

19 November 2024

Initiation of coverage

Hold

 (initiating coverage)

Price (19/11/24)

PLN18.50

Target price (12-mth)

PLN20.50

Forecast total return

10.8%

Retail

Poland

Bloomberg: ZAB PW

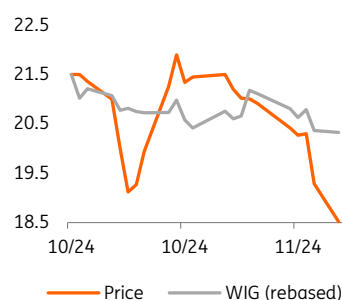
Reuters: ZAB.WA

Share data

Avg daily volume (3-mth)	3,613,357
Free float (%)	34.5
Market cap (PLNm)	18,500.0
Net debt (1F, PLNm)	8,729
Enterprise value (1F, PLNm)	27,330
Dividend yield (1F, %)	0.0

Source: Company data, ING estimates

Share price performance



Source: SIX

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Zabka

Kings of convenience

We initiate on Żabka with a HOLD and a target price of PLN20.5. We view Zabka as a unique asset in the Food Retail segment, given its fully franchised business model and focus on Convenience. Thanks to this, and a supportive Polish macro environment, we expect Zabka to continue to deliver double-digit sales and Adj. EBIT growth CAGR over 2023-28F. At our PLN20.5 target price, Zabka would trade broadly in line with its most comparable peer, Dino Polska, on EV/EBIT and PER 2026F, which we deem warranted with Zabka's superior EBIT growth being offset by a riskier balance sheet and lack of track record as a listed company.

A unique asset with a leading position in the Polish Food Convenience segment. Given its fully franchised business model and its focus on Convenience Stores, Zabka is a unique asset in the listed Food Retail space, in our view. Zabka has a strong organic growth track record, thanks to high-single digit Like-for-Like growth on supportive macro in Poland and the continued opening of new stores. Zabka has an estimated market share of c.5% in the Food Retail space in Poland, leaving ample room to continue to increase its store estate without risking cannibalisation of its existing stores.

Fast growing sales and profitability in a niche market. Zabka revenues (IFRS) have grown by a CAGR of 25.9% over 2021-23, a strong growth we expect to remain unabated with our model pointing toward a growth of CAGR 15.5% over 2023-26F. We expect this growth to be driven by the net opening of c.2,900 new stores over 2023-26F and Like-for-Like growth at CAGR 6.8% over the same time span. We expect this Like-for-Like growth to be driven by a positive volume and pricing impact thanks to the group growing exposure to the Quick Service Restaurant segment.

No cash return to shareholders to be expected over the medium term due to Zabka's complex and levered balance sheet. Zabka's capital allocation over the medium term will be focused on store rollouts in Poland and Romania, which will leave limited room for cash return to shareholders. Zabka had a leverage ratio of 3.0x/3.9x NFD/Adj. EBITDA excluding/including reverse factoring at the end of 2023 (including >PLN4bn of leases), which we expect to go down to 1.2x/1.9x, respectively, by the end of 2028F.

Hold rating, target price of PLN20.5 based on our DCF (WACC 10.9%, LT growth rate 2%). This implies that Zabka would trade at 12.7x EV/EBIT 2026F and 18.7x Norm. PER 2026F, broadly in line with its most comparable peer Dino Polska. Zabka offers a superior EBIT growth over 2023-26F of CAGR 16.4% versus 14.5% for Dino Polska, but we believe this could be offset by a riskier balance sheet, lack of track record as a listed company and potential share overhang once the 180-day lock-up comes to an end.

Forecasts and ratios

Year end Dec (PLNm)	2022	2023	2024F	2025F	2026F
Revenues	16,003	19,806	23,583	27,054	30,552
Normalised EBITDA	2,418	2,834	3,487	3,905	4,405
Normalised net profit	424	404	705	866	1,103
Normalised EPS (PLN)	0.42	0.40	0.70	0.86	1.09
Normalised PER (x)	43.6	45.8	26.3	21.4	16.9
EV/normalised EBITDA (x)	10.7	9.6	7.8	7.0	6.2
Equity FCF yield (%)	3.1	n/a	7.2	6.3	8.7
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Price/book (x)	32.2	20.6	12.0	7.7	5.3
Normalised ROE (%)	107.2	54.8	57.7	43.8	37.3

Source: Company data, ING estimates

SEE THE DISCLOSURES APPENDIX FOR IMPORTANT DISCLOSURES & ANALYST CERTIFICATION

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Key investment points

Żabka is the market leader in the convenience segment of the Polish Food Retail industry, a PLN113bn sub-segment of the PLN584bn Total Addressable Market, thanks to its unique business model in which c.99% of its stores are operated by franchisees. Żabka's Directly Addressable Market, however, is growing much faster than the Polish market, with an expected CAGR of 8.6% over 2023-28F versus 5% for the market, as Polish consumers are increasingly focusing on same-day consumption, especially in urban areas. Żabka is currently the fourth-largest player in the Polish Food Retail industry, with a market share of less than 5%, materially below peers, such as Jeronimo Martins (owner of discounter Biedronka) at 22%, and most comparable peer Dino Polska at 5-6%.

In what Żabka considers as its Directly Addressable Market, we flag that the group market share amounts to more than 20%, while it exceeds 90% in Modern Convenience. Żabka's management sees snacking, beverages (including beers) and Quick Meals Solution (ie, ready-to-eat products) as strategic categories. These three categories accounted for roughly 50% of Żabka's transactions in 2023, with spirits, wine and tobacco accounting for a further 20%.

Żabka has a well-established track record in terms of growth, its Sales to End Customers having grown by CAGR 19% over 2015-23. Over the same time span, market leader Biedronka saw its sales growing by a CAGR of 11% and most comparable peer Dino Polska by a CAGR of 33%. Similarly to Dino Polska, Żabka's growth story is based on a continued expansion of its store portfolio, with Żabka aiming to open 5,000 new stores by 2028F, a c.50% increase from its 2023 level, with c.10% of these new stores being opened in Romania. In addition to this leg of growth, Żabka should benefit from an increase in Like-for-Like growth thanks to an increased focus on Quick Meals Solutions, with the company therefore positioning itself at the crossroads of Food Retail and Foodservice.

With the continued rollout of its new stores and new product offering, we expect Żabka's Sales to End Customers to grow almost solely organically by CAGR 14.8% over 2023-28F. Net income is expected to grow faster than this at a CAGR of 41.1%; with Żabka expected to refinance its fiscally suboptimal debt structure now that the company is listed on the Warsaw Stock Exchange. At the end of 2023, we estimate that Żabka's leverage ratio stood at 3.9x NFD/Adj. EBITDA (including leases and reverse factoring), a level we expect to drop to 1.9x by 2028F. Żabka paid an average 7.9% interest rate on its reverse factoring facility in 2023.

Our target price of PLN20.5 per share implies a 2026F EV/Adj. EBIT of 12.7x and a Norm. PER of 18.7x, both metrics being somewhat in line with its most comparable peer Dino Polska. Dino Polska, listed since 2017, has traded on average at 20.7x 12m fwd EV/EBIT, vs 20.6x currently. We therefore see limited room for a further re-rating. In the short run, we believe Żabka should trade in line with Dino Polska, despite offering a superior expected EBIT growth over 2023-26F at CAGR 16.4%, versus 14.5% for Dino. We believe this could be overshadowed by Żabka's riskier balance sheet, lack of track record as a listed entity and potential share overhang, with private equity funds CVC (c.41% stake) and Partners Group (c.13% stake) having agreed on a 180-day lock-up.

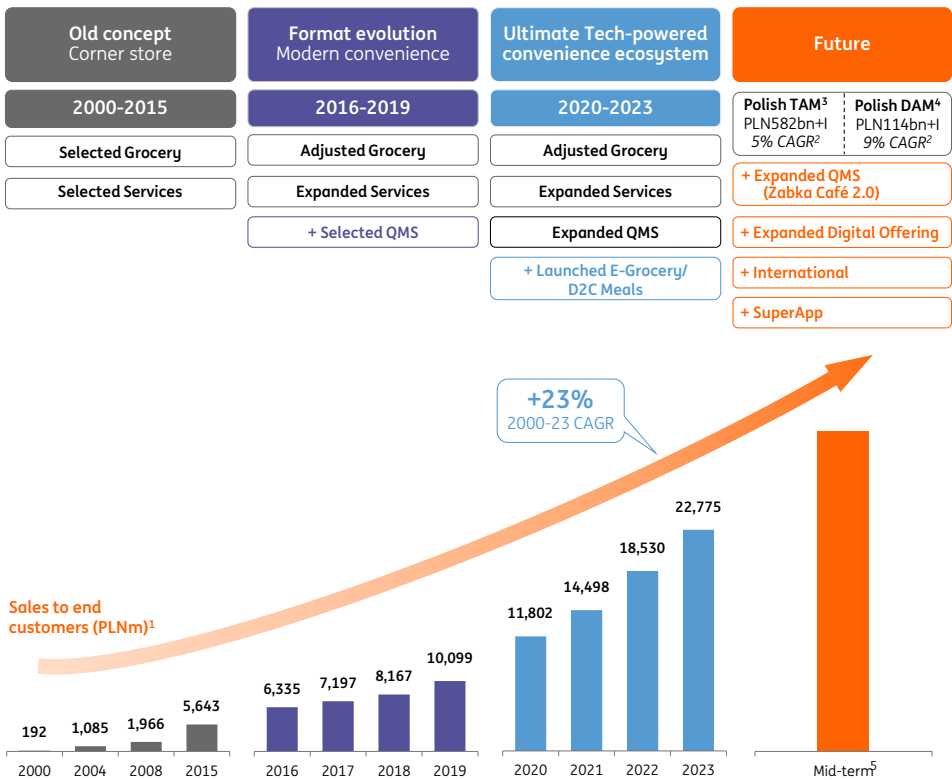
We view a faster adoption of Żabka's Quick Meal Solutions as a key risk to the upside for our investment case, leading to an even faster top and bottom line growth, while we view a weak Polish consumer as the key downside factor.

A leader in modern convenience in the Polish market

Żabka is one of the leading food retailers in Poland, thanks to a network of more than 10,000 franchised convenience stores across Poland. Żabka's outlets are present in all major towns and cities in the country, with different formats allowing them to address differing customer needs. Over the past 26 years, Żabka has consolidated its position in the Polish Food Retail market to become a well known brand in the Polish landscape, with a brand awareness above 90% for its physical and digital proposition.

Żabka is continuing to rapidly expand its convenience stores across Poland, with the stores being well known for their easy access and convenient opening hours. Żabka is the food retailer with the most outlets in the country, well ahead of competitors Biedronka and Dino Polska. In value terms, Żabka is estimated to hold a market share of <5% in the country, trailing market leader Biedronka's 22%, as well as Schwarz Group's (Kaufland, Lidl) 11% and Dino Polska's 5-6%, according to OC&C. The group is, however, differentiating itself from the competition thanks to its Quick Service Restaurant offering and stores designed to favour on-the-go consumption for clients that are time constrained.

Fig 1 Żabka has continually innovated convenience for more than 25 years



1. Represents Żabka sales to end customers and sales of Maczfit, Dietly and Q-comm and does not represent the company's reported revenue; 2. Refers to 2023-28E CAGR; 3. Total Addressable Market refers to all market spend in Physical Grocery, Health & Beauty, Convenience Services, Foodservice, eGrocery and Dietary/D2C catering; 4. Directly Addressable Markets that are addressable by modern convenience with fully penetrated store networks; 5. In line with Żabka's mid-term targets to more than double Sales to End Customers
Source: Company information, OC&C Market Report

A clear focus on convenience and same-day consumption

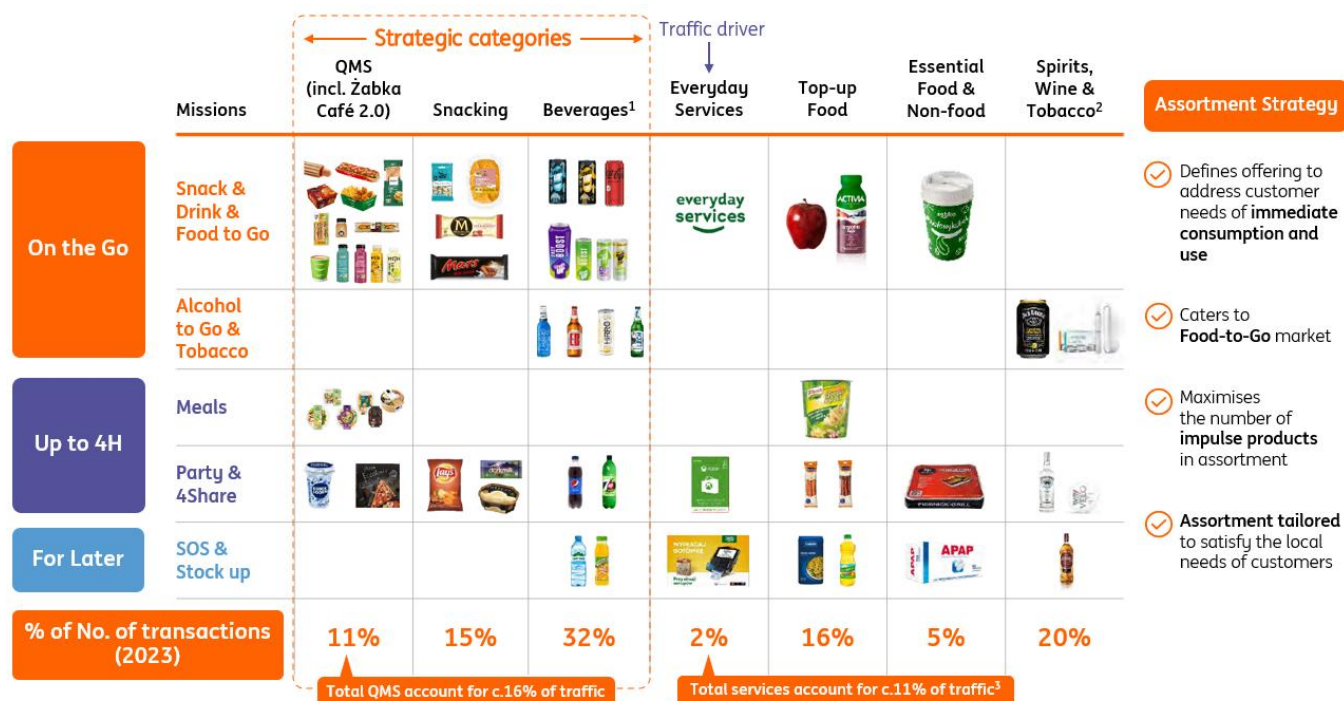
Żabka's activities are divided between two divisions: Convenience Stores (98% of 2023 sales), in which the company operates the Żabka and Froo brands in Poland and Romania, and Digital Customer Offering, in which the company operates digital platforms like Maczfit (D2C meals), Delio (eGrocery) and Dietly (D2C meal marketplace). However, we flag that the Convenience Stores division is expected to remain the main driver of group performance, accounting for more than 95% of sales and 99% of group Adj. EBITDA (excluding corporate costs).

In these two segments, Żabka is targeting a young and active population, mostly urban, who are therefore ready to spend more on additional convenience. Furthermore, Żabka has flagged that more than 80% of its customers are also shopping at Biedronka and 50% at Lidl, indicating that Żabka has a differentiated value proposition compared to discounters. This is mainly driven, in our view, by Żabka positioning itself at the crossroads of Food Retail and Foodservice. Foodservice, through its Quick Meals Solution, has been a key focus of Żabka over recent years, with the company currently expanding its offer in the segment through a new feature in its stores, Żabka Café 2.0.

In addition to its Quick Meals Solution offering, management sees snacking and beverages (including beers) as strategic categories for the brand. Those three categories accounted for roughly 50% of Żabka's transactions in 2023, with spirits, wine and tobacco accounting for a further 20%. One of the core missions of Żabka is therefore the sale of products to its customers for direct/same-day consumption, which is a key difference compared to traditional Food Retailers. Such a business model allows Żabka to design much smaller stores than its peers, with the median store size being smaller than 60 square metres.

In terms of location, roughly half of Żabka stores can be found in large cities, with a population of more than 100k inhabitants, while the other half is located in small cities and villages.

Fig 2 Żabka stores product mix



QMS=Quick Meals Solution. 1. Beverages includes Beer; 2. Alcohol % of transactions (spirits & wine): 6.0%, Tobacco 13.5%; 3. Lotto is added to all transactions. Source: Company information.

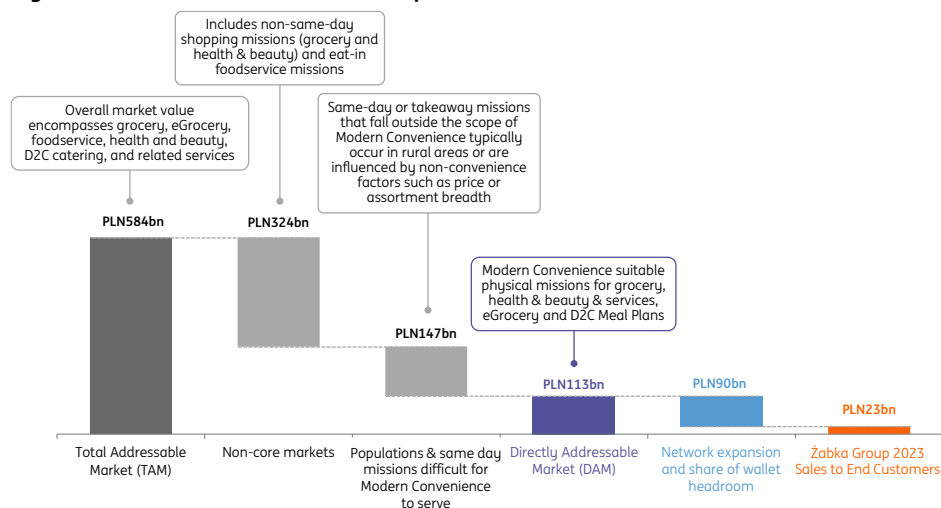
Żabka's Directly Addressable Market expected to grow by CAGR 8.6%

Żabka's Total Addressable Market (TAM) is estimated at a value of PLN584bn, according to OC&C, and consists of grocery, eGrocery, food services, health, and beauty, Direct-to-Consumers catering and related services. The market is expected to grow by a CAGR of c.5% over 2023-28F, with grocery accounting for more than 80% of the total value over this time span.

Żabka's Directly Addressable Market (DAM) encompasses modern convenience solutions for the abovementioned categories. It accounts for c.19% of the TAM, or c.PLN113bn. According to OC&C, Żabka's DAM is expected to grow at a CAGR of 8.6% over 2023-28F, with physical grocery growing at 8.2% per annum.

Żabka flags that it currently holds a market share of more than 20% in this Directly Addressable Market, while its market share exceeds 90% in the Modern Convenience segment alone.

Fig 3 Żabka's DAM and TAM build-up (2023)



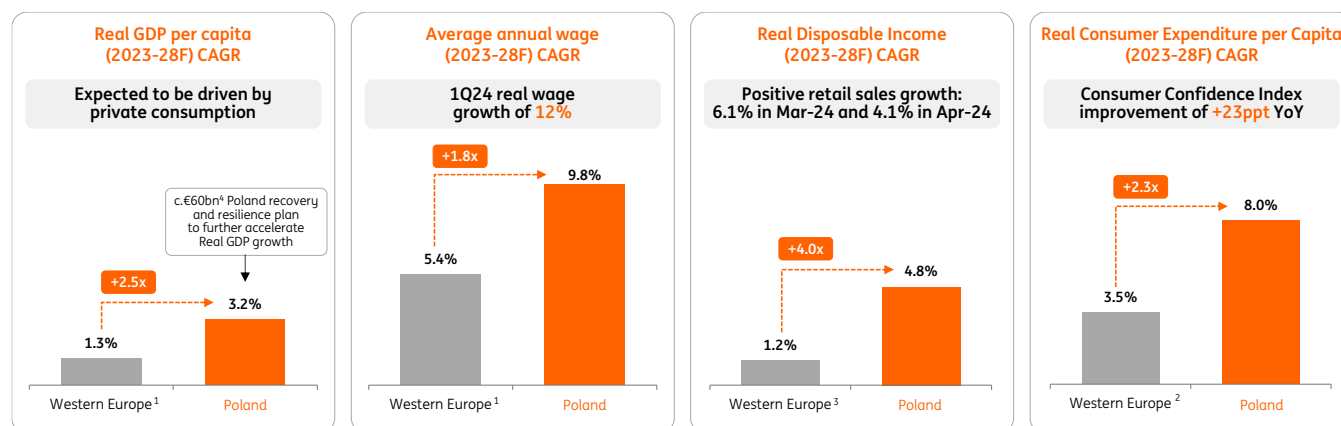
1. Health & Beauty; 2. Presence in rural areas or driven by non-convenience key purchase criteria (price led or assortment led)

Source: OC&C

This is expected to be driven by a continued strong growth of the Polish economy compared to Western European standards, while Poland's population is more sizeable than its Eastern European counterparts. According to OC&C, Real Disposable Incomes in Poland are expected to continue to grow rapidly, at a CAGR of 4.8% over 2023-28F, while Real Consumer Expenditure per Capita is expected to grow even faster at a CAGR of 8.0%.

Fig 4 Macroeconomic benchmark: Western Europe versus Poland, 2023-28F CAGR (%)

Poland will continue outperforming Western Europe across macroeconomic growth benchmarks



1. Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom; 2. Andorra, Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Gibraltar, Greece, Ireland, Italy, Liechtenstein, Luxembourg, Malta, Monaco, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey and the United Kingdom; 3. Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, UK; 4. Includes €34.5bn RRF loans and €25.3bn RRF grants.

Source: OC&C, Oxford Economics, Euromonitor

Like most European countries, however, we note that the Polish population is ageing, which may have a negative impact on Żabka's growth prospects in the longer term. Furthermore, the number of people living in urban areas in Poland¹ has dropped over the past two decades, and we believe those living in urban areas are more inclined to shop at convenience stores.

¹ Source: World-O-Meters : urban population in Poland declined from 23.8m in 2020 to 23.3m in 2010, to 22.8m in 2020 and 22.6m in 2024

c.99% of Żabka's stores are operated by franchisees

We view Żabka as a unique asset in the Food Retail space, with c.99% of the group's more than 10,000 stores being operated by c.8,600 franchisees. Interestingly, and compared to the franchise model in other countries, Żabka aims to have a limited share of multi-agent franchisees in its portfolio, with management estimating that the stores of multi-owners tend to underperform other stores.

