: (1) acceleration of orders for Autumn/Winter 2022/23 collection in fear of problems in supply chains (currently c.90% of all collections at LPP vs. 60% in 2Q21/22), (2) significantly higher US$/PLN (59% YoY increase in US$ inventory) and (3) preparations for dynamic Sinsay openings (52% inventory).
- As a result, 84% of inventory at the end of 2Q22/23 related to Autumn/Winter 2022/23 collection. The remaining inventory mainly consists of Spring/Summer 2022 collection (13%) - sold out by the end of September 2022 - and the first pieces of Spring/Summer 2023/24 collections.

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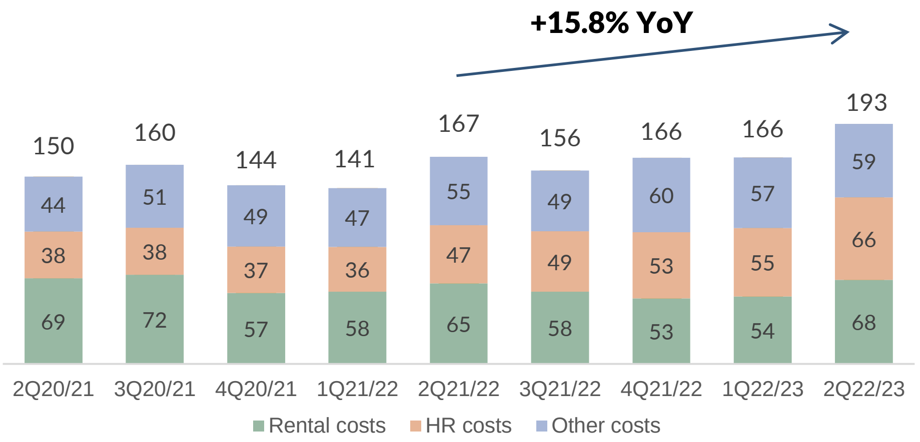
# Inflationary cost growth



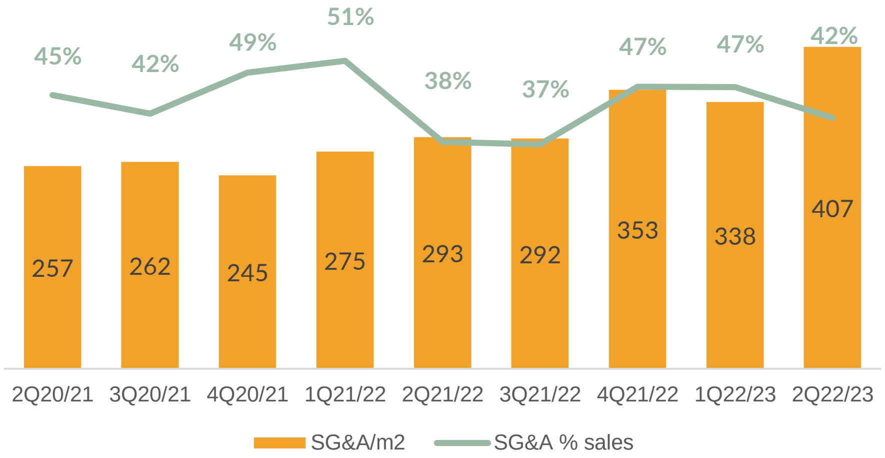
## COSTS OF OWN STORES/ M²

(IAS17, data until the end of 2021/22 before restatement)




## SG&A COSTS/ M²

(IFRS16, data until the end of 2021/22 before restatement)




- Historical data includes Russia until the end of 2021/22. Costs in Russia were lower than the average SG&A/ m² costs.
- YoY increase in rental costs/ m² → higher share of turnover-based rentals (along with higher YoY revenues) and weakening of PLN to EUR.
- YoY increase in personnel costs/ m² → increase in minimum salary, remuneration review and return of store personnel to work after lockdowns.
- YoY increase in other costs/ m² → usage of external materials and services depends on sales growth, inflationary pressure and higher energy costs.
- Increase in SG&A/ m² costs by 39.0% YoY – e-commerce supported by higher YoY marketing expenses (internet advertising) and an increase in transport costs. As a result, share of SG&A costs in revenues increased from 38% in 2Q21/22 to 42% in 2Q22/23.
- In 2Q22/23, store costs amounted to PLN 867.3m, + 10.0% YoY and headquarters and e-commerce costs PLN 940.6m, + 61.2% YoY.