Żabka's franchisee structure

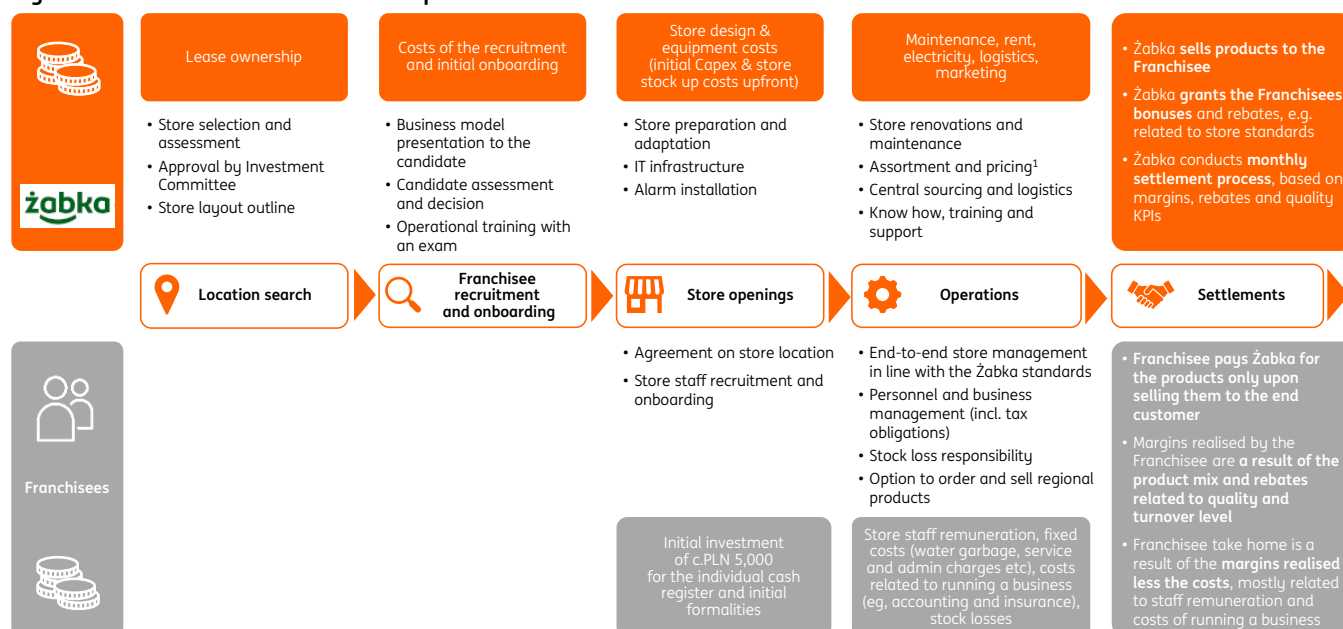
All of the company's franchisees have agreed the same contract with the Żabka brand, with store operators required to order 99% of their goods from Żabka. Żabka is therefore generating revenue through: (1) goods sold to franchisees: and (2) fees paid by franchisees for the use of the Żabka brand.

Thanks to this structure, Żabka has managed to circumvent the trade ban on Sundays that has been applicable in Poland since 2018, as stores operated by their physical owner can remain open. Furthermore, Żabka is incentivising its franchisees to open on Sundays by granting them an additional margin on sales on that day.

The success of Żabka's continued recruitment of new franchisees has, in our view, been driven mainly by the limited initial investment required to open a store, with Żabka requiring a downpayment of only PLN5,000 for the cash register, which is only 19% more than the monthly minimum wage in the country.

Furthermore, we flag that Żabka holds the lease contracts of all its stores, allowing the group to replace the franchisees at will if it is believed that the store is underperforming.

Fig 5 Overview of Żabka's franchise process



1. Refers to setting of maximum prices
Source: Company information

Based on our estimates, a store opened in 2021 would earn its owner the Polish minimum wage within a year of opening and, after two years, the average Polish wage, which is twice the minimum wage.

We believe this is a key reason for Żabka's success, with 60% of the group's franchisees being first-time business owners with a secondary level education.

With these agreements, which are not currently legally formalised by the Polish government, Żabka does not consolidate employee expenses, which are borne by the

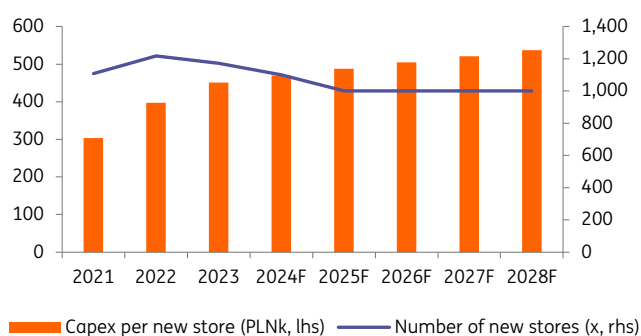
franchisees. In addition, the in-store inventory does not appear on Żabka's balance sheet, although we flag that since franchisees are only liable for paying for goods once sold, these amounts are simply transferred to receivables instead.

Rapid expansion in Poland expected to continue unabated

With more than 10,000 stores, Żabka is already the largest convenience store network in Poland. Through its network, the company is able to cater to the needs of the whole country, with roughly half of the Polish population, ie, c.17m people, living within 500 metres of a Żabka store, as per company data.

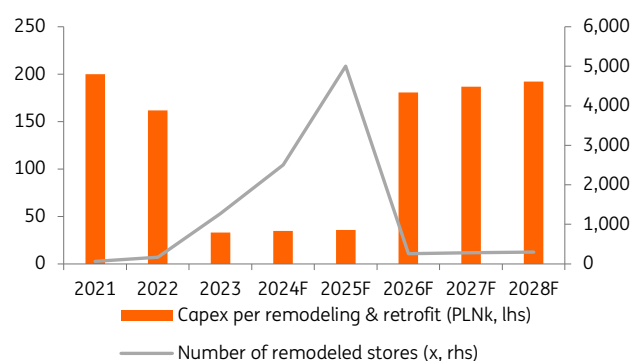
Even though Żabka is already present across Poland, management believes there is still potential to expand further. It has laid out a clear expansion plan for 2023-28F, which aims to open a total of roughly 4,500 new stores.

Fig 6 Żabka: Capex per new store, 2021-28F (PLN000)



Source: Company data, ING estimates

Fig 7 Żabka: Capex per remodelled store, 2021-28F (PLN000)

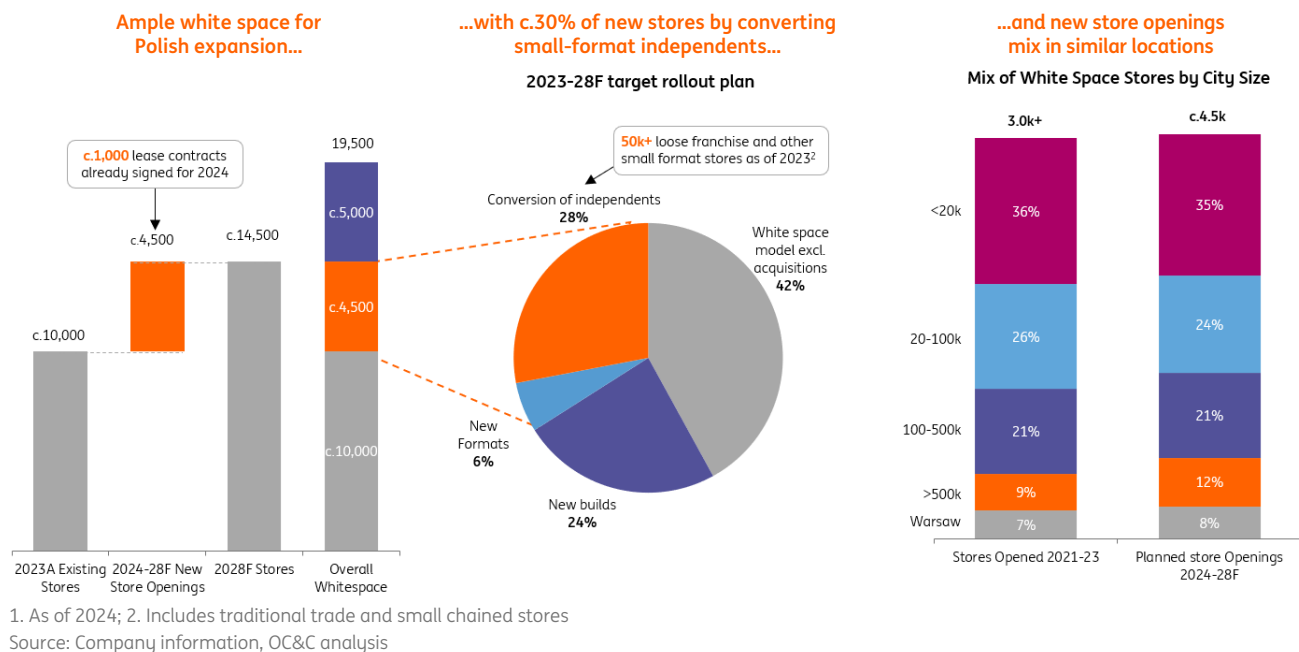


Source: Company data, ING estimates

All else remaining equal, this would imply that the number of Żabka stores per 100,000 inhabitants would go up from 26.2 in 2023 to 37.9 by 2028F. Poland is currently divided into 16 provinces known as voivodeships and we note that some voivodeships have already achieved the density level stated in Żabka's objective.

To identify whitespaces, Żabka's management has looked extensively at both its own operations and the convenience store segment of the Polish Food Retail market. By 2028F, the company sees whitespace of c.9,500 stores. Different sources can contribute to the opening of these stores, with a key component being the conversion of independent operators to the Żabka brand. This is expected to contribute to roughly a third of the planned new stores of Żabka, with the company having identified that more than 50,000 independent and loose franchise stores are available for conversion.

As well as expansion in its home country, Żabka expects to pursue international expansion, initially in Romania. To accelerate this initiative, Żabka has acquired Romanian wholesaler DRIM Daniel in 1Q24.

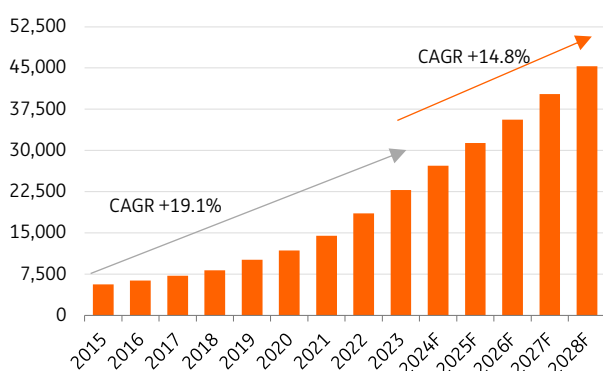
Fig 8 Scaling Żabka via its core on-the-go convenience platform

We model 16.6% Adj. EBIT CAGR over 2023-28F

Non-IFRS Sales to End Customers expected to grow by CAGR 14.8%...

Compared to traditional food retailers, Żabka reports its (non-IFRS) Sales to End Customers as a primary performance indicator given that the company does not operate retail stores on its own, with the exception of its autonomous Nano stores. Sales to End Customers can be calculated by adding the group (IFRS) revenue to the franchisee margin, adjusted for Store Inventory Change at franchisee level.

We model Sales to End Customers to grow by a CAGR of 14.8% over 2023-28F, driven by the opening of thousands of new stores over the forecast period and the continued Like-for-Like growth of existing stores, while the planned acquisition of DRIM Daniel in 2024 (PLN573m sales in 2023) is also expected to accelerate top line growth over the short term.

Fig 9 Żabka: Sales to End Customers, 2015-28F (PLNm)

Source: Company information, ING estimates

Fig 10 Żabka: Sales to End Customers per store (PLN000)

*Adjusted for the wholesale sales realized through DRIM Daniel in Romania
Source: Company data, ING estimates

With less than half of the Polish population living less than 500 metres from a Żabka stores, it could be argued that the risk of cannibalisation currently remains fairly limited, with management having already identified multiple whitespace locations across the country. As a comparison, we estimate that Polish market leader, Biedronka (owned by

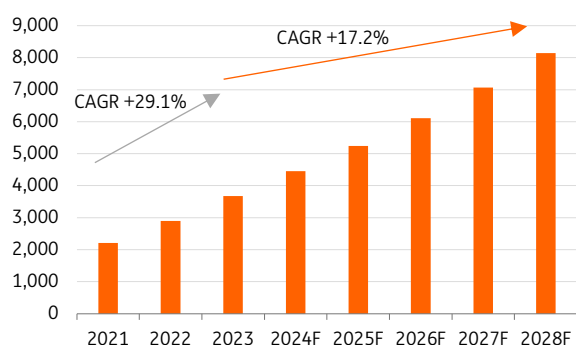
Jeronimo Martins, not covered by ING), holds a market share of c.22% in the country, with more than 3,500 much larger stores.

Management expects the growth of its Sales to End Customers to be supported by: (1) the opening of >1,000 stores on average per annum; and (2) a Like-for-Like growth of a mid-to-high single digit over the medium term.

For Żabka such a growth in Sales to End Customers would equate to an IFRS revenue CAGR of 14.2% over 2023-28F, with IFRS revenue growing slower than Sales to End Customers as we model a continued increase in franchisee margins, with the margin per store increasing on average 150bp faster than the minimum wage in Poland.

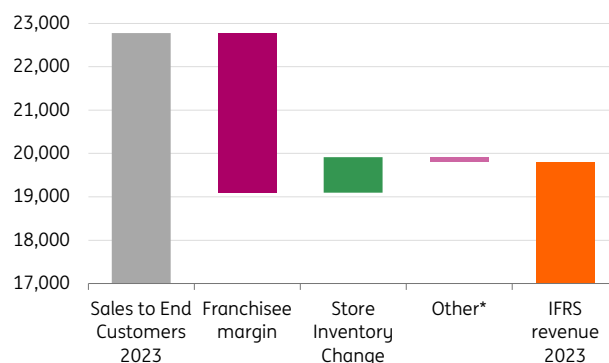
On IFRS revenue, we model the inflation impact at a CAGR of 3.5% per annum, with the bulk of the group organic growth being driven by an increase in volumes thanks to the opening of new stores and an improving mix, with a gradual increase in the weight of Quick Meals Solutions.

Fig 11 Żabka: franchisee margin evolution, 2021-28F (PLNm)



Source: Company data, ING estimates

Fig 12 Żabka: Sales to End Customers to IFRS revenue bridge, 2023 (PLNm)

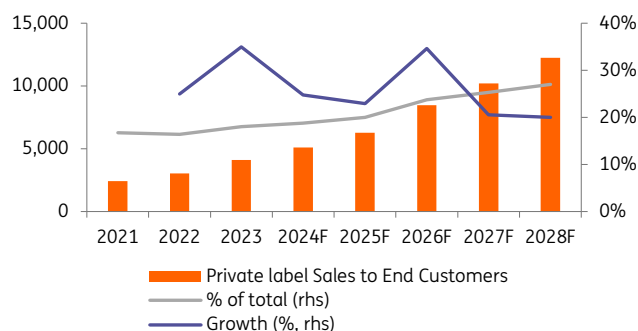


*Other includes Regional Sales, sale of Services and others
Source: Company data

...leading the group Adj. EBIT to grow by a CAGR of 16.6% over 2023-28F

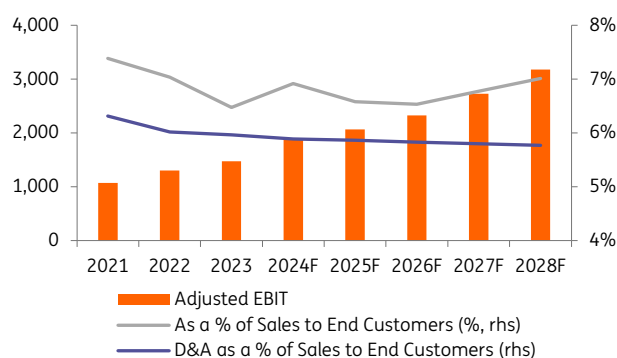
We model Żabka's Adj. EBIT margin (on Sales to End Customers) to improve by c.50bp over 2023-28F, with the negative impact of an increasing franchisee margin (+180bp over 2023-28F) being more than offset by a continued improvement in the group cost of sales (-280bp over the same time span). Management opted not to guide the market at EBIT level but at Adj. EBITDA for which the group views a 12-13% level as sustainable, with the medium term expected at the upper end of this range.

Fig 13 Żabka: private label Sales to End Customers, 2021-28F (PLNm)



Source: ING estimates

Fig 14 Żabka: Adj. EBIT evolution, 2021-28F (PLNm)



Source: Company data, ING estimates

We expect the group's cost of sales to have two different phases over which it will improve. First, we expect Żabka's cost of sales to improve over 2024-25F thanks to a decreasing utility price in Poland, with the prices over the past two years having been

inflated by the ongoing war in Ukraine. We also flag that 2024F Adj. EBITDA should benefit from a sale-and-lease back transaction, with the capital gain booked in Adj. EBITDA as per Żabka's accounting policy.

After this, we expect the group cost of sales to benefit from the full roll-out of Żabka Café 2.0 in all its stores, which should increase the percentage of sales Żabka is generating in private labels. Indeed, we flag that c.90% of the group's Quick Meals Solution offering is sold through Żabka's own brands.

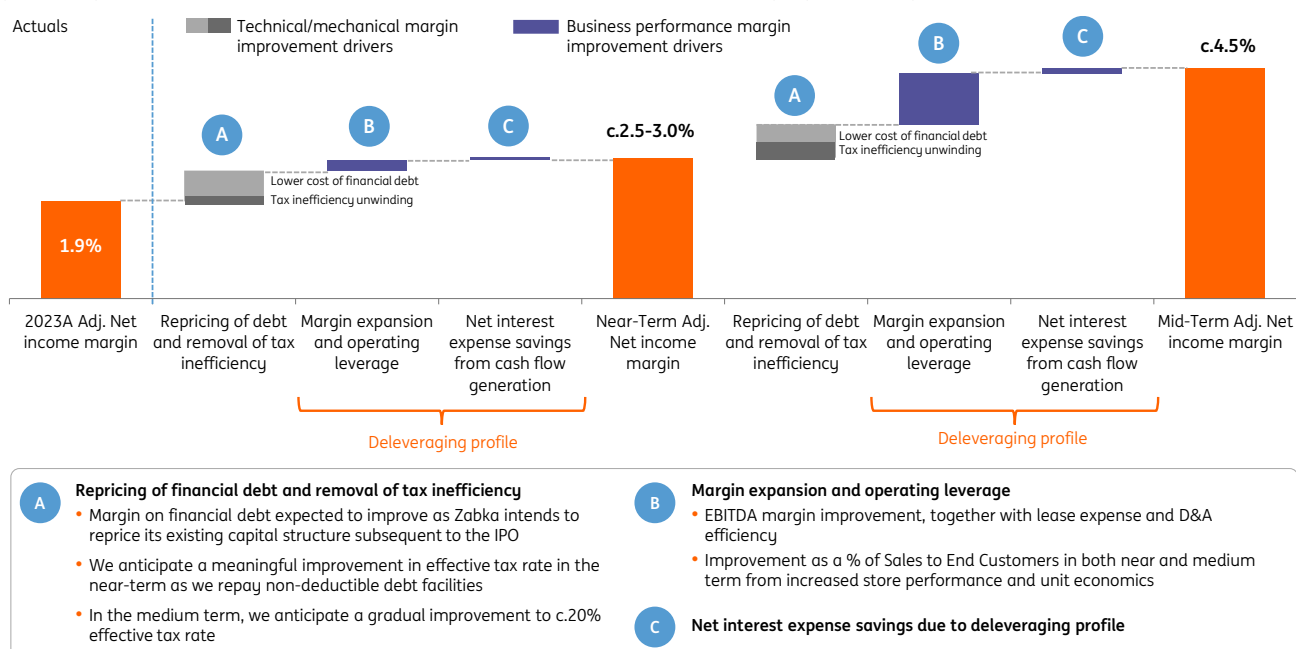
Net income growth expected to outperform operating growth on debt refinancing

On top of a strong operational performance, we flag that Żabka's net income is expected to grow at a faster rate thanks to the refinancing of the group's existing debt structure, with the company having >55% of its net debt not deductible under Polish tax law prior to its listing.

Żabka aims to refinance those debt instruments in the short term, which should have a positive impact on both net financial debt, with Żabka aiming to refinance the loans at a lower rate, and tax expenses, with the group paying an effective tax rate of 28% over 2021-23, versus Poland's 19% Corporate Income Tax Rate.

With this refinancing, we model Net Income to grow by a CAGR of 41.1% over 2023-28F.

Fig 15 Significant improvement expected in near and medium term largely driven by lower interest and tax improvements



Note: Based on current estimates for WIBOR. Adj. Net Income excludes LTIP expense and is adjusted for one-off costs

Source: Company information, Bloomberg

Self-help and debt refinancing to help deleverage Żabka's balance sheet swiftly

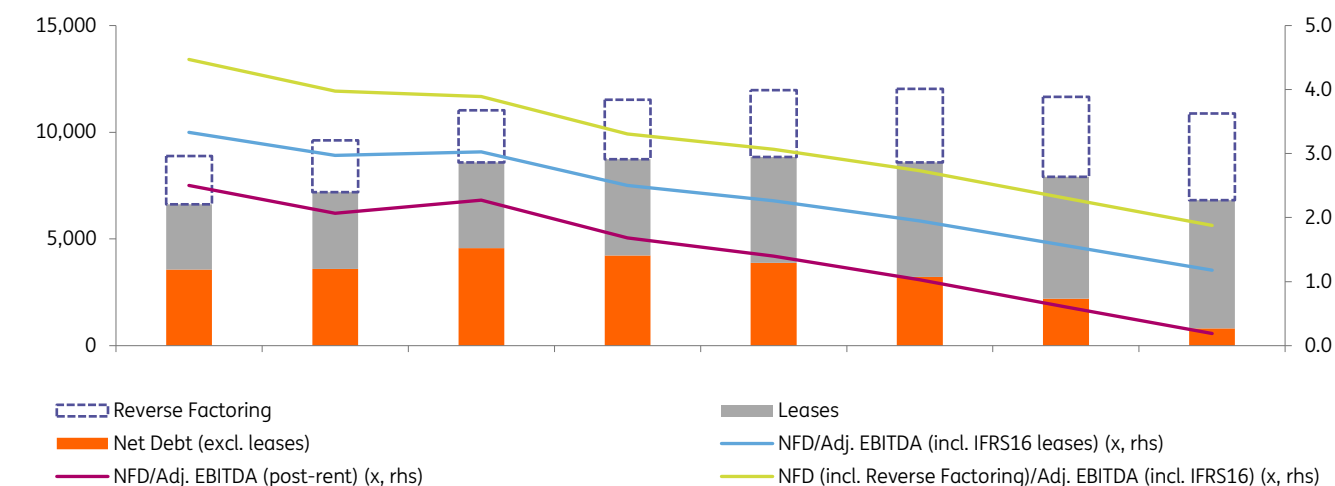
Żabka expects to deleverage its balance sheet rather quickly. Historically, we note that the group's leverage ratio has remained relatively stable, above 2.0x NFD/Adj. EBITDA (excluding leases, post-rent), with the company investing heavily in growth capex with: (1) the roll-out of new stores and the required distribution centres to support future growth; (2) the acquisitions and investment in the group's digital offering (ie, Maczfit, Dietly); and (3) the refurbishment of stores to accommodate its Żabka Café 2.0.