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2Q22/23





# Increase in profit from continued operations

- Double-digit YoY increases in revenues due to higher LFLs in traditional stores and high online growth.
- Based on comparable data, YoY increase in the gross margin on sales due to good reception of the collections, despite price increases.
- YoY increase in SG&A costs is due to higher store costs (higher rents, personnel and other costs) and rising HQs costs (especially online costs).
- In 2Q22/23, PLN 46.4m credit risk write-off related to receivables for goods sold to Russia in other operating costs. In 2Q21/22, PLN 5.4m in subsidies for salaries in other operating income and PLN 54.0m in write-offs for unprofitable stores, mainly in the Czech Republic and Romania, in other operating expenses.
- In 2Q22/23, a favourable YoY impact on net financial activities, mainly due to FX gains (PLN 237m), mostly due to translation of RUB receivables into US$.
- Less favorable working capital: PLN 1.1bn in receivables for goods sold to Russia. Higher receivables and inventories were only partially offset by higher trade payables (PLN 3.7bn reverse factoring), which translated into negative operating cash flows.

| PLN m, IFRS16 | 2Q21/22 (before restatement) | 2Q21/22 (after restatement) | 2Q22/23 | YoY |
|---|---|---|---|---|
| **Revenues** | **3,643.1** | **2,990.2** | **4,340.6** | **45.2%** |
| *Gross profit margin on sales* | *55.4%* | *51.5%* | *52.0%* | *0.5pp.* |
| SG&A costs | 1,372.3 | 1,168.6 | 1,807.8 | 54.7% |
| **EBIT** | **595.0** | **338.6** | **395.3** | **16.8%** |
| *EBIT margin* | *16.3%* | *11.3%* | *9.1%* | *-2.2pp.* |
| Net financial activity | -26.0 | -16.7 | 202.8 | N/M |
| **Net profit from continued operations** | **459.1** | **229.7** | **537.5** | 134.1% |
| **Net profit from discontinued operations** | - | **229.4** | **-291.3** | **N/M** |
| **Net profit** | **459.1** | **459.1** | **246.2** | **-46.4%** |
| EBITDA | 863.8 | 562.4 | 667.1 | 18.6% |

YoY increases are shown in relation to the transformed data.

| | | | | |
|---|---|---|---|---|
| Working capital | -1,038 | -1,038 | -21 | N/M |
| Cash cycle (days) | -53 | -59 | -51 | + 8 |
| Operating cash flows | 1,379 | 839 | -233 | N/M |

# Over PLN 0.5bn net profit in the first half of the year

- Double-digit YoY revenue growth due to strong sales in the online channel and high like-for-like revenues (LFLs).
- Stable YoY gross margin on a comparable basis: (1) higher share of Sinsay brand diluting the gross margin, (2) less favorable US$/PLN exchange rate YoY and higher transport costs, but also (3) higher prices and strong reception of collections.
- Operating cost growth slower than sales growth.
- In 1H22/23, PLN 46.4m credit risk write-off related to receivables for goods sold to Russia in other operating costs. Other operating activities in 1H21/22: PLN 17.9m in subsidies to employee salaries in other operating income, and PLN 54.0m in write-offs for 34 unprofitable stores mainly in the Czech Republic and Romania in other operating expenses.
- More favorable YoY net financial activity in 1H22/ 23 due to PLN 143m of positive exchange rate differences.