We expect the leverage ratio to improve materially with the group leverage ratio dropping to 0.2x NFD/Adj. EBITDA (excluding leases, post-rent) by year-end 2028F, thanks to: (1) a lower capital intensity as a percentage of sales, with Żabka expecting to open a roughly similar number of new stores as historically, despite having grown materially; (2) a continued working capital inflow, despite this ratio degrading as a

percentage of sales; and (3) a lower financial and tax burden thanks to the refinancing of non-deductible debt instruments under Polish law.

We adjust this net debt computation to include the group's reverse factoring facility, with Żabka's classifying those expenses as financial ones. Including this, Żabka's leverage ratio stood at 3.9x NFD/Adj. EBITDA (including IFRS16) at the end of 2023. By 2028F, we expect it to be around 1.9x.

Fig 16 Żabka: Net debt evolution, 2021-28F (PLNm)



Dino Polska, Żabka's key peer on all financial metrics

Comparing our estimates with those of key peers, we find that Żabka offers superior double-digit sales and EBIT growth over 2023-28F, with the noteworthy exception of Dino Polska which offers somewhat similar expected sales growth over the forecast period as per Bloomberg consensus (Figure 17).

Similarly, we note that Żabka's Adj. EBIT margin was around the same level as Dino Polska's over 2021-23, north of 7.5%, with both companies expected to continue to generate above industry-average margin in 2024F (Figure 18). However, we note that Bloomberg consensus expects Dino Polska to experience margin pressure, with its margin dropping to 6.3% in 2024F due to pricing and competition concerns.

Fig 17 Żabka: Sales and EBIT CAGR 2023-26F versus key peers (%)

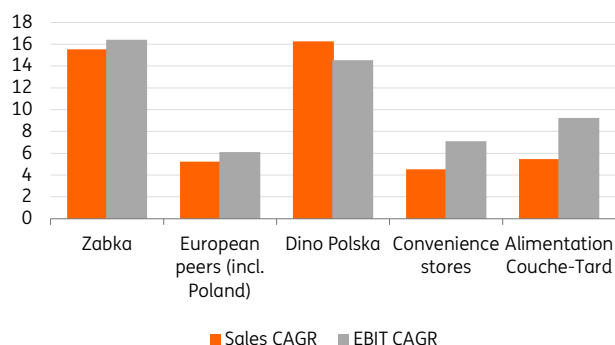
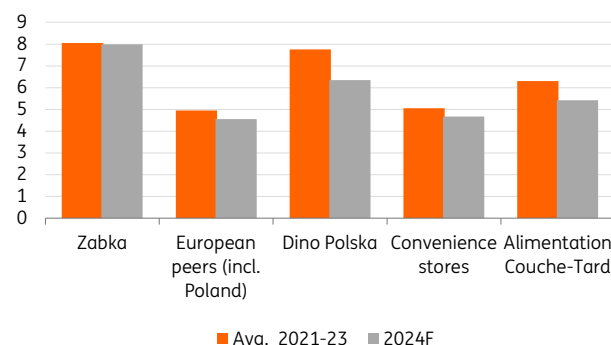


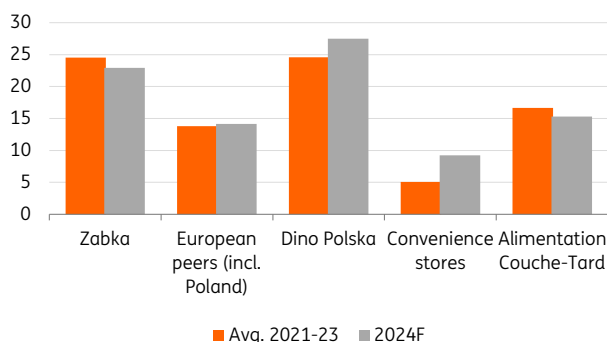
Fig 18 Żabka: Adj. EBIT margin versus key peers (%)



Comparing Żabka's Return on Capital Employed (pre-taxes, adjusted for CVC-related goodwill) with peers indicates a similar result (Figure 19), with Żabka offering once more a superior return compared to peers at c.27%, except for Dino Polska. We believe this to

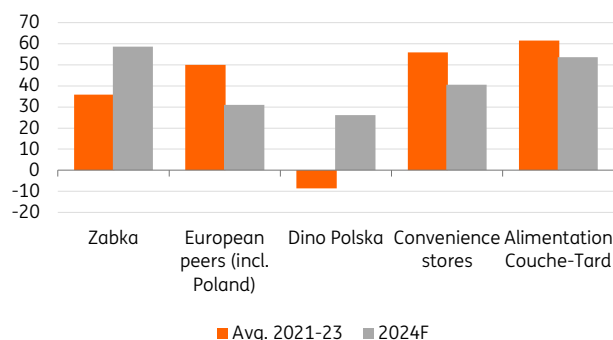
be mainly driven by the book value of stores, which are fully owned by Dino Polska and are therefore reported at cost of building. With Żabka's activity as a Property Fund, we assume that the value of its leases is reported in its books at the transaction price.

Fig 19 Żabka: Return on Capital Employed versus key peers



ROCE adjusted for the goodwill generated by an acquisition by private equity
Reverse factoring not considered as a financial liability
Source: Bloomberg consensus, ING estimates for Żabka

Fig 20 Żabka: FCF conversion* versus key peers



*Including lease payments
Source: Bloomberg consensus, ING estimates

Lastly, we note that Żabka compares well with its peers on Free Cash Flow Conversion. On this measure, Convenience Stores peers are benchmarking more favourably given the smaller size of their outlets and their extensive use of leases and franchisees. On this metric, Dino Polska shows a weaker-than-average profile as its rollout story is focused on self-owned and operated stores, whereas Żabka's franchises rely heavily on leases.

PLN20.5 target price based on a Discounted Cash Flow

We value Żabka at PLN20.5 per share, based on our Discounted Cash Flow model (WACC 10.9%, LT growth rate 2.0%). This implies that Żabka would trade at a 2026F EV/EBIT of 12.7x and Norm. PER of 18.7x, somewhat in line with its most comparable peer Dino Polska at 13.2x and 17.1x respectively.

Żabka offers a superior EBIT growth over 2023-26F at CAGR 16.4%, vs 14.5% for Dino Polska, but we believe this could be offset by a riskier balance sheet, lack of track record as a listed company and potential share overhang once the 180-day lock-up will come to an end.

Fig 21 Implied valuation multiples: PLN20.5 target price

	2024F	2025F	2026F
EV*/Sales (x)	1.26	1.10	0.97
EV*/Adj. EBITDA pre-rent (x)	8.5	7.6	6.7
EV*/Adj. EBITDA post-rent (x)	10.2	9.1	7.8
EV*/Adj. EBIT (x)	15.8	14.5	12.7
Normalised PER (x)	29.2	23.8	18.7
FCF** yield to EV* (%)	7.8	7.1	8.5

Enterprise Value computation based on book value of IFRS16 leases for the sake of comparability.
*Reverse factoring not considered as a financial liability (FY23: PLN2.4bn) **Including lease payments
Source: ING estimates

Valuation

Żabka versus peers: We select three peer groups

We select three peer groups for Żabka:

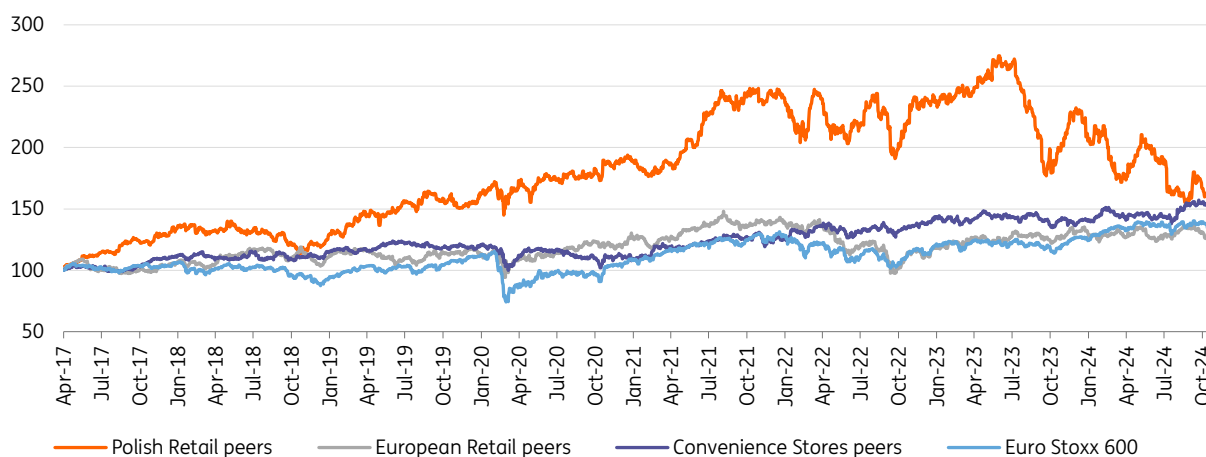
- Polish Retail peers:** We view Jeronimo Martins, Dino Polska and Pepco Group as regional peers for Żabka. Despite being listed in Portugal, Jeronimo Martins is the owner of Polish market leader, Biedronka, which accounts for 70% of the group sales and more than 80% of the group EBITDA. We therefore opt to include Jeronimo Martins in the regional peer group.
- European Retail peers:** This group is composed of well-established Food Retailers across Europe (including the UK), such as Ahold Delhaize, Tesco and Carrefour. These peers are evolving in more mature economies than Żabka, therefore offering a lower growth potential.
- Convenience Stores peers:** We view Żabka as a Convenience Store company, but flag that no such peers are listed on a European Stock Exchange. In this group, we therefore add some international peers active in this segment, such as Alimentation Couche-Tard and Seven & i Holdings (owner of the 7-Eleven brand).

Dino Polska has been the star performer in the food retail space since 2017

Since April 2017, and the IPO of Dino Polska, we note that the European Retail peers have somewhat underperformed the Eurostoxx 600 at +25%, vs 32% for the index, while both Polish Retail peers and Convenience Stores peers have outperformed, being up 65% and 56%, respectively.

Digging deeper into these performances, we note that most comparable peer Dino Polska's share price has appreciated more than eleven-fold since its listing in 2017, while peers Pepco lost more than half of its value over the same time span. Similarly, European Retailers such as Ahold Delhaize, Axfood and Kesko have performed strongly since April 2017 but the European average has been penalised by the material underperformance of Carrefour, Sainsbury and Colruyt. For Convenience Stores, the strong group average performance was mainly driven by Alimentation Couche-Tard, which has shown a growth of more than 150% since April 2017.

Fig 22 Share price performance: Polish Retail peers versus European Retail peers versus Convenience Stores peers versus Euro Stoxx 600, April 2017 to date (20 September 2024) (rebased, 100 = 18 April 2017)



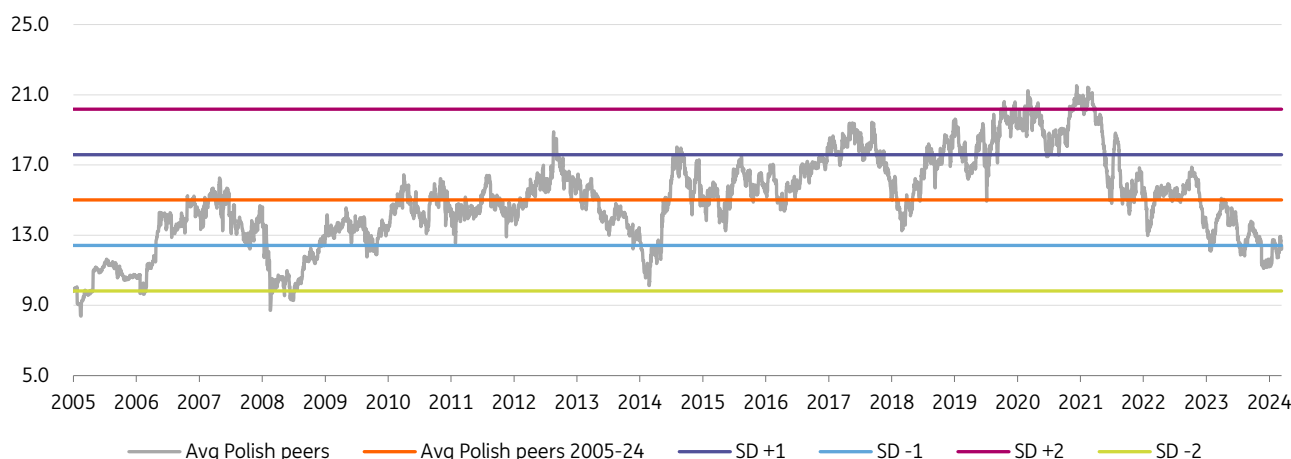
Source: Bloomberg data

Historical EV/EBIT: Polish Retail and Convenience Stores show a higher dispersion

Over-the-cycle (2005-24 to date), Polish Retail peers have traded on average at a 12-month forward EV/EBIT of 15.0x, although we flag this average is distorted by Dino Polska's listing only since 2017 and Pepco coming to the market even more recently.

We note that the Polish Retail peer group average currently trades below one Standard Deviation of its historical average over-the-cycle, with the peer group having experienced a continual derating since early-2022, with the expected 12m fwd EV/EBIT dropping from 19.8x in early January 2022 to 12.2x currently, a fall of more than 35%. We understand from industry comments that this derating has been mainly driven by a fear of price wars in the country, which has put pressure on the above-European average operating profit margin of these companies.

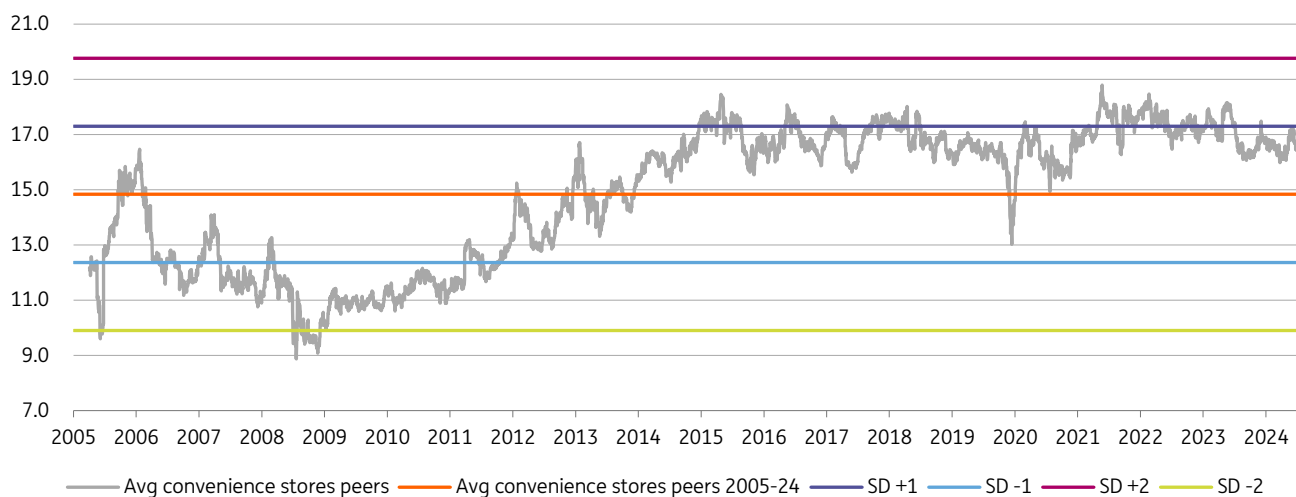
Fig 23 Polish Retail peer group: 12m fwd EV/EBIT, 2005 to date (19 November 2024) (x)



Source: Bloomberg data

The Convenience Stores peer group has also experienced a higher volatility, although this has been solely driven by a material rerating of these peers after 2010. Over-the-cycle, these peers have traded at 14.8x EV/12m fwd EBIT on average, although we note that the average would be around 16.9x if we were to start the average as of 2015. These peers currently trade slightly below +1 Standard Deviation to their historical average and are in line with the group average since 2017.

Fig 24 Convenience Stores peer group: 12m fwd EV/EBIT, 2005 to date (19 November 2024) (x)



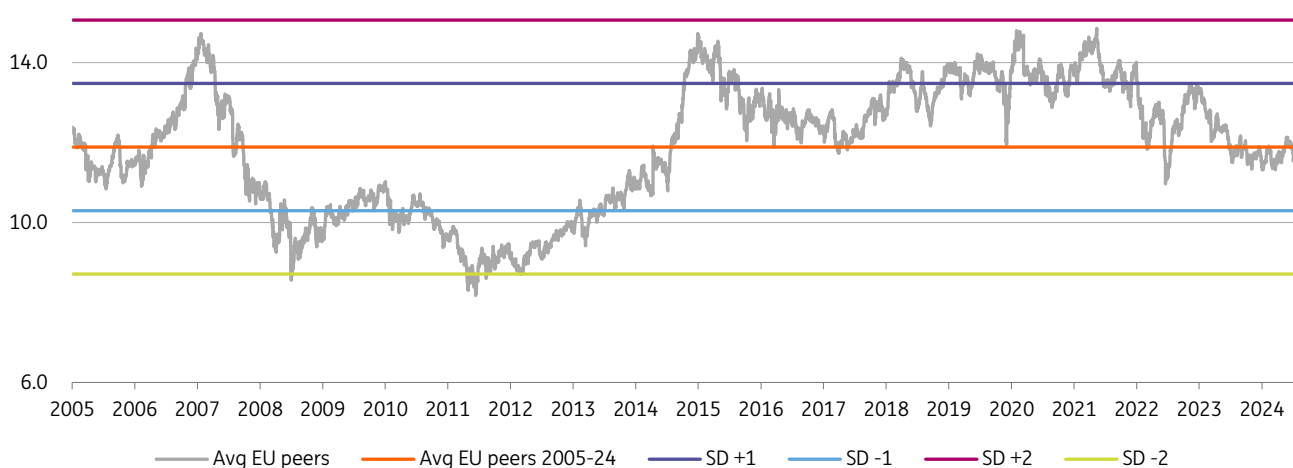
Source: Bloomberg data

Since 2022, we note that those peers have also derated, although to a lower extent than the Polish Retail peers. Over this time span, the average 12m fwd EV/EBIT of these peers moved from 17.9x to 17.0x

Lastly, we note that European Retail peers currently trade somewhat below their average over-the-cycle at 11.2x EV/12m fwd EBIT, vs 11.9x on average over 2006-24. Over 2023 to early 2024, we note that it was the first time since 2014 that these peers had traded below their average over-the-cycle for a prolonged period of time. Since 2022, the peer group has also derated materially, with the average 12m fwd EV/EBIT moving from 14x in January 2022 to 11.2x currently.

This derating for the European Retail peer group was driven mainly by B&M European Value Retail and Carrefour.

Fig 25 European Retail peer group: 12m fwd EV/EBIT, 2005 to date (19 November 2024) (x)



Source: Bloomberg data

Since 2015, we note that the market has granted a premium to both Polish Retail and Convenience Stores peers compared to the traditional and more mature European Retail (+25-30% on average since 2015).

Polish Retail: Dino Polska is Żabka's most comparable peer, in our view

We view Jeronimo Martins, Dino Polska and Pepco Group as regional peers for Żabka. Despite being listed in Portugal, Jeronimo Martins is the owner of Polish Food Retail market leader, Biedronka, which accounts for 70% of group sales and more than 80% of group EBITDA. We therefore opt to include Jeronimo Martins in the regional peer group.

Jeronimo Martins' Biedronka and Dino Polska both operate small-to-mid sized supermarkets with a clear focus on discounted prices and convenience, and we therefore believe these two companies are affected by similar trends, although we note that Biedronka is a more mature company with a market share of more than 22% in Poland. In addition, Pepco is a lesser-known company also active in the retail segment in Poland, while being active in the near-food segment in other European countries as well.

We view Dino Polska as the most comparable peer for Żabka given:

- 1) A somewhat similar expected top line growth over 2023-26F at a CAGR of 15-16%, materially above the average of Polish Retail peers at 9.3%. This is expected to be driven by a continued rapid expansion of these stores throughout Poland over the years to come. Importantly, we note that the market share of Dino Polska and Żabka in the Polish Food Retail market is currently around the same, and materially below double-digit territory.

- 2) Double digit Adj. EBIT CAGR expected over 2023-26F. Żabka is expected to outperform its peers at 16.4%, vs 14.5% for Dino Polska. Historically, both companies posted above-average Adj. EBIT margin compared to other food retailers.
- 3) Both companies are making use of reverse factoring facilities, although we flag that as at end-2023, Dino had PLN1bn of reverse factoring in its payables versus PLN2.4bn for Żabka despite having roughly similar Sales to End Customers.
- 4) High Return on Capital Employed for both Żabka (adjusted for CVC goodwill) and Dino Polska. We do not adjust the two groups for reverse factoring, which favours these two Polish players. Including this, Żabka's ROCE would decrease by c.6% in 2023 versus 3% for Dino Polska.
- 5) Dino Polska had a weaker average FCF Conversion over 2021-23, as its business model is focused on owning the stores it operates, as well as the real estate. Żabka took an alternative route, with all its stores and distribution centres being leased.
- 6) Excluding Reverse Factoring, Żabka's leverage ratio stood at 3.1x NFD/Adj. EBITDA (including IFRS16) over 2021-23 versus 0.7x for Dino Polska.