| PLN m, IFRS16 | 1H21/22 (before restatement) | 1H21/22 (after restatement | 1H22/23 | YoY |
|---|---|---|---|---|
| **Revenues** | **5,993.5** | **4,805.5** | **7,374.8** | **53.5%** |
| *Gross profit margin on sales* | *55.5%* | *51.8%* | *51.6%* | *-0.2pp.* |
| SG&A costs | 2,573.0 | 2,211.3 | 3,226.4 | 45.9% |
| **EBIT** | **682.2** | **237.7** | **512.4** | **115.6%** |
| *EBIT margin* | *11.4%* | *4.9%* | *6.9%* | *2.0pp.* |
| Net financial activity | -64.1 | -45.4 | 160.4 | N/M |
| **Net profit from continued operations** | **480.6** | **111.3** | **564.8** | **407.6%** |
| **Net profit from discontinued operations** | **-** | **369.4** | **-50.7** | **N/M** |
| **Net profit** | **480.6** | **480.6** | **514.2** | **7.0%** |
| **EBITDA** | **1,208.1** | **677.5** | **1,035.7** | **52.9%** |

YoY increases are shown in relation to the transformed data.

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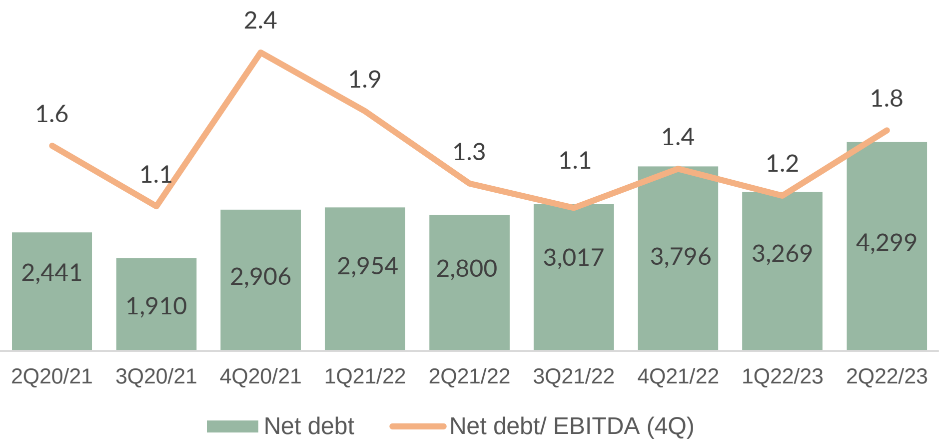
# Safe indebtedness level

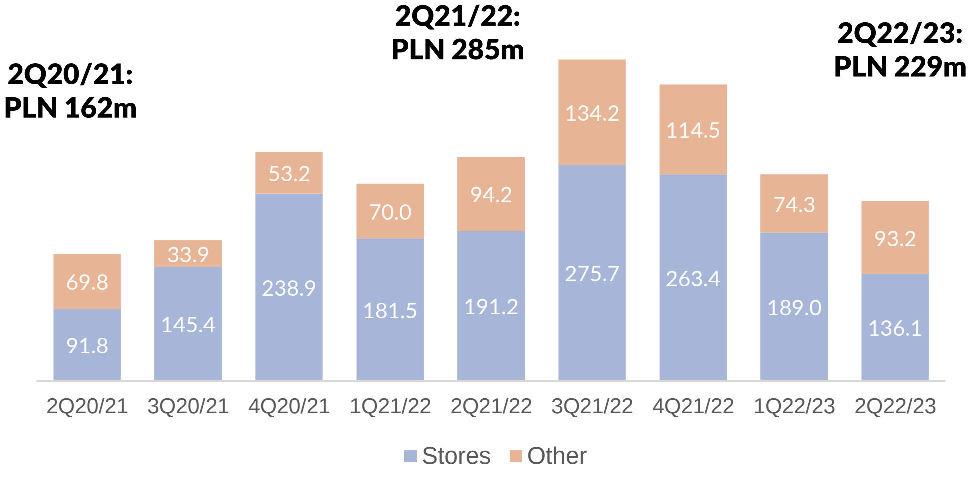
**NET DEBT**

(PLN m, IFRS16, lack of impact of Russian subsidiary from 1Q22/23)




**CAPEX**

(PLN m, lack of impact of Russian subsidiary from 1Q22/23)






- At the end of 2Q22/23, net debt under IFRS16 amounted to PLN 4.3bn, including PLN 3.4bn in financial leases.
- Additionally, PLN 1.4bn in cash in: money market funds (PLN 0.68bn) and collateral and security deposits (PLN 0.71bn) - values not included in net debt calculations.
- In 2Q22/23, capital expenditure amounted to PLN 229.3m, i.e. 20.0% less YoY due to lower capex on foreign stores (no openings in Russia and Ukraine). Logistics outlays mainly included construction of an e-commerce warehouse in Jasionka near Rzeszów.