Fig 26 Key financial metrics: Żabka versus Polish Retail, European Retail and Convenience Stores peers

	Revenue (€m) 2023	CAGR (%) 2023-26F	EBIT (€m) 2023	CAGR (%) 2023-26F	Capex as % of sales 2020-23	WCN as % of sales 2020-23	FCF conv. (%) 2020-23	Avg. EBIT margin (%) 2020-23	ROCE** (%) 2020-23	NFD/EBITDA (x) 2020-23
Polish Retail		9.3		14.5	5.0	(4.1)	50.9	5.9	16.5	1.0
Jeronimo Martins	30,608	7.4	1,266	3.5	3.1	(16.7)	55.3	4.0	16.5	1.0
Dino Polska	5,656	16.3	413	14.5	7.9	(4.1)	(8.6)	7.8	24.6	0.7
Pepco Group	5,649	9.3	284	18.7	5.0	(2.2)	50.9	5.9	9.7	2.4
European Retail		2.8		4.4	2.8	(6.0)	55.9	4.2	11.8	2.2
Ahold Delhaize	88,649	2.4	3,604	2.2	3.1	(6.3)	58.5	4.4	11.6	2.0
Tesco	78,792	2.4	3,269	5.1	2.1	(9.4)	21.8	4.0	9.0	2.6
Carrefour	83,270	2.9	2,264	9.0	2.2	(5.7)	53.3	3.0	7.8	2.5
Kesko Oyj	11,784	2.8	695	2.2	2.9	0.9	67.9	6.2	14.1	1.9
J Sainsbury	37,805	2.2	1,150	4.9	2.9	(8.3)	48.5	3.0	6.5	2.6
Colruyt	10,845	3.8	470	3.9	4.4	(6.2)	35.6	4.1	11.9	0.6
Axfood	7,073	4.4	292	7.0	2.7	(5.2)	65.4	4.4	21.0	1.3
B&M Value Retail	6,355	6.3	713	3.4	2.1	5.8	82.4	11.7	25.0	2.4
Convenience Stores		5.7		8.3	3.6	(6.2)	56.5	4.8	7.7	1.6
Alim. Couche-Tard	63,979	5.5	3,520	9.3	2.7	(0.8)	61.5	6.3	16.6	1.7
Seven & i Holdings	74,078	0.4	3,450	0.4	4.6	(1.3)	41.3	4.9	7.0	1.5
CP ALL	23,804	6.4	1,102	11.4	3.3	(11.8)	51.6	4.6	5.2	5.9
President Chain Store	9,406	5.9	408	7.4	3.8	(11.1)	69.6	4.3	8.5	1.4
Żabka Group*	4,365	15.5	325	16.4	6.6	(13.3)	35.9	8.1	24.6	3.1

Consensus data as at 19 November 2024. Abovementioned peer companies are Not Rated by ING except for Ahold Delhaize (HOLD, target price €32.0) and Colruyt Group (BUY, target price €52.0). Companies listed per category in order of Market Capitalisation.

*Żabka's ratio calculated on IFRS revenue to allow comparison with listed peers. **does not include goodwill stemming from an acquisition by private equity, does not include reverse factoring as a financial liability. (FY23: PLN2.4bn).

Source: Bloomberg consensus, ING estimates for Żabka Group

In terms of valuation multiples, Polish Retail peers currently trade at an EV/EBIT of 10.7x for 2025F and 9.5x for 2026F. We flag, however, that Dino Polska trades at a material premium to the group, as well as the European Retail peers, at an EV/EBIT of 15.9x for 2025F and 13.2x for 2026F. Adjusted for Reverse Factoring, Żabka currently trades at 14.9x/13.1x EV/EBIT 2025/26F respectively, compared to 16.1x/13.3x for Dino Polska.

European Retail: Low growth in mature economies allows for significant cash returns

This peer group includes Ahold Delhaize (the Netherlands), Tesco, B&M Value Retail and Sainsbury (United Kingdom), Carrefour (France), Kesko (Finland), Colruyt (Belgium) and Axfood (Sweden). Most of these peers conduct their operations in developed European countries, which leads consensus to forecast a lower expected growth CAGR 2.8% over 2023-26F. Given the maturity of these peers, however, we flag that they are significantly

more generous in returning cash to shareholders than Polish peers, both via a significantly higher dividend yield but also through share buy-back programmes.

Similarly to the top line, European Retail peers are expected to experience a limited operating profit growth over 2023-26F at a CAGR of 4.4%, well below the two other peer groups. On the other hand, the capital intensity (excluding leases) of these peers is also materially lower, allowing the redirection of significant cash flows to capital returns.

Fig 27 EV/Sales, EV/EBIT and FCF yield to EV: Polish Retail versus European Retail versus Convenience stores, 2024-26F

	Currency	Price (lc)	Mkt Cap (€m)	EV/Sales (x)			EV/EBIT (x)			FCF yield to EV (%)		
				2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F
Polish Retail				0.62	0.57	0.53	12.0	10.7	9.5	1.7	4.3	5.7
Jeronimo Martins	EUR	17.4	10,943	0.41	0.38	0.35	12.0	10.7	9.5	1.7	4.3	5.7
Dino Polska	PLN	383.8	8,692	1.31	1.08	0.92	20.6	15.9	13.2	1.1	1.9	2.7
Pepco Group	PLN	15.5	2,068	0.62	0.57	0.53	11.3	9.6	8.2	2.0	6.7	9.6
European Retail				0.51	0.48	0.46	11.4	11.1	10.5	8.2	8.3	8.8
Ahold Delhaize	EUR	32.5	30,204	0.51	0.47	0.46	12.8	11.7	11.4	7.5	7.3	7.7
Tesco	GBP	3.5	28,090	0.47	0.47	0.46	10.6	10.7	10.2	9.0	7.6	7.7
Carrefour	EUR	14.6	9,929	0.23	0.22	0.22	8.2	7.4	6.9	11.0	11.4	12.5
Kesko Oyj	EUR	19.1	7,644	0.90	0.87	0.84	16.4	15.3	14.5	3.9	6.9	8.0
J Sainsbury	GBP	2.5	6,979	0.32	0.31	0.30	10.1	9.6	9.2	10.6	9.4	9.7
Colruyt	EUR	44.2	5,629	0.51	0.48	0.46	12.2	11.4	10.7	5.0	3.2	4.5
Axfood	SEK	232.9	4,363	0.73	0.68	0.64	17.9	16.0	14.4	5.6	8.9	9.6
B&M	GBP	3.5	4,196	0.74	0.69	0.64	7.1	6.6	6.2	10.8	9.1	10.2
Convenience Stores				0.83	0.81	0.80	17.9	16.4	15.5	4.3	5.2	6.2
Alim. Couche-Tard	CAD	77.8	49,896	0.84	0.80	0.79	15.5	13.8	12.9	4.7	4.7	5.5
Seven & i Holdings	JPY	2,438.0	38,862	0.66	0.64	0.61	16.6	14.5	13.1	3.6	1.2	4.6
CP ALL	THB	63.8	15,677	1.11	1.03	0.95	21.9	19.7	17.9	6.5	7.4	8.2
President Chain Store	TWD	269.0	8,156	0.82	0.82	0.82	19.2	18.3	18.1	3.8	5.7	6.9
Żabka Group	PLN	18.5	4,273	1.17	1.03	0.90	14.6	13.4	11.8	8.3	7.6	9.1

Consensus data as at 19 November 2024. Abovementioned peer companies are Not Rated by ING except for Ahold Delhaize (HOLD, target price €32.0) and Colruyt Group (BUY, target price €52.0). Companies listed per category in order of Market Capitalisation

Source: Bloomberg consensus data for all companies

In terms of valuation multiples, European Retail peers currently trade on an average EV/EBIT of 11.1x for 2025F and 10.5x for 2026F. In this peer group, we also note significant discrepancies in valuation multiples, with Scandinavia-based Axfood and Kesko trading at a material premium to peers.

On average, European Retail peers currently trade at somewhat in line with Polish Retail peers over EV/EBIT 2024-26F, despite a materially lower growth on offer, which in our view can be explained by a higher perceived risk profile for Polish companies, leading to a higher WACC.

Convenience Stores: International peers trading at higher multiples than in Europe

Our global convenience peer group consists of Alimentation Couche-Tard (Canada), Seven & i Holdings (Japan), CP All (Thailand) and President Chain Store (Taiwan). Alimentation Couche-Tard is a leading player in North America, both with a convenience store and a forecourt offering, while Seven & i owns the 7-Eleven brands and convenience stores in most geographies. Both CP All and President Chain own a licence to operate 7-Eleven convenience stores, in Thailand and Taiwan, respectively. Alimentation Couche-Tard operates around 400 stores in Poland.

Bloomberg consensus forecasts expects this group of peers to see a top line CAGR of 5.7% over 2023-26F, while operating profit is expected to grow at a CAGR of 8.3%. The Convenience Stores peer group trades on average at an EV/EBIT of 16.4x for 2025F and 15.5x for 2026F, a material premium to both Polish and European retailers.

Fig 28 EV/EBITDA, Norm. PER and Dividend Yield: Polish Retail versus European Retail versus Convenience stores, 2024-26F

	Currency	Price (lc)	Mkt Cap (€m)	EV/EBITDA (x)			Norm. PER (x)			Dividend yield (%)		
				2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F
Polish Retail				6.3	5.6	5.1	16.9	15.0	12.9	1.9	1.6	3.3
Jeronimo Martins	EUR	17.39	10,943	6.3	5.6	5.1	16.9	15.0	12.9	3.5	3.7	3.9
Dino Polska	PLN	383.80	8,692	17.0	13.4	11.1	26.3	20.9	17.1	1.9	1.6	2.3
Pepco Group	PLN	15.55	2,068	4.4	3.9	3.5	11.5	8.7	7.1	0.0	0.9	3.3
European Retail				6.4	6.0	5.8	12.9	12.0	11.0	4.3	4.7	5.0
Ahold Delhaize	EUR	32.50	30,204	6.4	5.9	5.8	12.7	12.0	11.0	3.5	3.7	4.0
Tesco	GBP	3.47	28,090	6.8	6.9	6.7	13.1	12.0	11.1	3.8	4.1	4.5
Carrefour	EUR	14.65	9,929	4.2	3.9	3.7	8.2	7.0	6.0	6.3	6.6	7.2
Kesko Oyj	EUR	19.12	7,644	8.7	8.3	7.9	17.5	16.0	14.8	4.8	5.2	5.4
J Sainsbury	GBP	2.47	6,979	4.8	4.6	4.5	10.9	9.9	9.2	5.5	5.8	6.2
Colruyt	EUR	44.20	5,629	6.4	6.1	5.8	15.0	14.0	13.5	3.0	3.4	3.8
Axfood	SEK	232.90	4,363	9.3	8.2	7.7	20.9	19.0	17.0	3.7	3.8	4.0
B&M	GBP	3.49	4,196	4.8	4.7	4.3	9.5	8.6	8.1	6.4	7.7	8.2
Convenience Stores				9.0	8.6	8.4	23.9	21.6	19.1	1.8	2.2	2.4
Alim. Couche-Tard	CAD	77.84	49,896	10.5	9.7	9.0	18.5	16.3	15.2	1.1	1.2	1.3
Seven & i Holdings	JPY	2438.00	38,862	7.6	7.0	6.4	28.3	21.9	19.0	1.6	2.1	2.4
CP ALL	THB	63.75	15,677	13.1	12.1	11.2	24.2	21.4	19.2	2.0	2.3	2.5
President Chain Store	TWD	269.00	8,156	7.6	7.6	7.9	23.7	21.8	20.2	3.7	3.9	4.2
Żabka Group	PLN	18.5	4,273	7.9	7.1	6.2	26.3	21.4	16.8	0.0	0.0	0.0

Consensus data as at 19 November 2024. Abovementioned peer companies are Not Rated by ING except for Ahold Delhaize (HOLD, target price €32.0) and Colruyt Group (BUY, target price €52.0). Companies listed per category in order of Market Capitalisation

Source: Bloomberg consensus data for all companies

PLN20.5 target price based on a Discounted Cash Flow

Our target price of PLN20.5 per share implies a 2026F EV/Adj. EBIT of 12.7x and a Norm. PER of 18.7x, both metrics being somewhat in line with its most comparable peer Dino Polska at 13.2x and 17.1x respectively. Dino Polska, listed since 2017, has traded on average at 20.7x 12m fwd EV/EBIT over this time span, vs 20.6x EV/EBIT 2024F currently. We therefore see limited room for a further re-rating.

In the short run, we believe Żabka should trade in line with Dino Polska, despite offering a superior expected EBIT growth over 2023-26F at CAGR 16.4%, vs 14.5% for Dino. We believe this should be overshadowed by Żabka's riskier balance sheet, lack of track record as a listed entity and potential share overhang, with private equity funds CVC (c.41% stake) and Partners Group (c.13% stake) having agreed on a 180-day lock-up.

Our Enterprise Value to Equity bridge

For the bridge between Enterprise Value and Equity Value, we adjust for Net Financial Debt including lease liabilities at book value for comparability with peers, except for the Discounted Cash Flow where we include lease payments in our cash flow computation. On top of this, we adjust the Enterprise Value for the expected dilution as a result of the group LTIP programme, as well as the minority interests stemming from the acquisition of DRIM Daniel in Romania.

We do not adjust our net financial debt for reverse factoring (FY23: PLN2.4bn) but believe some investors may consider this as financial debt. We view two different methods to adjust for this: (1) increasing the group net financial debt by the size of its reverse factoring facility; and (2) reclassifying PLN192m of financial expenses related to this facility to operating expenses.

Discounted Cash Flow equity valuation of PLN20.5bn

We opt to use a Discounted Cash Flow as our main valuation methodology given Żabka's stable and growing Free Cash Flow due to the inherent defensive characteristics of the Food Retail industry. In addition, this method offers a valuable insight into Żabka's medium- and long-term growth prospects, in our view.

This model is based on the assumption of a successful rollout of stores in Romania and a continued mid-to-high-single digit Like-for-Like growth over 2024-28F. These assumptions are reflected in the model shown in the *Financials* section of this report. With these estimates, we sit in line with company guidance, with Sales to End Customers increasing by 2.0 times over 2023-28F.

Fig 29 Discounted Cash Flow: Żabka guidance versus ING estimates

	Guidance	ING estimates
Sales to End Customers	2x by 2028F	2.0
Store openings	5,100	5100
Store closures	0.5% of total per annum	0.6%
Like-for-Like	Mid-to-high single digit	6.4%
Adj. EBITDA margin	12-13% on Sales to End Customers	Average 12.6%

Source: Company data, ING estimates

This leads to an equity valuation of PLN20.5bn (or an Enterprise Value of PLN25bn) based on a Weighted Average Cost of Capital of 10.9% and a long-term growth rate of 2.0%.

Our WACC of 10.9% is based on the following assumptions:

- 1) A cost of equity of 11.5%, driven by a beta of 1.0 (average Jeronimo Martins and Dino Polska), an equity risk premium of 5.5% and a Risk Free Rate of 5.8%, which reflects the weighted average representation of the Polish 10-year yield (97.5% weight) and the Romanian 10-year yield

Fig 30 Our Discounted Cash Flow assumptions (%)

Weighted Average Cost of Capital	10.9
Risk free rate of return	5.8
Equity risk premium	5.5
Beta	1.0
Cost of Equity	11.5
Pre-tax cost of debt	9.0
Tax Rate	20.0
Long term cost of debt	7.2
Target Debt to Total Capital	15
Target Equity to Total Capital	85
Terminal growth rate	2.0

Source: ING estimates

- 2) An after-tax cost of debt of 7.2%, based on a long-term cost of debt of 9.0% and a tax rate of 20.0%, in line with company guidance.

In terms of financial metrics, this scenario implies that Żabka's IFRS revenue will grow by a CAGR of 10.0% over 2023-33F, mainly driven by the 14.2% CAGR over our explicit forecast period covering 2024-28F. This would lead to an Adj. EBIT CAGR of 11.0% over 2023-33F, again mainly driven by the 16.6% EBIT CAGR over our explicit forecast period.

After our explicit forecast period, we expect our IFRS revenue growth rate to steadily decline at a level in line with our long-term growth rate of 2.0%, reflecting lower growth capex as the whitespace available in Poland would have been materially reduced by then. We flag that, in this scenario, growth capex could be expected to continue unabated for longer, with Żabka starting to cover more ground in Romania.

On an IFRS basis, we model Żabka's Adj. EBIT margin to remain around 8.2% over the fade period, reflecting a stronger and more mature business in Poland, allowing the group to increasingly sell private labels in its product mix. We also adjust our Free Cash Flow to the Firm to reflect lease payments, which we expect to remain stable around 4% of IFRS revenue over 2024-33F.

Fig 31 Our Discounted Cash Flow model points to a target price of PLN20.5 per share (PLNm)

Y/E Dec	2023	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F
	Explicit forecast period						Fade period				
Total revenue	19,806	23,583	27,054	30,552	34,350	38,468	42,311	45,691	48,427	50,359	51,366
YoY (%)	23.8	19.1	14.7	12.9	12.4	12.0	10.0	8.0	6.0	4.0	2.0
Underlying EBITDA	2,834	3,487	3,905	4,405	5,063	5,795	6,361	6,855	7,251	7,540	7,691
Margin on IFRS revenue (%)	14.3	14.8	14.4	14.4	14.7	15.1	15.0	15.0	15.0	15.0	15.0
Less: depreciation & amortization	(1,359)	(1,604)	(1,840)	(2,078)	(2,336)	(2,616)	(2,877)	(3,107)	(3,293)	(3,424)	(3,493)
As a % of IFRS revenue	6.9	6.8	6.8	6.8	6.8	6.8	6.8	6.8	6.8	6.8	6.8
Underlying EBIT	1,475	1,884	2,066	2,327	2,727	3,179	3,484	3,748	3,958	4,116	4,198
Margin on IFRS revenue (%)	7.4	8.0	7.6	7.6	7.9	8.3	8.23	8.20	8.17	8.17	8.17
NOPLAT	1,031	1,413	1,601	1,827	2,168	2,543	2,787	2,999	3,167	3,293	3,359
Tax rate (%)	30.1	25.0	22.5	21.5	20.5	20.0	20.0	20.0	20.0	20.0	20.0
Add: depreciation & amortization	1,359	1,604	1,840	2,078	2,336	2,616	2,877	3,107	3,293	3,424	3,493
Less: capex	(1,351)	(1,557)	(1,702)	(1,727)	(1,901)	(2,089)	(2,086)	(2,024)	(1,903)	(1,727)	(1,505)
As a % of IFRS revenue	6.8	6.6	6.3	5.7	5.5	5.4	4.9	4.4	3.9	3.4	2.9
Less: lease payment	(886)	(980)	(1,130)	(1,265)	(1,409)	(1,563)	(1,698)	(1,811)	(1,920)	(1,996)	(2,036)
As a % of IFRS revenue	4.5	4.2	4.2	4.1	4.1	4.1	4.0	4.0	4.0	4.0	4.0
Less: change in Working Capital	(197)	521	158	141	91	63	42	46	48	50	51
As a % of IFRS revenue	0.99	-2.21	-0.59	-0.46	-0.26	-0.16	-0.1	-0.1	-0.1	-0.1	-0.1
Unleveraged FCF to the firm	(44)	1,000	767	1,054	1,284	1,569	1,922	2,316	2,685	3,044	3,362
% YoY	n/a	-2386.6	-23.3	37.4	21.9	22.2	22.5	20.5	15.9	13.4	10.4
Terminal Value											38,692
Discount factor			0.90	0.81	0.73	0.66	0.60	0.54	0.49	0.44	0.40
Present value			692	857	943	1,039	1,148	1,247	1,305	1,334	16,625
DCF output (PLNm)											
Enterprise value	25,189										
Net Financial Debt* (excl. leases)	(4,217)										
Dilution with LTIP	(265)										
Minority interests	(101)										
DCF equity value	20,606										
Number of shares (m)	1,000										
Target price (PLN)	20.6										

*Reverse Factoring not considered as a financial liability (FY23: PLN2.4bn)

Source: ING estimates

Our Enterprise Value to equity bridge reflects the group's net financial debt excluding IFRS16 leases as well as additional minor elements, such as the potential 2% dilution over 2024-28F and the minority interests generated by the acquisition of DRIM Daniel in Romania.

Using this model, we flag that roughly 61% of our Enterprise Value is derived from our Terminal Value computation.

Fig 32 Composition of DCF Enterprise Value (PLNm)

Enterprise Value	25,189	100%
2025-33F	9,893	39%
Terminal value	15,296	61%

Source: ING estimates

For the sake of comparability, all the following valuation multiples will be calculated using the book value of IFRS16 leases. A PLN20.5bn equity valuation would imply an EV/Adj. EBIT of 14.5x in 2025F and 12.7x in 2026F, broadly in line with Dino Polska at 15.9x and 13.2x, respectively. We note that Dino Polska has strongly re-rated since the publication of its 3Q24 results, which were seen as encouraging for margin recovery by the street.

On a PER basis, Żabka would trade at a premium of c.10% to Dino Polska by 2026F at 18.7x, vs 17.1x for Dino Polska.

Fig 33 Implied valuation multiples: PLN20.5 target price

	2024F	2025F	2026F
EV*/Sales (x)	1.26	1.10	0.97
EV*/Adj. EBITDA pre-rent (x)	8.5	7.6	6.7
EV*/Adj. EBIT (x)	15.8	14.5	12.7
Normalised PER (x)	29.2	23.8	18.7
FCF** yield to EV* (%)	7.8	7.1	8.5

Enterprise Value computation based on book value of IFRS16 leases for the sake of comparability.

*Reverse factoring not considered as a financial liability (FY23: PLN2.4bn) **Including lease payments

Source: ING estimates

Lastly, we assess the sensitivity of our equity valuation on key assumptions built into our model. A change of 50bp of our Weighted Average Cost of Capital would change our equity value by -8%/+9%, while a change of 50bp of our long-term growth rate would change our equity valuation by -4%/+5%.

Fig 34 Sensitivity analysis: DCF equity value (PLNm) versus WACC and long-term growth rate (%)

		WACC (%)				
		11.9	11.4	10.9	10.4	9.9
LT growth rate (%)	1.0	16,243	17,513	18,921	20,487	22,241
	1.5	16,853	18,209	19,718	21,408	23,310
	2.0	17,523	18,978	20,606	22,439	24,515
	2.5	18,266	19,835	21,600	23,600	25,883
	3.0	19,092	20,794	22,721	24,920	27,451

Source: ING estimates

Other valuation methodologies

We cross check our DCF target price with different methods, namely EV/Capital Employed 2025F, EV/EBIT 2026F and Norm. PER 2026F. For those methods, we compare Żabka with European Food Retailers, Dino Polska and large Convenience Store operators.

As several Food Retailers are listed on international stock exchanges, we believe this method should provide a strong view on Żabka's fair value. At mid-point, the average of these three methods provides us with an equity valuation of PLN20.2 per share, an equity valuation close to the one derived from our Discounted Cash Flow model.