# Executive summary 1H22/23

1. **High sales dynamics** despite the situation after the start of war in Ukraine.
2. **Strong** revenues in **traditional stores**.
3. **Over PLN 2bn e-commerce** revenues.
4. Liabilities exceeding inventory.
5. **Disposal of the Russian business**.

# 03

# 2022/23 + outlook

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# 2022/23 targets

**Targets**

- Over PLN 16bn of revenues, +13% YoY.
- Fall in floorspace to 1,695 ths $m^2$ and 1,984 stores. Priority set on Sinsay brand.
- PLN 5bn online sales.
- Lower gross profit and operating margin.
- PLN 1 bn capex (out of which PLN 600m for stores, PLN 300m on logistics and PLN 100m for offices and IT).

**Opportunities**

- Higher willingness of customers to buy clothes from the value-for-money segment (Sinsay brand).
- Development of Sinsay brand on new markets in the offline and online channels.
- Translating inflation into prices.

**Risks**

- Lower willingness of customers to buy clothes with lower disposable income.
- Negative impact of the war in Ukraine on European economies.
- Unfavourable PLN exchange rate in relation to US$, EUR.

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# Group prepared for a possible slowdown

## A COST CAUTIOUS COMPANY WITH A SAFE LIQUIDITY SITUATION



**Key LPP's competitive advantages**

A unique and diversified business model combining:
- Reserved, House, Cropp, Mohito - higher average prices, stores in the best shopping malls
- Sinsay – lower prices, stores in smaller and medium-sized cities

Effective e-commerce:
- using Reserved know-how to streamline Sinsay logistics (FC, shipments from stores),
- RFID supporting all brands except Sinsay

Modern IT solutions improving revenues:
- incorporating the latest IT trends (Data Science, AI/ML, BI, Cybersecurity, UX)
- over 600+ IT specialists in house dedicated to development of own systems

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# Renewable energy reduces our energy costs



Cost of electricity used in own stores reached PLN 12.0/$m^2$ in 1H22/23, +89.2% YoY.

The highest costs of electricity/ $m^2$ are recorded in Slovakia, the UK, Lithuania, North Macedonia and Bulgaria.

Electricity costs for offices and warehouses in 1H22/23 amounted to PLN 12.5m, +81.9% YoY.

Total electricity costs in 1H22/23 amounted to PLN 114.2m, 105.3% r/r.

## RISKS FOR LPP:

- increase in electricity costs which are part of the operating costs of stores, offices and warehouses;
- restrictions on electricity consumption introduced by European Commission.

## RISK MITAGATION BY LPP:

- agreement with FIGENE Energia for supply of green electricity from wind farms to offices, warehouses and selected stores in Poland (from January 2023) at attractive prices,
- technologies introduced to help manage electricity consumption in warehouses, offices and stores (process of remote metering of stores),
- solutions enabling energy independence of Brześć Kujawski DC (usage of electricity from solar panels for heating and lighting the DC as well as charging electric cars),
- activities limiting the lighting of displays and usage of air conditioning in stores.