2026F EV/EBIT: Equity valuation range of PLN22bn to PLN27bn

Fig 35 Our EV/EBIT 2026F valuation methodology generates an equity valuation range of PLN22bn to PLN27bn (PLNm)

Dino Polska		Convenience Store peers	
Implied EV/EBIT (x)	13.2x	Implied EV/EBIT (x)	15.5x
Adj. EBIT	2,327	Adj. EBIT	2,327
Żabka Enterprise Value	30,664	Żabka Enterprise Value	36,075
Net Financial Debt* (incl. leases)	(8,584)	Net Financial Debt* (incl. leases)	(8,584)
Dilution with LTIP	(325)	Dilution with LTIP	(325)
Minority interests	(121)	Minority interests	(121)
Żabka Equity value	21,634	Żabka Equity value	27,045

* Reverse Factoring not considered as a financial liability (FY23: PLN2.4bn)

Source: Bloomberg consensus, ING estimates

This method generates an equity valuation range of PLN22bn to PLN27bn, based on an 2026F EV/EBIT of 13.2x for most comparable peer Dino Polska and 15.5x for Convenience Store peers. On our lower limit, this model derives an equity valuation of PLN22bn for Żabka, while our upper limit points to an equity valuation of PLN27bn.

This method is based on an Adj. EBIT of PLN2.3bn, an increase of CAGR 16.4% over 2023-26F.

2026F Norm. PER: Equity valuation range of PLN20bn to PLN21bn

In this method, we compare the valuation of Żabka when considering Dino Polska and the Convenience Store group as key peers. This leads to an equity valuation range of PLN20bn to PLN21bn, based on a Norm. PER 2026F ratio of 17.8x as the lower limit and 19.2x as the upper limit.

We use 2026F Adj. Net Income to reflect Żabka's debt refinancing post-listing, which would allow the company to benefit from lower financial expenses, as well as from a lower tax burden, with the company currently having several debt instruments on its books that are not deductible under Polish law.

Fig 36 Our PER 2026F valuation methodology generates an equity valuation range of PLN20bn to PLN21bn (PLNm)

Dino Polska		Convenience Store peers	
Implied PER (x)	17.8x	Implied PER (x)	19.2x
Adj. net income 2026F	1,114	Adj. net income 2026F	1,114
Żabka Equity value	19,837	Żabka Equity value	21,397

Source: Bloomberg consensus, ING estimates

Regression analysis on EV/Capital Employed 2025F

Lastly, we use a regression analysis to compare Żabka's valuation with key peers in the industry, based on 2025F and 2026F estimates. We thus compare the valuation multiples at which peers were estimated to trade in FY25F and try to find statistical significance vs ROCE in FY26F.

We flag that we adjust the Capital Employed for both B&M European Value Retail and Żabka to deduct the goodwill generated by the acquisition of a stake from a private equity player. Similarly, the Return on Capital Employed 2026F we use is adjusted for this goodwill that is not related to a company strategy (versus generated by continued acquisitions).

This model generates an equity valuation of PLN13bn to PLN18bn, using 2.4x EV/Capital Employed as our lower limit and 2.8x as our upper limit.

Fig 37 Our EV/Capital Employed valuation methodology provides an equity valuation range of PLN13bn to PLN18bn

European Retail peers (including Poland)		Convenience stores	
Implied EV/CE (x)	2.4x	Implied EV/CE (x)	2.8x
Capital Employed*	9,528	Capital Employed*	9,528
Żabka Enterprise Value	22,438	Żabka Enterprise Value	26,752
Net Financial Debt (incl. leases)	(8,584)	Net Financial Debt (incl. leases)	(8,584)
Dilution with LTIP	(325)	Dilution with LTIP	(325)
Minority interests	(121)	Minority interests	(121)
Żabka Equity value	13,408	Żabka Equity value	17,722

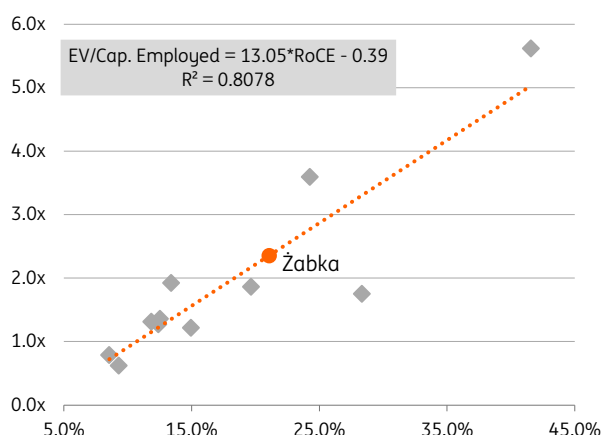
* Reverse Factoring not considered as a financial liability (FY23: PLN2.4bn).

*Capital Employed adjusted for PLN3.2bn of goodwill generated by the acquisition of Żabka by CVC in 2017.

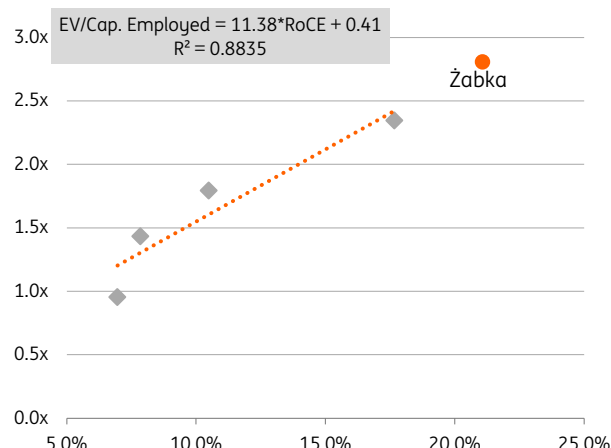
Source: Bloomberg consensus, ING estimates

Our lower limit of 2.4x EV/Capital Employed 2025F is derived by plotting the expected ROCE of our European Retail peers (including Poland) over FY26F against their 2025F EV/Capital Employed ratio, as depicted in Figure 38. We find a significant statistical relationship between these two variables, with an R^2 of 0.81.

We believe this to be mainly driven by the high valuation, and ROCE of Dino Polska, compared to the ROCE of low performing peers, and hence low valuation, of peers such as Carrefour and Sainsbury.

Fig 38 Regression analysis: 2025F EV/Capital Employed EU peers (x) vs 2026F RoCE (%)

Orange indicates the implied ratio for Żabka
Source: Bloomberg consensus, ING estimates

Fig 39 Regression analysis: 2025F EV/Capital Employed Convenience stores peers (x) vs 2026F RoCE (%)

Dark blue indicates the implied ratio for Żabka
Source: Bloomberg consensus, ING estimates

On the other hand, our upper limit of 2.8x EV/Capital Employed 2025F is derived by plotting the ROCE of convenience stores peers in FY26F against their 2025F EV/Capital Employed, as depicted in Figure 39. Despite having only four peers in this group, we find another significant statistical relationship in this peer group, with an R² of 0.88.

We believe it is also noteworthy that, based on our analysis, Żabka's ROCE would be best-in-class in the Convenience Store category, exceeding current best-in-class player Alimentation Couche-Tard by more than 10%. In the European Retail segment, we flag that some peers, such as Dino Polska and B&M, generate similarly high ROCE.

A potential benchmark transaction in the Convenience Store segment

In August, Alimentation Couche-Tard (ATD CN, not covered by ING) announced that it had launched a confidential, non-binding and preliminary offer to acquire a 100% stake in Seven & i Holdings, the parent company of the 7-Eleven brand. Such an acquisition would create a giant in the convenience retail industry, with Alimentation Couche-Tard and Seven & i being already the two largest players in the industry, with a geographical footprint across North America, Asia and Europe. We estimate that, combined, the two groups would see annual revenue stand around US\$140bn.

This would therefore become, by quite a distance, the largest transaction in the history of the convenience store industry. Since this announcement, Seven & i Holdings share price has rallied up >40%, valuing Seven & i at an equity value of c.US\$42bn. Seven & i is currently trading at 13.4x EV/EBIT 2026F as per Bloomberg consensus, a premium of c.30% to European Food Retailers and somewhat in line with Alimentation Couche-Tard at 12.9x.

Following this offer, Seven & i has appointed a special committee to review the takeover bid, which deemed that this offer was grossly undervaluing Seven & i's intrinsic value. Furthermore, it was flagged by this special committee that such a merger may face significant legal challenges from the US competition authority.

Lastly, Seven & i has flagged in a press release that it remains open to engaging in discussions with Alimentation Couche-Tard. According to Nikkei, it is the second time that Alimentation Couche-Tard has tried to take over Seven & i, after a failed attempt in 2020.

The financial press have recently reported that preliminary talks have been held between Alimentation Couche-Tard and Seven & i, while also highlighting that a potential white knight might come into play.

Investment risks

We view the following as key risks for Żabka's equity story:

Legal risk

Żabka runs its business through franchisees, with each franchisee signing similar agreements with Żabka. As of this date, the franchise agreement has not been regulated as a separate type of contract in the Polish Civil Code, meaning that no governmental guidelines had to be followed to write this franchise agreement. The former Polish government had expressed its intention to regulate such a market, leading to potential changes in Żabka's future revenue streams.

In addition to this legal uncertainty with regards to franchisee agreements, business cooperation based on these agreements is not separately and comprehensively regulated by Polish tax law, leading to potential unfavourable tax rulings for Żabka. Furthermore, some retailers in Poland are suffering an additional tax on retail sales, if and when they exceed PLN17m per month. Żabka's franchise stores are not reaching this amount, and therefore do not have to pay this tax. An amendment of this regime to include store franchises would, however, have a negative impact on Żabka's tax bill.

Lastly, Polish law puts the onus on a clear differentiation between an employment contract and a civil law agreement (ie, franchisee contracts). If the Polish court were to deem that Żabka's franchisees are actually employment contracts, it would have a material impact on the group's balance sheet and income statements, with the cost of store employees having to be borne and consolidated by Żabka. Such points have been formulated against the group, with all rulings thus far having turned in favour of Żabka.

Competitive risk

Although Żabka may be considered among Poland's strongest food retail brands and undisputed market leader in same-day missions in Poland, competition in the food retail segment remains fierce, with companies such as Dino Polska, Carrefour Express and Spar Express operating in the same small supermarket segment. On top of this, Żabka has to compete with forecourt convenience players, such as Orlen, and discounters like Biedronka, Aldi and Lidl.

Competition comes in the form of neighbouring locations, brands and price-point proliferation as well as category extension and adjacent category development. Furthermore, we flag that the competitive landscape could change materially if the ongoing ban on Sunday trading were to be overturned by the Polish government.

Macroeconomic risk

In common with other retailers in Poland, Żabka faces macroeconomic risk factors including high inflation, increasing energy prices, the impact of the Russia-Ukraine war, limited availability of labour, plus rising interest rates, which impact client purchasing power. Headline inflation hit 5.0% YoY in September and is projected to peak around 5-6% YoY in early 2025 before moderating in 2H25. ING Macro Research models still suggest that slower wage growth should bring inflation down in 2H25 and 2026.

Compared to a traditional food retailer, we note that Żabka tends to be more exposed to economic cycles due to the higher weight of impulse buying in its product mix.

Product and reputational risk

With Żabka venturing more into the Quick Service Restaurant segment, we flag that the company will face greater risk related to the freshness and quality of its products. A product recall or sickness at one of its points-of-sales could have a negative impact on the group's reputation, which would have an adverse effect on its growth prospects.

As Żabka gradually expands into new markets and adjacent businesses, the increasingly complex nature of its business makes it more difficult to manage.

ESG risks

Żabka has long-term programmes in place to address the environmental impact of the company's activities. However, public opinion can change rapidly, and it may be the case that Żabka Group could suffer a boycott of its stores if the company is seen to be acting too slowly.

Żabka Group's exposure to social risk leans towards customer brand perception, preferences and demographics. The company may be obliged to adapt its product offering as buying patterns shift for environmental or health reasons. Obesity is a major health concern in both Poland and Romania, with almost 60% of the population that are overweight² versus 51% on average in the EU-27. The fat content of Żabka Group's Food-on-the-Go Quick Meal Solutions (QMS, including Żabka Café 2.0) category may come under scrutiny over time and lead to a mix shift within or away from Żabka Group's QMS category.

As well as obesity, alcoholism and smoking are also major concerns in Poland. When it comes to deaths due to alcohol use, the EU's standardised death rate was 3.6 deaths per 100k people, which compares to 10.1 for Poland³ (second highest in the EU-27).

The Spirits and Wine assortment (this segment does not include beer) accounts for 6% of Żabka Group's number of transactions. The Beverages assortment, which includes beer, next to soft drinks, water and energy drinks, accounts for 32% of the number of transactions. Also Żabka Group's alcoholic beverages category may come under scrutiny over time and lead to a mix shift.

Poland is dealing with a significant burden of tobacco-related diseases and deaths as smoking contributes to more than 70k deaths every year. Around 30% of the population in Poland smokes tobacco, with an estimated 37% of men and 24% of women who smoke. Among the younger population (aged 13-15), nearly 19% smoke cigarettes and 7% use tobacco products other than cigarettes⁴. Tobacco products, which cause well-known significant health, economic and environmental damage, represent 13.5% in terms of current number of transactions of Żabka Group. No percentage of sales figure is disclosed.

Share overhang

After completion of its Initial Public Offering, private equity funds managed by CVC and Partners Group still owns a c.41% and 13% stake in the company respectively, exerting effective control on the group's activities and capital allocation policies.

Following the group's listing, Selling Shareholders continue to be invested in Żabka but could decide to sell shares at a future date, creating a share overhang. Most selling shareholders have agreed on a lock-up period of 180 days, except for the management vehicle with a lock-up of 360 days. CVC and Partners Group could therefore start to sell additional shares in the group as of 16 March 2025.

The payment of any future dividends will depend on Żabka Group's financial position and the results of its operations, as well as its investments in expansion of its operations in Poland, in Romania and possibly in other countries.

² Source: Eurostat, 2022, BMI ≥ 25

³ Source: Eurostat, 2020, deaths caused by mental and behavioural disorders due to use of alcohol

⁴ Source: The Prevalence of Tobacco, Heated Tobacco, and E-Cigarette Use in Poland: A 2022 Web-Based Cross-Sectional Survey

Company overview

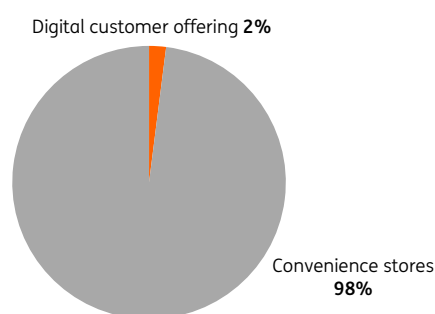
Żabka is one of the leading food retailers in Poland, thanks to a network of more than 10,000 franchised convenience stores across Poland. Żabka's outlets are present in all major towns and cities, with different formats allowing them to address differing customer needs. Over the past 26 years, Żabka has consolidated its position in the Polish Food Retail market to become a well-known brand in the Polish landscape, with a brand awareness of more than 90% for its physical and digital proposition.

Żabka is rapidly expanding its convenience stores across Poland, with the stores well known for their easy access and convenient opening hours. Żabka is the food retailer with the most outlets in the country, well ahead of competitors Biedronka and Dino Polska.

In value terms, Żabka was estimated to hold a market share of <5% in Poland in 2023⁵, trailing market leader Biedronka's 22%, as well as Schwarz Group's (Kaufland, Lidl) 11% and Dino Polska's 5-6%. The group is, however, differentiating itself from the competition with its Quick Service Restaurant offering and a store designed to favour on-the-go consumption for customers that are time-constrained.

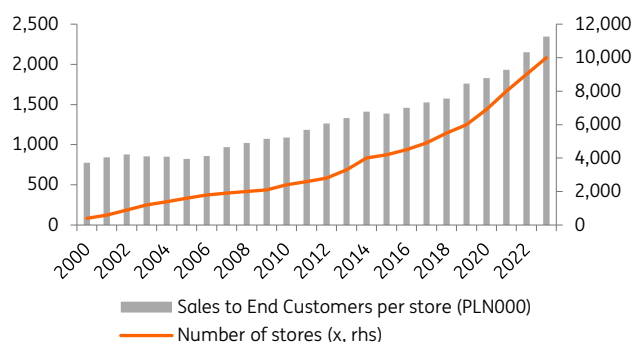
Żabka is recording, on average, more than 3.5m of transactions per day, with Sales to End Customers of PLN22,775m at end-2023. Żabka has experienced a protracted period of growth spanning more than two decades, with Sales to End Customers growing by a CAGR of c.24.5% over 2020-23 thanks to a combination of new stores and Like-for-Like growth with new products in stores (ie, Quick Meal Solutions).

Fig 40 Żabka: Sales breakdown per division, 2023



Source: Company data

Fig 41 Żabka: Growth track record, 2000-23



Source: Company information

Thanks to its franchisee model, Żabka generated an above-average Adj. EBITDA margin of 12.4% in 2023 (on Sales to End Customers), well ahead of regional peers, with an Adj. EBITDA of PLN2,834m.

From corner stores to ultimate modern convenience

Żabka is a leading Convenience Store operator in Poland...

Impressive track record: Żabka evolution over the past 25 years

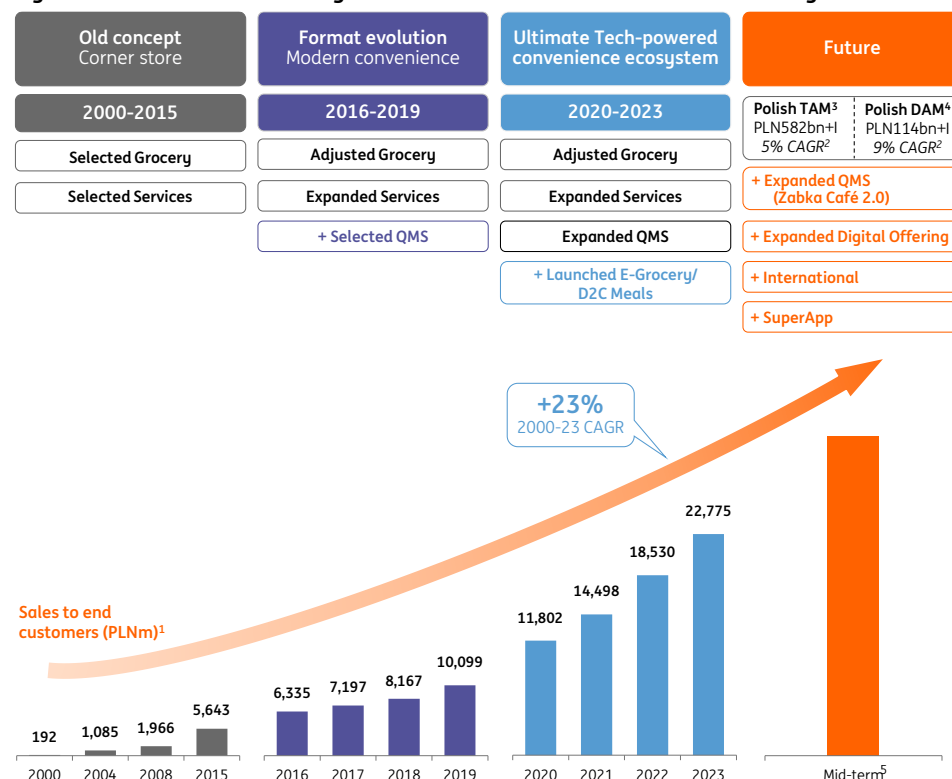
Since the group's inception in 1998, the company has evolved its business model, strategising around the concept of 'convenience', with the aim of catering to changing consumer needs. Founded by Polish businessman, Mariusz Switalski, in 1998, he was also the founder of Polish Retail competitors Eurocash and Biedronka, Żabka grew rapidly and attracted external investors, with AIG Global Investment Group joining forces with the founder as early as 2000.

⁵ Source: Euromonitor, company information, OC&C analysis – market defined as Modern Convenience Today in Poland, with 6% market share, includes Żabka, Carrefour and Spar

The company was then sold to private equity company, Penta, in 2007, which sold it to Mid Europa Partners four years later. Żabka was then acquired in 2017 by its current owner, CVC.

Over the past two decades and through the different ownerships, the strategy first focused on rolling out a corner store concept over 2000-15. Over that period of time, Żabka's number of stores increased more than ten-fold, with Żabka selling only selected grocery and services across Poland.

Fig 42 Żabka has continually innovated convenience for more than 25 years



1. Represents Żabka sales to end customers and sales of Maczfit, Dietly and Q-comm and does not represent the company's reported revenue; 2. Refers to 2023-28E CAGR; 3. Total Addressable Market refers to all market spend in Physical Grocery, Health & Beauty, Convenience Services, Foodservice, eGrocery and Dietary/D2C catering; 4. Directly Addressable Markets that are addressable by modern convenience with fully penetrated store networks; 5. In line with Żabka's mid-term targets to more than double Sales to End Customers
Source: Company information, OC&C Market Report

Shortly before the investment of CVC, Żabka ventured into the Foodservice segment, with the addition of its Quick Meals Solution (QMS) offering. The goal of this addition was to transfer itself into a modern convenience store, catering to the additional convenience its clients were requiring.

Since 2020, Żabka has entered the third phase of its growth story, through the launch of its eGrocery offering as well as through the acquisition of Direct-to-Consumer meal company Maczfit and through the acquisition of Dietly. With this new offering and a continued expansion of its store estate, Żabka expects to continue to capture additional market shares in the Polish Retail segment.

2024 will also mark a key milestone for the group, with planned expansion into Romania. To accelerate this growth and benefit from logistics on the ground, Żabka made the acquisition of wholesaler DRIM Daniel. This marks the second time Żabka has opened stores in a different country, after breaking into the Czech market in 2008.

The 81 stores Żabka operated in the Czech Republic (and another 47 Koruna stores) were sold to Tesco at the end of 2010⁶, with Żabka's owner at the time, Penta, commenting on a lack of growth opportunities in the country. Tesco still operates these stores via franchisees.

Organisational structure overview

As per its financial reporting, Żabka operates two divisions, Convenience Stores and New Growth Engines. The company has, however, three business units, with the Convenience Stores division divided in two units:



- **Żabka Polska** manages Żabka's convenience stores in Poland. This division, the largest in size, is headed by Adam Manikowski. He is responsible for all the employees working for the stores in Poland, with tasks ranging from store expansion to supply chain and communication.



- **Żabka International** was established in February 2024. This business unit is responsible for development of convenience stores in new markets and the implementation of the foreign expansion strategy. This new division is managed by Anna Grabowska.