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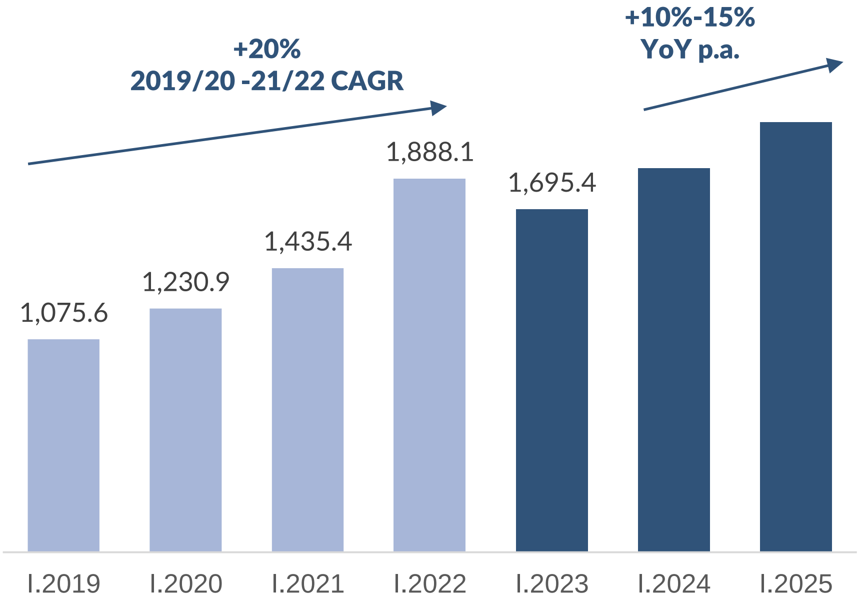
# Further floorspace growth 2022/23+

| Floorspace (ths m²) | I.2022 | I.2023 target | YoY |
|---|---|---|---|
| **BY REGIONS** | | | |
| Poland | 677.2 | 766.3 | 13% |
| Europe | 522.8 | 781.2 | 49% |
| Other regions | 688.1 | 147.9 | -79% |
| **TOTAL** | **1,888.1** | **1,695.4** | **-10%** |

The highest nominal floorspace growth in 2023/24 apart from Poland in: Romania, Czech Republic, Bulgaria, Serbia and B&H.

**GROWTH TARGET FOR THE FOLLOWING YEARS**

(ths m²)




Increase in floorspace due to development of all brands in key markets.

# Western Europe as a source of growth

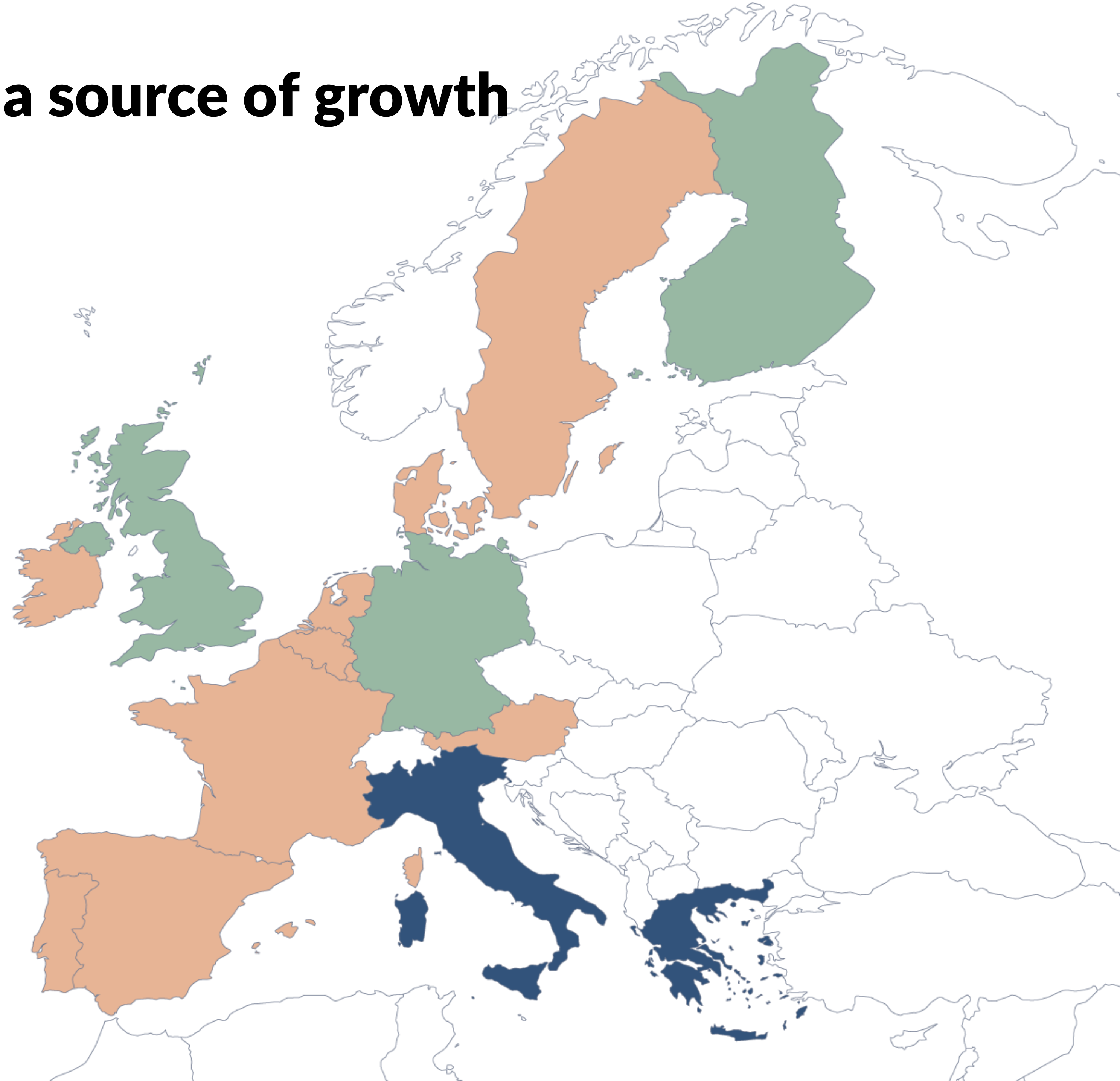




Debut of the Reserved brand in Italy in Milan - 1Q23/24.

Further Reserved stores in the UK in London – in 3 shopping malls, in 2023/24.

Own Sinsay traditional stores in Italy and in Greece (1Q23/24).



online + offline    online    2023/24

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# Growth financing secured

The **Extraordinary General Shareholders' Meeting on September 23, 2022** agreed on the issuance of corporate bonds up to the amount of **PLN 500m** and Eurobonds up to **EUR 500m**.

Aims of the issuance:
1. Financing the development of stores and working capital.
2. Lengthening of financing tenor – higher share of long-term financing.
3. An additional form of financing apart from bank loans.
4. Increasing the natural hedging – higher share of debt in EUR following higher revenues in this currency.
5. Benefiting from corporate actions towards sustainability.

**Bond type:**
Green or sustainable.

**Date of issuance:**
dependent on favorable market conditions, earliest in 2Q23/24.

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# Q&A

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# Glossary

| | |
|---|---|
| Poland | Retail sales in Poland and other sales of LPP SA. |
| Europe | Region including: CEE (Czech Republic, Slovakia, Hungary), Baltic (Lithuania, Latvia, Estonia), SEE (Bulgaria, Romania, Croatia, Serbia, Slovenia, Bosnia and Herzegovina, and from 2021/22 Northern Macedonia), WE (Germany, UK, Finland). |
| Other regions | With the decision to sell the Russian company, the remaining activities of the CIS region (Ukraine, Belarus, Kazakhstan) and in the ME (Egypt, Qatar, Kuwait, United Arab Emirates, Israel) are shown jointly as Other regions. |
| EBITDA | EBIT + depreciation from cash flow statement. |
| Average monthly revenues/ $m^2$ | Revenues of segment or brand / average working total floorspace / 3. |
| Average monthly costs of own stores/ $m^2$ | Quarterly costs of own stores / average working floorspace of own stores (ie. excluding all franchise stores which represent c. 2.7% of the working floorspace) / 3. |
| Average monthly SG&A PLN/ $m^2$ | Quarterly SG&A costs/ average working total floorspace excluding stores located in ME/ 3. |
| Inventory/ $m^2$ | End of period group inventory/ total floorspace without foreign franchise stores. |
| Cash turnover cycle | Receivables (in days) plus inventories (in days) minus liabilities (in days). Calculations on average amounts of receivables, inventories and liabilities. |

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