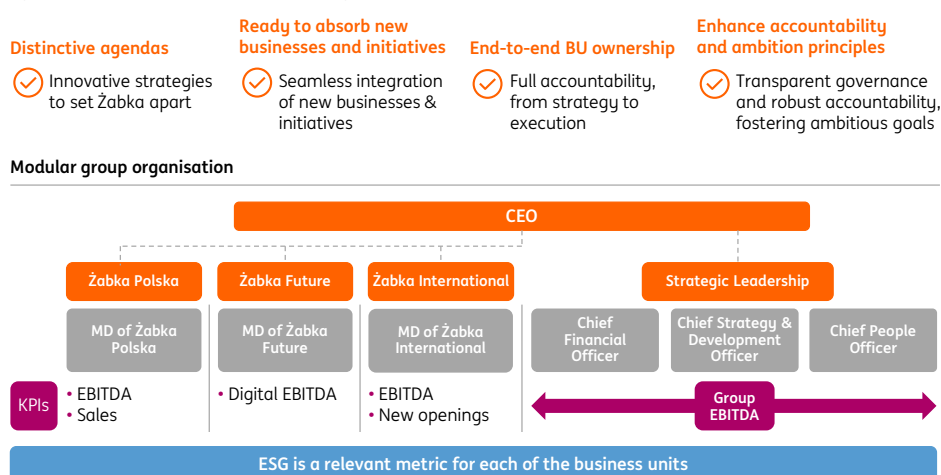


- **Żabka Future** covers all the digital components of the group. It encompasses activities such as the eGrocery business and the delivery of ready-to-eat meals. This department is led by Wojtek Krok. In addition to these digital initiatives, it is also responsible for the materialisation of synergies within this new convenience ecosystem and for the optimal use of technology (Artificial Intelligence, data, etc) by the different entities of the group. Lastly, M&A activities are also managed here.

As well as these operating functions, Żabka has implemented a strategic leadership committee:

- **Strategic Leadership** covers regrouping trans-operational functions such as People Strategy, Strategy & Development and Finance. This team is also responsible for the coordination of the Legal and Corporate Departments as well as day-to-day administrative matters.

Fig 43 Overview of Żabka's organisation



Source: Company information

...with a fast-growing Digital Offering for its customers

Alongside its physical channels, Żabka has invested heavily over the past couple of years to turn itself into a modern omni-channel player with the acquisition of Maczfit and Dietly, as well as the internal development of its eGrocery platform through its

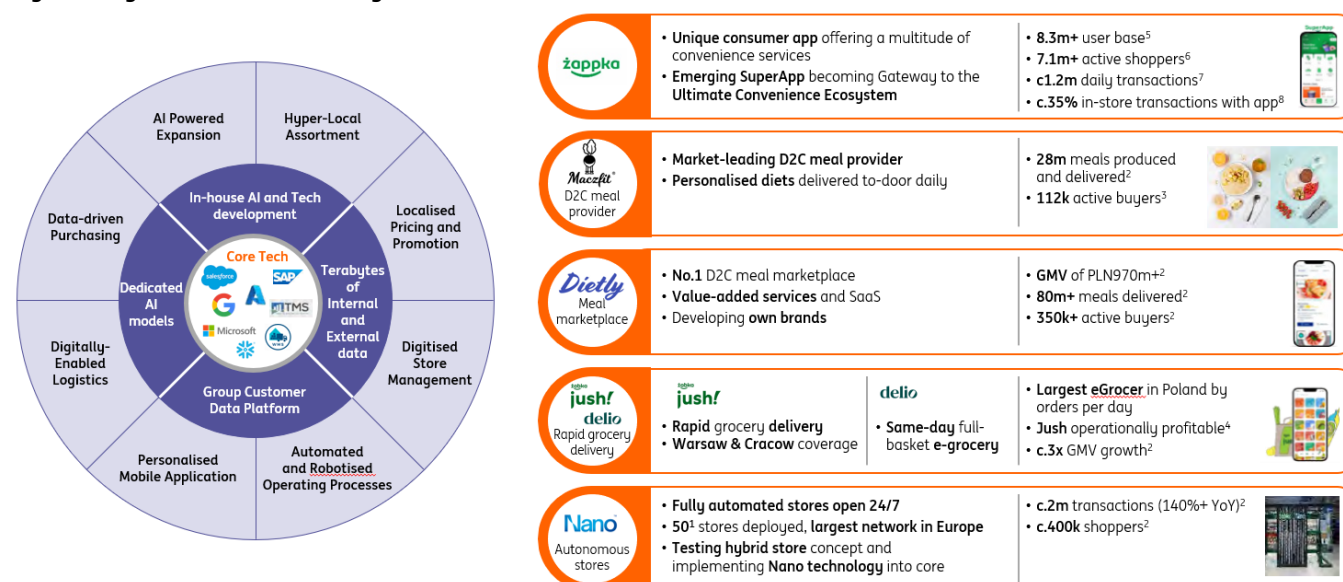
⁶ Source: Reuters 23 December 2010

subsidiary Żabka Lite, which was supercharged by Jush! and Delio. In 2023, all these online activities generated Sales to End Customers of PLN470m, a rapid 85%⁷ CAGR over 2021-23.

To bring all these new business streams together and generate synergies, Żabka is developing an app to encompass all these services. At the time of writing, the consumer app, **Zappka**, had more than 8.3m users, c.23% of the total Polish population, of which 7.1m are considered active shoppers. Via this app, Żabka books 1.16m transactions per day, a third of its daily average.

However, we note that the in-store payment feature of this app has been deactivated for the time being, with Żabka flagging that it should be available again in the new version of the app, which is expected to release in 3Q24.

Fig 44 Digital Customer Offering (DCO) businesses



1. As of December 2023, including 47 stores in Poland and 3 stores in Germany; 2. In 2023; 3. In 2023, Active Buyers defined as customers making a transaction over the past 12 months; 4. 4Q23 and 1Q24E in Warsaw; 5. Number of accounts that have made at least 1 interaction in the app in 2023; 6. Number of accounts that have made at least 1 transaction in the store in 2023; 7. March 2024; 8. In 1Q24

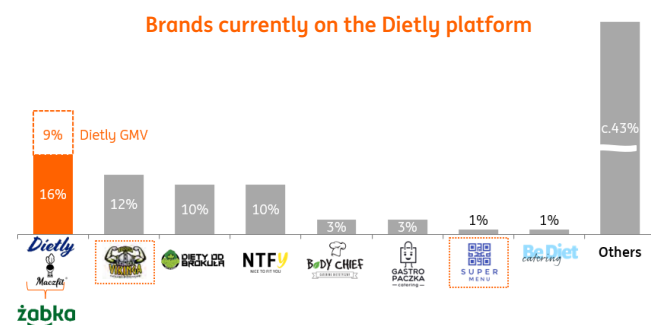
Source: Company information

As well as this app, Żabka is targeting digital customers via different subsidiaries:

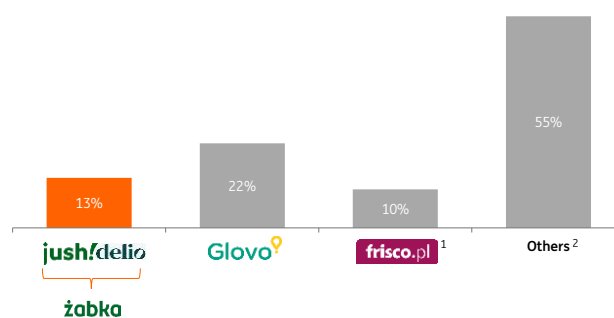


- Maczfit** is a leading Direct-to-Consumers 2C meal provider in Poland. Żabka had 28 million meals produced and delivered among 112,000 active buyers in 2023. Maczfit operates two production facilities for these meals, the only ones Żabka operates.
- Dietly** is the leading online Direct-to-Consumers meal marketplace and SaaS provider. Dietly.pl is a large, accurate and up-to-date comparison service of dietary catering in Poland. It provides a box diet to meet individual client requirements and needs. The company had over 80m meals delivered among 350,000 active buyers in 2023.
- Lite**, which regroups **Jush!**, a rapid grocery delivery service that is active in Warsaw and Krakow, and **Delio**, a same-day full basket eGrocery service. Combined, they form the largest eGrocer in Poland by orders per day. It is noteworthy that Jush!'s Warsaw operations are already operationally profitable.

⁷ New Growth Engines sales stood at PLN131m in 2021.

Fig 45 Overview of D2C meal plans competitive landscape, market share, 2023 (%)

Source: OC&C analysis

Fig 46 Same day eGrocery market competitive landscape, market share, 2023 (%)

1. Frisco is a conventional big basket eGrocery provider. Same-day estimated at <20% revenue; 2. Includes Lisek, Bolt Market, InPost Fresh, UberEats, Everli, Wolt and same-day missions of omnichannel grocers and Allegro

Source: OC&C analysis

As per company guidance, the eGrocery offering is expected to be the largest contributor to top line growth in this division, while Maczfit should remain the main profitability driver, with Jush! and Delio that are focused on Poland's two largest cities. This selective approach has improved this division's path to profitability, with a focus on Poland's most densely populated areas. Between 1 April 2023 and 31 March 2024, these four subsidiaries combined had more than 9.5m users, of which over 8m were active.

Jush! and Delio were established more than 2.5 years ago and currently have a 13% market share and have achieved 50% sales growth in same day eGrocery. The app works in much the same way as Glovo or Uber Eats, fulfilling the delivery of orders of the Delio eGrocery service with its fast delivery promise thanks to dark stores sourcing (stores designed solely for online order fulfilment).

Flexible formats to cover a diversified consumer base

The company has over 10,000 stores in various formats to address customer needs depending on location, with formats offering differing products. The formats of Żabka can be summarised as follows:

- Small city stores:** This is the largest category for Żabka, with c.3,200 stores. Located in rural areas, they offer a combination of snacking, beverages and other services (lottery services, parcels, etc). Those stores generate stronger sales over weekends.

The Żabka brand has managed to circumvent the Sunday trading ban implemented by the former Polish government in 2018, thanks to its ownership by franchisees, that can legally operate their own stores on a Sunday.
- Grocery stores:** Located in mid-sized residential area and next to office complexes, these c.2,300 stores sell mainly Quick Meal Solutions, on-the-go food and traditional groceries.
- Residential area stores:** Located in large residential areas, the c.2,000 stores mainly sell food for 'SOS' missions (ie, purchases forgotten somewhere else) and services. We assume those stores also generate more sales over the weekend than the group average.
- Large city suburbs stores:** Around 1,400 stores selling mainly snacking and beverage products. Those stores are located in the suburbs of large cities such as Warsaw and Krakow.
- New formats:** Mostly consist of Żabka's Nano stores, which are fully automated and open 24/7. Nano stores are the only Convenience Stores directly operated by Żabka, and not under a franchisee agreement. Thanks to these 50 stores, Żabka has the largest network of automated stores in Europe.

Fig 47 Format flexibility to address different types of customer profiles

	Small Cities	Grocery	Residential areas	Large city suburbs	Traffic	Seasonal	New formats
No. of stores	3,167	2,255	2,004	1,430	969	125	64 ¹
Location	<ul style="list-style-type: none"> Small cities, rural areas Local activity centre with strong weekend sales 	<ul style="list-style-type: none"> Residential areas, next to offices 	<ul style="list-style-type: none"> Nearby residential areas, mostly large cities 	<ul style="list-style-type: none"> Large city suburbs 	<ul style="list-style-type: none"> City centres, train stations 	<ul style="list-style-type: none"> Tourist areas (eg, seaside) 	<ul style="list-style-type: none"> Drive-through Mobile Autonomous/hybrid Quick service
Strategic categories	<ul style="list-style-type: none"> Beverages Sweet and salty snacks Services 	<ul style="list-style-type: none"> QMS (ready-meals) Broad range of top-up food and groceries 	<ul style="list-style-type: none"> Top-up food and SOS missions Sweet and salty snacks Services 	<ul style="list-style-type: none"> Beverages Sweet and salty snacks 	<ul style="list-style-type: none"> Broad range of QMS (food-to-go and ready-meals) Sweet and salty snacks 	<ul style="list-style-type: none"> QMS Beverages Sweet and salty snacks 	<ul style="list-style-type: none"> QMS Beverages Sweet and salty snacks
Zabka Café 2.0 across all formats							

Store split as of 31 December 2023. 1. Includes 47 nano stores

Source: Company information.

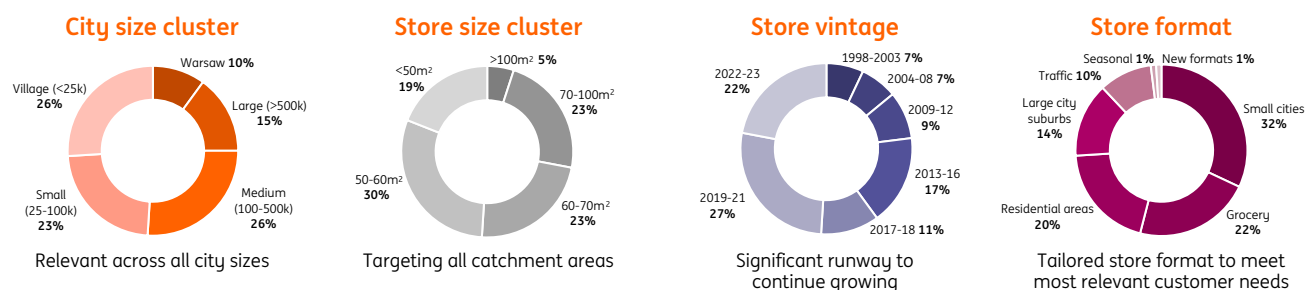
- **Other formats (traffic, seasonal):** Opened in locations with high traffic such as city centres and tourist areas. The focus of these stores is also Quick Meal Solutions as well as beverage and snacking products.

Żabka Café 2.0 (foodservice offering) has been implemented across all formats of stores, with Żabka aiming to add this feature to all its stores by the end of 2025.

As highlighted in Figure 48, Żabka's stores are well diversified between urban and rural areas, with roughly half of its stores located in medium and large cities (with more than 0.1m inhabitants) and the other half in small towns and villages. Half of the group's more than 10,000 stores have been open for less than five years, while 14 are more than 15 years old.

The size of Żabka's stores varies greatly, with 19% being smaller than 50 square metres, and 28% exceeding 70 square metres.

Fig 48 Stores relevant across all types of catchment areas



Store split as of December 2023. 1. Includes 47 nano stores.

Source: Company information.

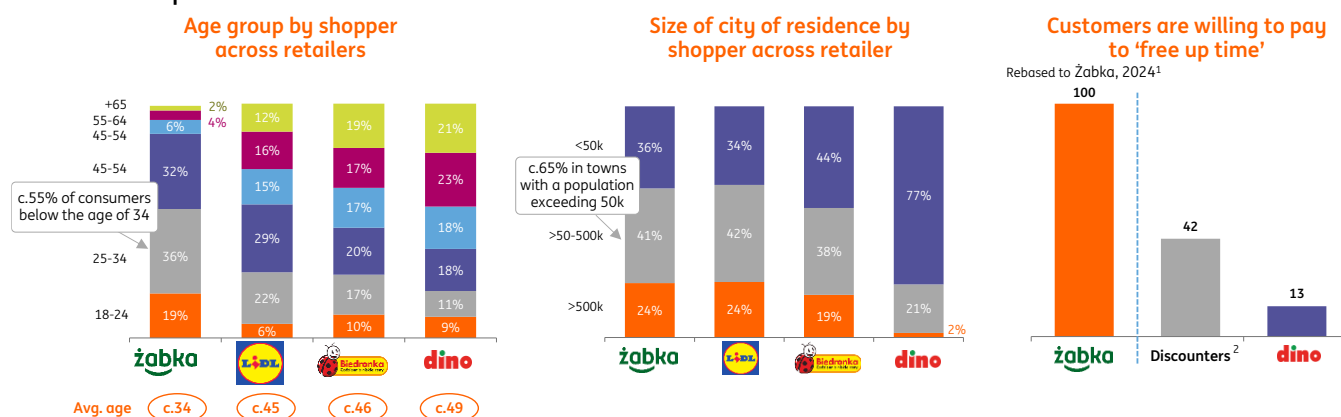
Żabka targets a young and urban population

Urban population accounts for c.74% of Żabka shoppers

With only 26% of Żabka's stores in villages (fewer than 25,000 inhabitants) and no less than 51% of its stores in cities with over 100,000 inhabitants (of which 10 in Warsaw), Żabka stores are typically targeting the urban shopper.

The customer profile of Żabka is close to that of Lidl in Poland, while Jeronimo Martins' Biedronka has a higher weight of shoppers in rural areas, at 44%. For Dino Polska, an even higher 77% of its shoppers are located in rural areas (Figure 49).

Fig 49 Żabka's mission focus and location mix enables a distinctive customer base: Younger, urban and willing to pay to 'free up time'



1. As of March 2024; 2. Includes Biedronka and Lidl
Source: Nielsen, OC&C Survey, OC&C analysis

Żabka's customers are, on average, in their early thirties

In terms of age groups, Żabka's target market is relatively young with roughly 55% of its shoppers being below the age of 34.

All other more traditional Food Retailers present a much older average customer, with an average age of 45 for Lidl and 46 for Biedronka, while Dino Polska's average customer is aged almost 50.

Young and urban population tend to be willing to pay more for convenience

Convenience is also about proximity. No less than c.17m Poles live within 500m of Żabka's stores, which are open every day of the week from 6.00am to 11.00pm. This further underscores the level of access and penetration of its network.

The reduction in time spent shopping (getting to the store and time spent in the store) is enticing time constrained shoppers and consumers who are looking for food on-the-go. The store format facilitates shopping quickly. The average time spent in a Żabka store is calculated by the company to be barely more than two minutes (130 seconds).

Immediate consumption at the heart of its offering

The shopping basket has been getting progressively smaller but more frequent and Żabka has filled this niche with what it calls 'modern convenience'. While a regular convenience shop fulfils the so-called 'SOS' function, meaning customers visit when they run out of something, Żabka satisfies a broader purpose, at the crossroads of a QSR (quick service restaurant) and a grocery store for food-on-the-go in combination with the 'SOS' function.

The Żabka store layout has continually evolved and is currently tactically designed to promote on-the-go consumption, resulting in 76% of purchases for same day consumption with a 33 SKU overlap with the discounter channel. As illustrated in Figure 50, the stores have a have a modular Lego approach with AI-powered product and pricing architecture.

Fig 50 Store design

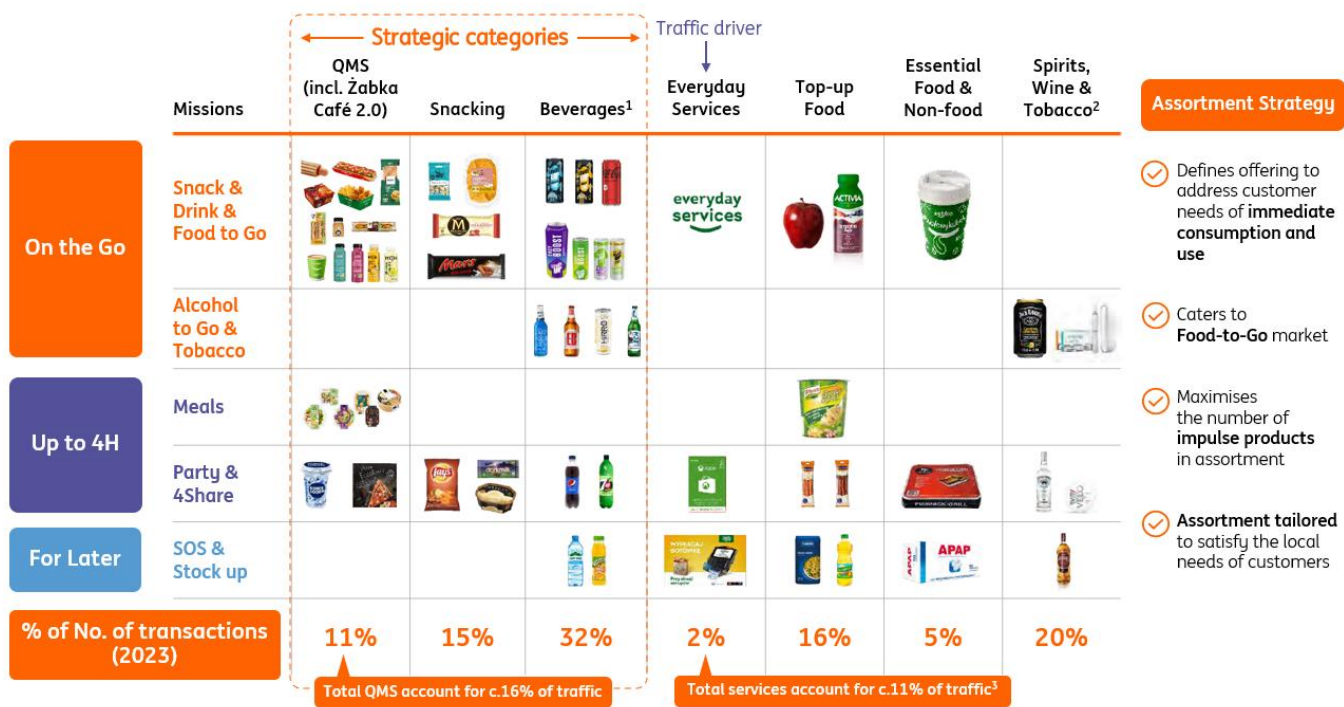


Product mix heavily geared towards snacking, beverages, alcohol and tobacco

Transactions in Żabka stores, which have increased from 3.0 million daily in 2021 to 3.6 million daily in 2023, can be summarised mainly into three categories:

- 1) **Immediate consumption.** Żabka stores sell snacks, drinks (including alcoholic drinks), tobacco and food on-the-go to fulfil customer demand for immediate consumption.

Fig 51 Żabka stores product mix



QMS=Quick Meals Solution. 1. Beverages includes Beer; 2. Alcohol of transactions (spirits & wine): 6.0, Tobacco 13.5; 3. Lotto is added to all transactions.
Source: Company information.

- 2) **Same day consumption.** Żabka's customers also visit the stores to purchase meals they will eat at a later point in the same day, as well as to purchase products to share at parties or other social gatherings.

- 3) **Consumption for later.**

In terms of the product mix of Żabka's transactions, in 2023, 32% was related to beverages (with beer included in that category), while 6% was related to wine and spirits. We also note that roughly 14% was related to tobacco products.

With regards to food products, 15% of transactions was linked to snacking products (ice creams, crisps, confectionery), with a further 11% generated by Żabka's Quick Meals Solutions (including Żabka Café). The weight of QMS in the mix has grown steadily over the past couple of years, moving up from 7% of store traffic in 2016 to 16% currently. The offering of QMS has broadened over this time span, with the addition of Quick Service Restaurants' offerings (ie, burgers, fries, nuggets, etc).

According to company disclosure, QMS yields a higher margin than the group average, with roughly 90% of its offering being own brands. At group level, own brands account for 22% of in-store traffic. The company is not involved in the manufacture of its own brands' products, with the exception of Maczfit (ready-to-eat meals).

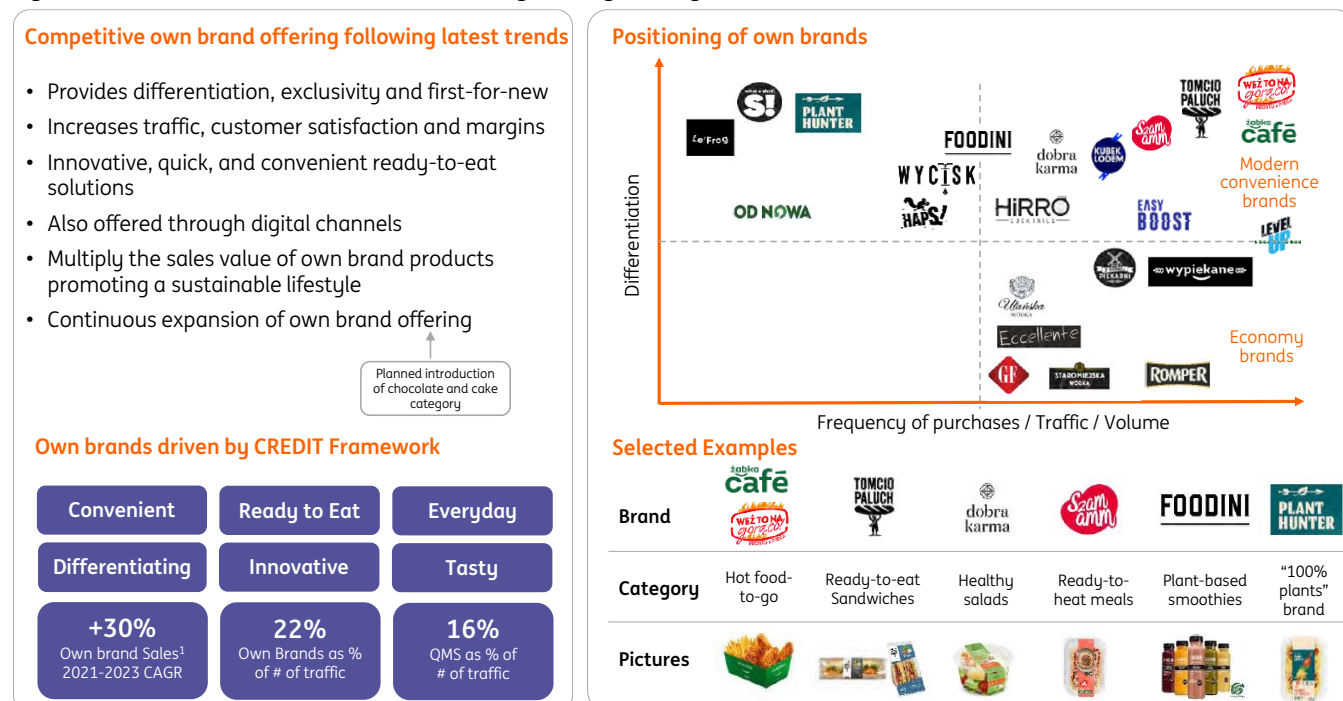
Żabka has not disclosed its exposure to those categories as a percentage of sales.

Żabka has developed its core assortment of own brands in strategic categories

Żabka is the core brand of the company and the company believes its competitive advantage lies in its portfolio of unique brands available only at Żabka, such as Żabka Café (street food), Dobra Karma (healthy ready-to-eat products) and Plant Hunter (plant-based ready-to-eat products). With these brands, Żabka focuses on differentiation, exclusivity, customer satisfaction, innovation and a digital offering to stay competitive in the market.

The company uses the CREDIT framework (Figure 52) in the development of its own brand offering, with a view to providing its customers with differentiated, tasty and ready-to-eat new products. With this approach and the continued roll-out of its stores and Żabka Café 2.0, own brands sales have grown by a CAGR of 30 over 2021-23.

Fig 52 Tailored own brand assortment driving strategic categories



Sales refer to Sales to End Customers and not revenue. Note: 1. Own brands positioning based on number of transactions 2023.

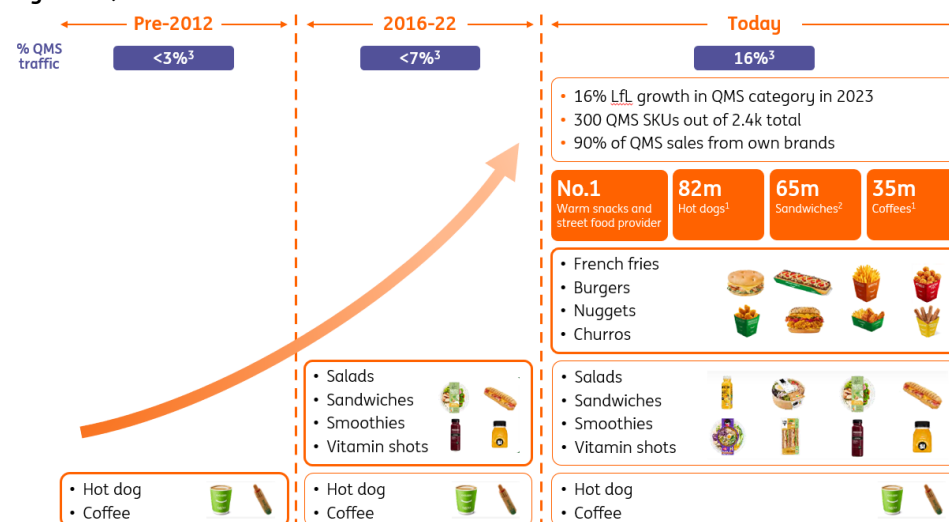
Source: Company information

Quick Meal Solutions: Żabka's core differentiated proposition

QMS is identified as the core of the company's differentiated proposition. QMS represented less than 3% of traffic pre-2012 when only hot dogs and coffee were sold under this category, but with the introduction of salads, sandwiches, smoothies and vitamin shots during 2016-22, QMS traffic improved to <7%.

Following the addition of fries, burgers, nuggets and churros into the product mix, traffic improved to the current c.16%. QMS now accounts for c.300 out of the 2.4k SKUs the group is offering to its clients. It is one of the fastest growing segments with 16% Like-for-Like growth in 2023.

Fig 53 Quick Meal Solutions



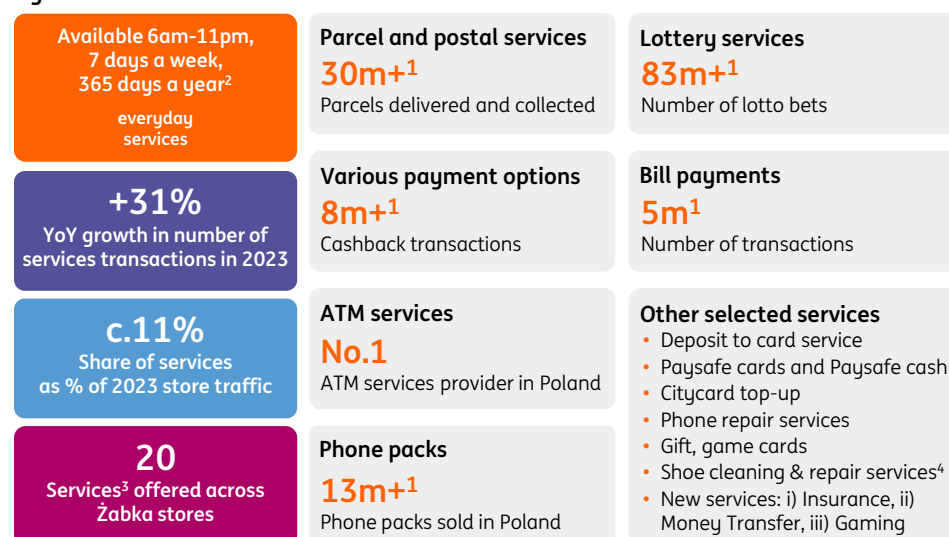
1. Sold in 2023; 2. Sum of sandwiches, paninis, burgers and tortillas in 2023; 3. Respectively as of 2012, 2016 and 2023.

Source: Company information.

Żabka expects its QMS offering to remain a strategic category for the development of its business, with the expected roll-out of Żabka Café 2.0 in all stores within the group portfolio by 2H25F (versus 5,555 at the end of 1H24).

Added services improve customer loyalty and store traffic

Fig 54 Żabka's services



1. 2023 YE; 2. There is not a day within a year when all Żabka stores would be closed; 3. As of 2023, excludes roll out of 2 new services (20 services including new roll outs); 4. WoshWosh.

Source: Company information.

Żabka provides a full suite of services that are available seven days a week, 365 days a year under its everyday services concept, increasing customer loyalty and driving traffic in-store.

The 20 services offered across Żabka stores accounted for 11% of store traffic, and grew by 31% YoY in 2023.

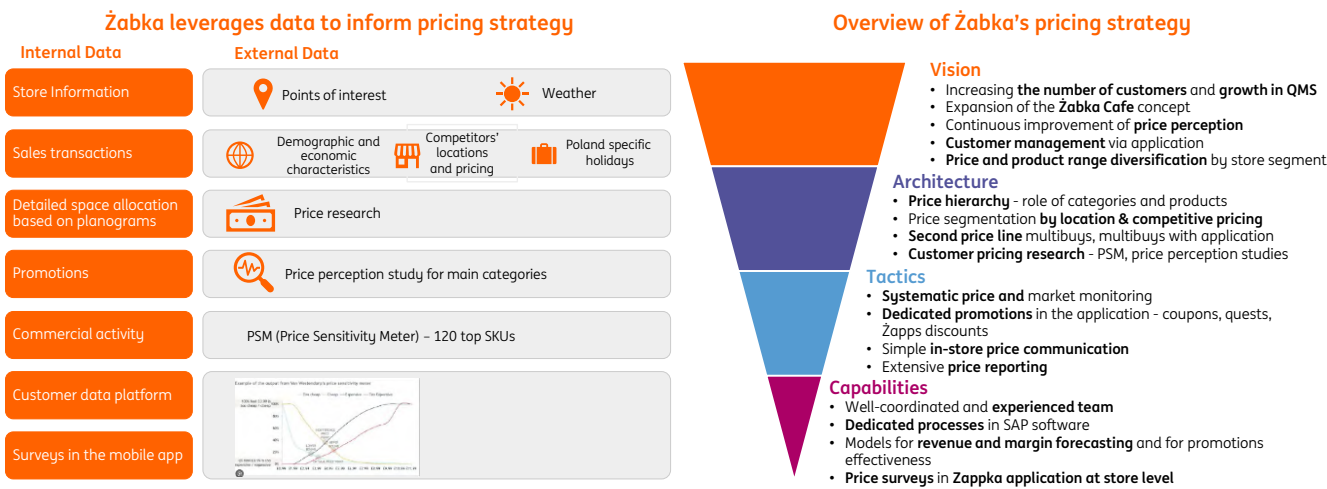
The main services provided include parcel and postal services, lottery services, payment options, bill payments, ATM services and phone packs. Żabka delivered and collected over 30m parcels, dealt with over 83m Lotto bets, became the No.1 ATM services provider and had 5m bill payment transactions in 2023.

Leveraging technology in its operating processes

Żabka uses internal data (eg, store information, sales transactions, customer data, mobile app surveys and promotions) and external data (eg, customer interests, demographic and economic characteristics, and price research) to implement a differentiated pricing strategy in each shop it operates.

To manage the complexity of more than 3.6m daily transaction across a network of more than 10,000 stores, Żabka has implemented several initiatives related to Artificial Intelligence and Data Management. These initiatives have allowed Żabka to improve its purchasing processes thanks to a more data-centric approach, which is at the heart of the company's pricing strategy.

Fig 55 Żabka's AI-driven pricing strategy



Source: Company Information.

Cost inflation, supply chain volatility, ongoing shifts in consumer spending and price competition have created a level of complexity that is difficult to manage using traditional retail price-setting tools and methods. Therefore, Żabka translates with AI-powered solutions its strategic choices into optimal prices for each product and for each store, based on internal and external data, while also taking into account the customers' value perception.

Although convenience and speed - and not price - are considered the most important footfall drivers for Żabka stores, market research regarding price points for some basic products (cheese, poultry, canned beer, bread, tomatoes) shows that Biedronka has the lowest prices, followed by Lidl (delta of roughly 5%), while Żabka stores are often over 15% more expensive, taking into consideration that fresh products are not necessarily exactly comparable.

In general, we conclude that Żabka and other convenience stores, such as forecourt chains, are more expensive. Discounters boast price levels that are difficult to compete

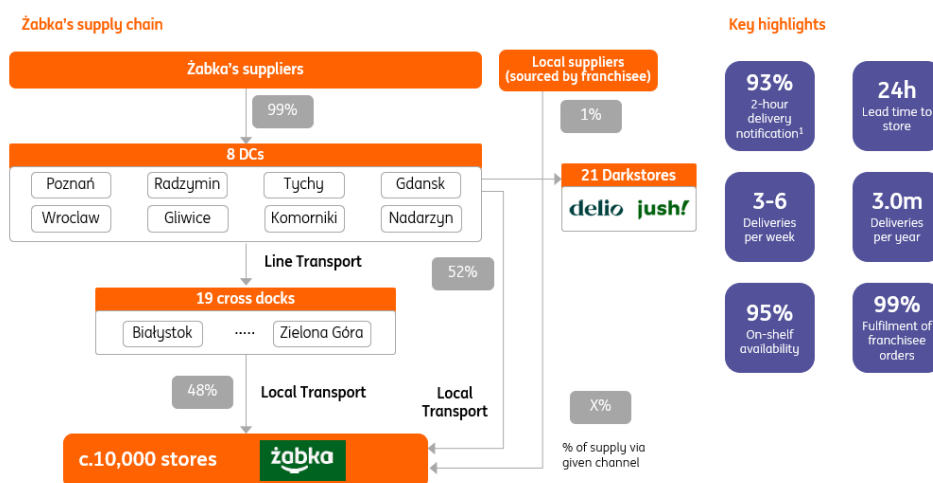
with due to their simplified operating model, efficient logistics, large scale per SKU and Private Labels offering.

For hypermarkets, prices are comparable or slightly lower than in discounters, while they do offer attractive promotions. Prices at large supermarkets are not much higher than at hypermarkets, but they more actively boost attractive promotions and have a larger Private Labels offering. At proximity supermarket prices of main SKUs are slightly higher than at discounters, while the remaining SKUs are sold at higher prices than larger stores and promotions are rather limited.

Robust supply chain supporting the store network

Żabka employs an advanced and well invested logistics system to ensure the efficient movement of goods from suppliers. The company carries out 98% of deliveries on its own thanks to its developed real estate portfolio in Poland.

Fig 56 Flexible and efficient supply chain



1. Average of 1Q24

Source: Company information

Żabka is responsible for 99% of the supplies delivered to its franchisees, with the latter being allowed to supply the remaining part from local suppliers directly. 52% of these supplies are then shipped directly to the group estate of stores via local transport. The remaining part is shipped to cross docks first via line transport, before being delivered to the group stores when needed. Some of these supplies⁸ are also shipped to twenty-one dark stores (designed solely for online order fulfilment) with a view to supporting the growth of its eGrocery offering (Delio and Jush! Brands).

Next to its traditional Food Retail activity, Żabka owns dedicated logistics and manufacturing capabilities for its Maczfit activity (ready-to-eat meals).

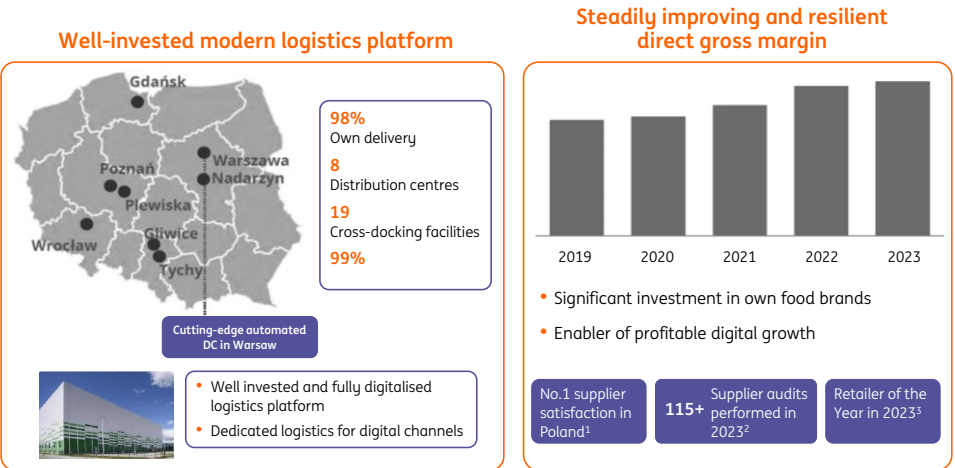
Tapping into technological advancement also is a cornerstone of Żabka Group's overall development strategy. This commitment is manifest in the development of a nationwide logistics platform established in Gdansk, Nadarzyn, Poznan, Komorniki, Wrocław, Gliwice and Tychy, and alongside these DCs is one of the most sophisticated automated logistics centres in Europe, in Radzymin, just outside Warsaw. With these eight distribution centres, Żabka is confident it can cope with the expected growth of volumes over the medium term.

Żabka's latest, and fully automated, distribution centre in Radzymin has been developed by the company's property fund itself, ensuring this site was perfectly in line with group expectations. It is a strategically vital warehouse, spanning an impressive 60,000 square

⁸ Hence, this does not relate to full 52% of the supplies

metres, enhanced with an automated high-bay warehouse and an internal transport system, which illustrates the group's long-term vision.

Fig 57 Nationwide logistics platform and dedicated centralised procurement function



1. Retailer of the Year – chosen by suppliers, award granted by European Conferences United; survey conducted by Nielsen IC; 2. Covers all audits for the company; 3. Retailer of the Year – chosen by suppliers, award granted by European Conferences United; survey conducted by Nielsen IC.
Source: Company information

This centre is initially set to service over one-third of Żabka Group's shops in Poland (c.3,300 shops), with the option to grow to c.5,000 stores. The facility features cold and freezer rooms across five distinct temperature zones, ranging from -24°C to +20°C⁹. In addition, the centre hosts an office area.

These state-of-the-art enhancements provide a significant boost to the group's operational efficiency. Żabka has recorded a 93% target of two-hour delivery notification and 24h lead time to store. The company carries out 3m deliveries per year on average, had 95% shelf availability and was able to fulfil 99% of franchisee orders on time.

⁹ Source: Property-Forum.eu “Żabka Group launches huge logistics centre near Warsaw”

Corporate governance

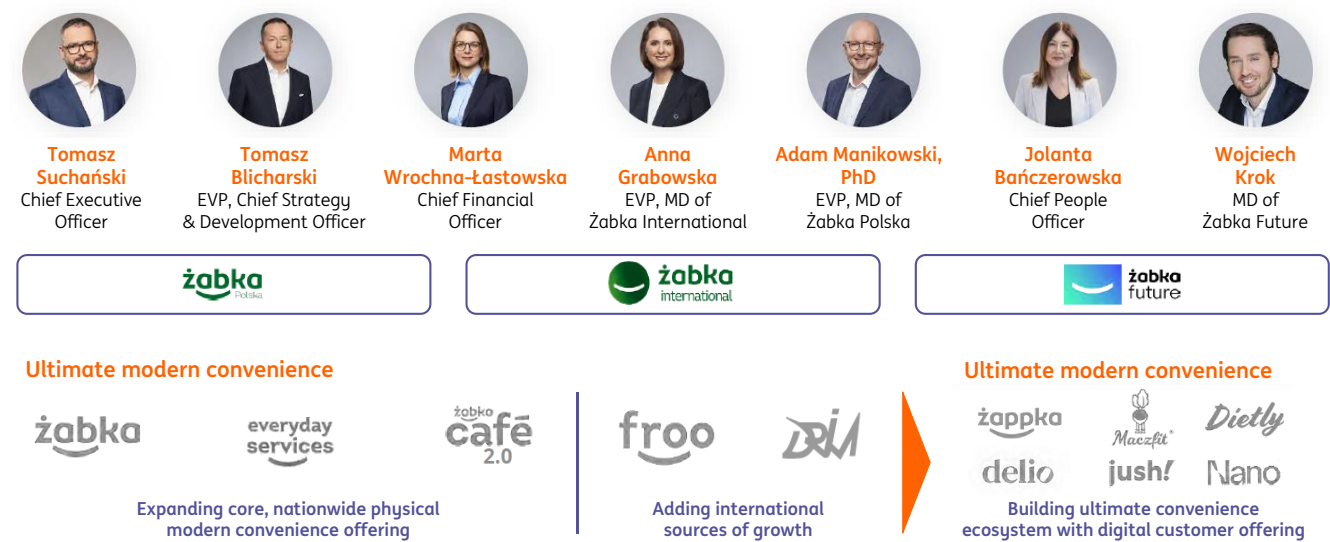
Żabka Group has a two-tier board structure with a management board (the Żabka Executive Board) and a supervisory board (the Żabka Board of Directors).

Executive Board

Żabka's executive management is headed by CEO Tomasz Suchański. During his career, Tomasz Suchański has built an impressive track-record in food retail, working at some of the largest companies in the sector, not only in Poland but also internationally. He has many years of experience and a deep understanding of the mechanisms governing the industry. Under his management, Żabka Group has gained its position as the leading convenience model in Central and Eastern Europe.

Tomasz Suchański manages the operations of Żabka Group in an open and competent manner, acknowledged by stakeholders and industry media. He was among the winners of the BrandMe CEO competition for most authentic leaders, organised by *Forbes Magazine*, and was awarded the prestigious 'CEO of the Year' award at The Heart Corporate Innovation Awards 2019¹⁰. In 2020, he was recognised by the Competition Jury for effectively introducing the company to the digital transformation process. In the same year, he chaired the jury of the Effie Awards 2020.

Fig 58 Focused organisational setup primed for success



Source: Company information

¹⁰ Source: Żabka press release of 31 January 2020

Fig 59 Executive management profiles**Tomasz Suchański****Chief Executive Officer (CEO) of Żabka Group**

Tomasz Suchański is CEO of Żabka Group.

Suchański was appointed as an Independent Non-Executive Director of the allegro shopping platform in May 2023 and serves as a member of the Remuneration, Nomination and ESG Committee.

Prior to becoming CEO in March 2016, he was involved with various Jeronimo Martins companies, working in the company's international structures. He held positions of Chief Financial Officer, Member of the Management Board and Chief Operating Officer of the central region. Before that, from 2011 to 2014, he was the General Manager of Biedronka in Poland.

Before his move to Poland in 2005, he worked in international markets, dealing with Portuguese chains of the Jeronimo Martins group. In 2003, he took up the post of Financial Director of the Recheio wholesale chain and, earlier, as a member of the Financial Department, he oversaw Pingo Doce supermarkets and Feira Nova hypermarkets.

He is an alumnus of Stanford Graduate School of Business, INSEAD Business School and Corporate Finance and Accounting at the Faculty of Management of the Poznań University of Economics.

Tomasz Blicharski**EVP, Chief Strategy and Development Officer**

Tomasz Blicharski has been Executive VP of the Management Board of Żabka Group for strategy and development since February 2024. He focuses on developing and implementing the group's strategy in every area of its operations. Between 2012 and 2024, as Executive VP of the Management Board and Managing Director of Żabka Future, he was responsible for researching, creating and developing new business areas and technological solutions to meet challenges faced by the industry.

Before taking up his current position, he held two posts simultaneously: VP of the Management Board of Żabka Polska for Development (since 2017) and VP of the Management Board of Żabka Polska for Finance (since 2015). He has been involved with Żabka Polska since 2011, as a member of the Board of Directors.

He has extensive experience in investment banking and finance gained in Poland and abroad. He was associated with international banks ABN Amro and BNP Paribas, as well as Procter & Gamble. From 2007, he held the position of director at Mid Europa Partners fund, where he was responsible for investments in Central and Eastern Europe (including Norican Group, Polskie Koleje Górskie and Żabka Polska).

He is an alumnus of Stanford Graduate School of Business and the Warsaw School of Economics.

Marta Wrochna-Łastowska**Chief Financial Officer (CFO) of Żabka Group**

Marta Wrochna-Łastowska manages a team responsible for internal and external financial and non-financial (ESG) reporting, budgeting and control, treasury, and financing, working capital management, internal auditing, risk management as well as business analysis and data science. She has over 16 years of experience in strategic financial management and successfully combines analytical and strategic competencies with soft skills in effective team management.

Wrochna-Łastowska has worked at Żabka Polska since 2018, first holding the position of financial director. She has been responsible for maintaining the financial liquidity of the organisation and for the effective and efficient management of the company's finances. Her tasks include planning and forecasting as well as business analysis and internal audit. She gained professional experience during her work at Ernst & Young Corporate Finance in Poland and abroad. During her 12-years at Żabka Group, she has provided transactional advice on mergers and acquisitions (with a focus on the perspectives of the buyer and the seller) and restructuring advice. In the audit department she was involved in audits of financial statements and analysis of controls and internal processes.

She graduated from the Finance and Accounting Faculty and the Marketing and Management Faculty at the SGH Warsaw School of Economics. She also completed finance management, strategy and leadership programmes held at Harvard Business School, Stanford University and INSEAD. She holds an ACCA title (Association of Chartered Certified Accountants).

Anna Grabowska**EVP, Managing Director of Żabka International**

Anna Grabowska is an Executive VP of the Management Board of Żabka Group and Managing Director of Żabka International. Since February 2024 she has been responsible for the development of new markets and supervises the implementation of the foreign expansion strategy.

Between 2021 and 2024 she was responsible for Żabka Group consumer strategy; setting the company's direction, building consumer, commercial and support strategies that are thought out and customer-centric, such as brand and own brands strategy, and responsible and sustainable development strategy (ESG).

Prior to this position, she served as VP of Commercial Affairs at Żabka Polska from April 2016, heading the commercial and marketing departments. She was responsible for defining and implementing the chain's assortment, promotion and pricing strategy. She supervised the transformation of the retail chain to a new format, implementing a new marketing strategy and an innovative vision of communication with customers. In the past four years in this position, she has led the transformation of the store offers, developing innovative modern convenience products, brands and services to meet the needs of the modern consumer.

Previously, she was associated with the Tesco chain for nearly 19 years, including many years as Commercial Director. In 2011-15, she sat on the Tesco Management Board in Poland as VP for Commercial Affairs. She gained her international professional experience at Tesco in the UK and Hungary, as well as being responsible for the Grocery Commercial team in Central Europe (Poland, Czech Republic, Slovakia, Hungary).

She is an alumnus of Stanford Graduate School of Business and Foreign Trade at the Cracow University of Economics. She has completed many programmes in management, business strategy and team leadership at Polish and foreign universities, including London Business School, INSEAD France and Wharton School at the University of Pennsylvania. She holds an Executive MBA diploma from Ecole de Management de Normandie and Cracow University of Economics.

Continued over...

Fig 59 Executive management profiles**Adam Manikowski PhD****EVP, Managing Director of Żabka Polska**

Adam Manikowski is an Executive VP of the Management Board and Managing Director of Żabka Polska.

Since January 2021, he has headed the Żabka Polska Business Unit responsible for physical retail, including teams related to operation of the Żabka chain from expansion through adaptation, supply chain, franchise and support office to assortment and communication.

Previously, as VP of the Management Board for Operations of Żabka, he managed the sales, logistics, expansion and technical teams.

He has extensive experience from the international market having previously held the position of Executive Vice President of Marketing at Walmart, which is the largest global retailer in the world. He also held the position of Chief Executive and Managing Director of Tesco Poland and before taking up this position, he was Chief Operations Officer and supported the development of the chain in China. He began his career at Biedronka, where he ultimately held the position of Chief Marketing Officer.

In 2017, he obtained a PhD in Business Administration from Cranfield School of Management in the UK and an MBA from the University of Illinois Urbana-Champaign. He is an alumnus of Stanford Graduate School of Business and Adam Mickiewicz University in Poznań and the Warsaw School of Economics.

Jolanta Bańczerowska**Chief People Officer (CPO) of Żabka Group**

Jolanta Bańczerowska is a Member of the Management Board and Chief People Officer (CPO). Since 2020 she has been responsible for People Strategy, development of the company culture and competences of all teams.

She served as HR Director since 2016 and initiated the development of many new solutions changing the company's operations. She was responsible for implementing best practices in people management in the organisation from human capital planning and development processes through appraisal and performance management programmes to incentive systems. She led the change of the organisational culture to a more open and employee-friendly one. She is responsible for developing the mission, vision and values of Żabka Polska which distinguish the company in the market.

Previously, she gained over 15 years of managerial experience at Mars and Wrigley. Before joining Żabka's team, she worked as HR Director North Central Europe where she was responsible for the implementation of organisational changes and integration of Wrigley and Mars in Central Europe.

Graduated from Information Science and Administration from Adam Mickiewicz University in Poznań and Yale School of Management.

Wojciech Krok**Member of the Management Board, Managing Director of Żabka Future**

Wojciech Krok has served as a Member of the Management Board of Żabka Group and Managing Director of Żabka Future since February 2024 and has been responsible for accelerating the creation of a digital convenience ecosystem, ensuring optimal technology for the multi-directional development of Group.

Between July 2023 and January 2024, Wojciech served as Managing Director of Żabka Digital. Prior to that, between 2021 and 2023, he was CEO of Lite and was responsible for creating Lite e-commerce and launching two brands: Żabka Jush!, currently the e-commerce leader in Poland, and Delio, the online supermarket with 'same day' delivery and the fastest growing eGrocery service.

Krok joined Żabka Group in 2021 with extensive experience in business strategy, new digital services, implementation of solutions based on artificial intelligence and data management, and the use of technology in the commercial area of enterprises based on cooperation with various companies worldwide.

Previously for 12 years he worked at McKinsey & Company, ultimately as a Partner and one of the leaders of Digital practice in Singapore and the leader of QuantumBlack – an AI company within McKinsey for the Southeast Asia region.

He holds an MBA from INSEAD and is a graduate of Warsaw School of Economics and HSG Sankt Gallen in Switzerland (CEMS). He is the author of publications on the digitalization of Polish economy and the economic growth potential thanks to artificial Intelligence.

Source: Company data

Supervisory Board

The Supervisory Board is charged with overseeing and advising the Executive Board. This includes evaluating the overall organisational structure, financial and internal management, and the control systems of the company. The board currently consists of six members, two of whom represent CVC Capital Partners, with one Director representing Partners Group. Tomasz Suchański, CEO of Żabka Group, was appointed in February 2024 as an Executive VP of the Management Board of Żabka Group for strategy and development.

Fig 60 Board of Directors profiles**Krzysztof Krawczyk****Chairman**

Krzysztof Krawczyk is a Partner at CVC Capital Partners, one of the world's leading private equity and investment advisory firms. He is head of the Warsaw office, as well as a board member of CVC's portfolio companies, PKP Energetyka, Zabka, D-Marin, AR Packaging and Stock Spirits Group.

Krawczyk has a successful track record of more than 20 years in European private equity and has served on the boards of numerous private and publicly listed companies in telecom, media, manufacturing, logistics and healthcare sectors throughout CEE region.

Prior to joining CVC, Krawczyk was Managing Partner at Innova Capital, a leading mid-market private equity firm in Central Europe. He also worked at Pioneer Investment, a Poland-based private equity fund, and Daiwa Institute of Research, an advisory arm of Japanese investment bank Daiwa. He is a member of The Polish Business Roundtable, an association of founders and CEOs of the largest companies operating in Poland. He is a Board Member of the TVN Foundation and of the Valores Foundation, the first philanthropy fund in the CEE region.

He graduated with honours in Finance & Banking from the Warsaw School of Economics and is also an alumnus of the Executive Program at Harvard Business School. Krawczyk has been named the PE Person of the Year for 2015, 2017 and 2023 by members of the Polish Private Equity Association.

Giulia Fitzpatrick**Member - Independent**

Giulia Fitzpatrick is a non-executive director on profit and non-profit Boards as Chairperson and Board Member. Her current Board mandates include: Worldline SA, a CAC40 Paris Euronext listed company, where she sits on the ESG and Audit Committees and PostFinance AG, the fourth largest Swiss retail bank, where she chairs the Board IT and Digitalization Committee. She recently finished a mandate as Board Chair of Quintet Private Bank (Switzerland) AG.

She has 30+ years senior executive experience in transforming organisations for premier global financial services and agricultural firms. Fitzpatrick has a deep knowledge of technology, risk management, finance and operations with a focus on data, digital and innovation. She has a proven track record in leading organisations in complex and fast-changing international environments across the US, Europe, Asia, and South America.

Fitzpatrick has worked for global financial services firms such as Bankers Trust, National Securities Clearing Corporation, Instinet, Merrill Lynch, UBS, and at Bunge Ltd, one of the largest global agricultural commodities processors.

She holds an MBA in Finance from the Wharton school and an MA in International Studies from the University of Pennsylvania.

Olga Grygier-Siddons**Member - Independent**

Olga Grygier-Siddons serves on numerous boards, including Millennium Bank and University of Silesia. She combines extensive business experience with a passion for responsible leadership and personal growth.

She is a former CEO of PwC in Central and Eastern Europe, having served in this role until her retirement in 2018.

Having graduated from the University of Manchester, Olga spent 30+ years working in the professional services environment, advising private and public sector clients in more than 30 countries including the UK where she was based and promoted to partner working as part of the London Corporate Finance team of PwC. In 2004, she moved to Poland where she held various leadership roles including Managing Partner of Poland, later CEO of PwC Central and Eastern Europe and a Member of the PwC Global Strategy Council.

She has extensive experience of leading change, having worked as part of PwC global and EMEA leadership teams, and advising clients on their transformation journey as part of the PwC advisory team.

Tomasz Suchański**Member**

Tomasz Suchański is CEO of Żabka Group and was appointed as a member of the Board of Directors on 3 May 2024.

Tomasz Suchański was appointed an Independent Non-Executive Director of the allegro shopping platform on 12 May 2023, and serves as a member of the Remuneration, Nomination and ESG Committee.

Prior to becoming CEO of Żabka Group in March 2016, he was involved with various Jeronimo Martins companies, working in the company's international structures. He held positions of Chief Financial Officer, Member of the Management Board and Chief Operating Officer of the central region. Before that, from 2011 to 2014, he was the General Manager of Biedronka in Poland.

Before his move to Poland in 2005, he worked in international markets, dealing with Portuguese chains of the Jeronimo Martins group. In 2003, he took up the post of Financial Director of the Recheio wholesale chain and, earlier, as a member of the Financial Department, he oversaw Pingo Doce supermarkets and Feira Nova hypermarkets.

He is an alumnus of Stanford Graduate School of Business, INSEAD Business School and Corporate Finance and Accounting at the Faculty of Management of the Poznań University of Economics.

István Szőke**Member**

Managing Partner, at CVC Capital Partners which he joined in 2008. At CVC István oversees operations in CEE and the Middle East. He was previously a partner at Advent International and the founding managing partner of Eastern Heritage Capital, a Swiss asset management company. István started his career at Bankers Trust.

He is an MBA graduate from the Wharton School of the University of Pennsylvania.

Stephan Schäli PhD**Member**

Stephan Schäli PhD is the Chief Investment Officer of Partners Group and member of the Global Executive Board, based in Zug. He is furthermore the Deputy Chairman of the Global Investment Committee, Chairman of the Global Portfolio Committee and a member of the Private Equity Growth Investment Committee. He has been with Partners Group since 1999 and has 24 years of industry experience. Prior to joining Partners Group, he worked at UBS and Goldman Sachs & Co.

He holds an MBA from the University of Chicago, Booth School of Business, Illinois, USA and a PhD in business administration from the University of St. Gallen (HSG), Switzerland.

Management remuneration and Long-Term Incentive plan

Žabka is planning to introduce a long-term incentive plan (LTIP), running from 2025 to 2027, now that its Initial Public Offering has materialised. The plan aims to attract or retain key employees of the company.

Incentives will be linked to the performance of management board and key managers: the LTIP is expected to be linked to financial targets (ie, sales growth and Adj. EBITDA growth) as well as non-financial targets (ie, ESG). These financial parameters capture both LfL delivery as well as store network expansion. The sales target should consider the sales to end customers and sales of Maczfit, Dietly and Q-Comm, rather than revenue as this metric captures the full economics of the Žabka system.

As the P&L cost of the proposed LTIP will be a function of the valuation, guidance on dilution is more accurate: the LTIP should represent c.2% dilution in share count overall upon achievement of guidance, with a maximum LTIP size of 3% in share count terms.

Fig 61 Management Long Term Incentive Plan (LTIP)

Overview

- Žabka proposes the introduction of a multi-year LTIP with a value of **up to 3% of equity** in the first three years effective upon IPO
- The mechanism for the **three year plan** effective upon IPO has been set:
 - The plan will initially cover **key employees** including the **Management Board and broader population of key impact managers**, with longer **capacity to broaden the base to incentivise new hires and promotions**
 - The plan will be subject to vesting of up to **three years** and other customary conditions
 - For Management Board and key managers, incentive will be performance-linked
 - The plan also recognises the contribution of franchisees and employees through a one-off IPO grant
- The scope and design of the LTIP for the following years will be agreed a year before the new programme starts

Key objectives of the plan



Source: Company information

The plan is subject to vesting of up to three years and other customary conditions. It includes both a one-off IPO bonus (resulting in dilution of c.0.3% in 2025F) and LTIP with the expected dilution in 2026–28 of c.2%, assuming that the guidance is delivered. Given the graded vesting assumed in the LTIP, accounting treatment as per IFRS 2 requires recognising proportionally higher costs in the initial years of the programme than in the final year. Such accounting treatment is required despite the highest level of dilution being expected in 2028.

The majority of the LTIP is based on three-year targets resulting in weighting of vesting in 2027 with corresponding dilution in the following year. Therefore, we anticipate dilution up until 2028. As LTIP expenses are non-cash items, they will not be included in Adj. EBITDA and Adj. Net Income.

Franchisees remuneration plan

Żabka management wants to recognise the importance of its franchisees and, therefore, next to management remuneration/LTIP, the company also plans an incentive for its franchisees, by way of a one-off IPO grant to franchisees (c.0.3% dilution in 2025F).

This one-off IPO-grant is not an integral part of the ongoing franchisee compensation, which remains at a very attractive level, in our view, on a standalone basis. Going forwards, we assume that some dilution could materialise to put new franchisees on an equal footing compared to older ones.

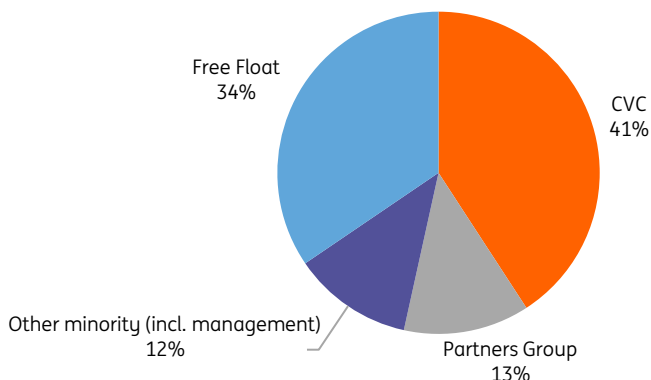
Shareholding structure

Figure 62 presents the approximate current shareholding of the company:

CVC, through one of its private equity funds, owns a c.41% stake in the company, followed by Partners Group, another private equity fund, at 13%.

Management, alongside other minority investors, holds a 13% stake following the group's Initial Public Offering, leading to a free float of c.34%. We flag that, at the time of the IPO, a part of the offering was reserved for Polish Retail investors.

Fig 62 Shareholding structure by funds managed/advised by:



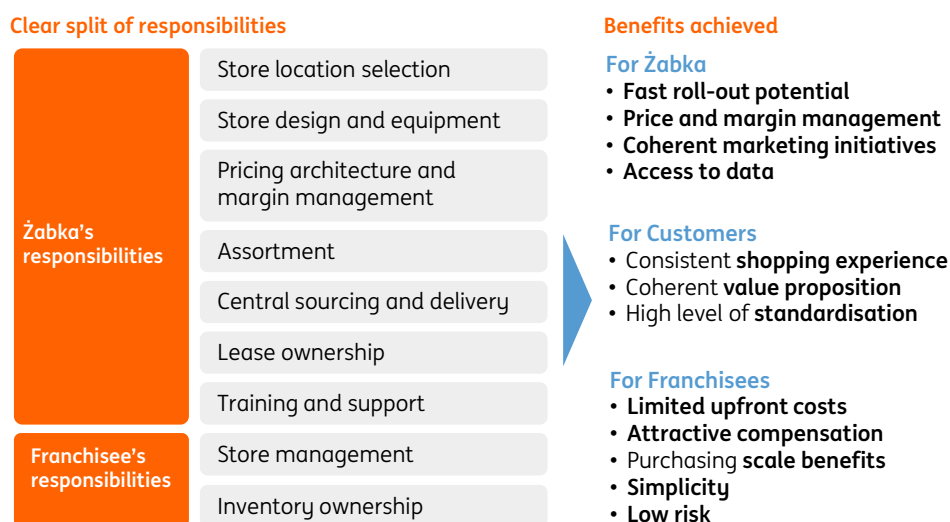
Source: Company information

A fully franchised business model

We view Żabka as quite a unique asset in the Food Retail listed environment, with the company working solely with franchisees to run its convenience stores. As per company information, Żabka's 10,014 stores at the end of 2023 were run by around 8,600 franchisees.

Interestingly, and compared to the franchise model of companies in other countries, Żabka aims to have a limited share of multi-agent franchisees in its portfolio, with management estimating that the stores of multi-owners tend to underperform other stores.

Fig 63 Benefits of the franchised operating model



Source: Company information.

At the end of 2023, only 10% of Żabka stores were owned by multi-agents, down by 300bp compared to 2021. We expect the weight of multi-store owners to continue to decrease going forward, with the continued recruitment of new franchisees (c.2,200 in 2023 alone).

This franchisee model has allowed Żabka to grow its store estate rapidly, while also allowing the stores to open on Sundays despite the trading ban implemented by the Polish government. The company can circumvent the ban as stores that are physically operated by their owners can open on Sundays.

All franchisees have to follow identical contracts

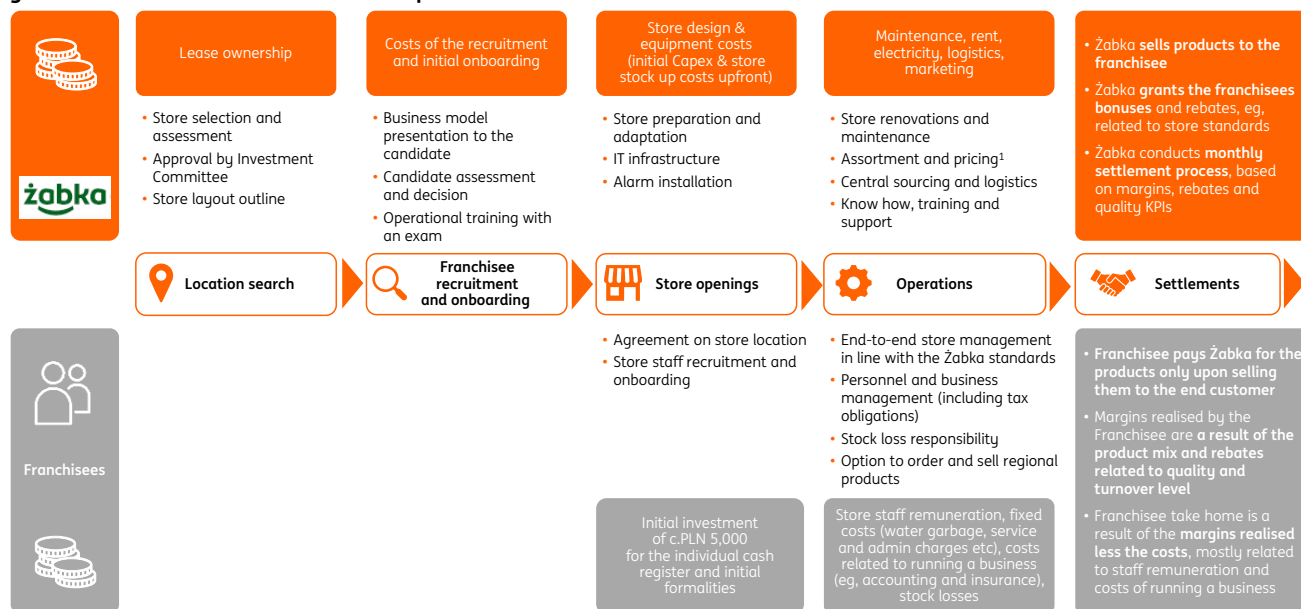
An important element of Żabka's business model is the franchisee agreement it makes with its operators. As per Żabka, all franchisees operate their business under the same set of rights and duties towards the brand, regardless of how long the franchisee has been working with the brand. Under this agreement, Żabka sells the majority of the goods to be sold to the store franchisee.

The franchisee will then pay for those goods once they are sold, with the inventory management in-store being the sole responsibility of the franchisee.

Depending on a store's standards and level of Sales to End Customers, Żabka may grant franchisees bonuses and rebates, while it also grants an additional margin for sales generated on a Sunday. On top of this, franchisees are also incentivised to boost the sale of categories Żabka deems as strategic, such as the Quick Meals Solution offering.

Żabka continues to tailor-make its business model to suit the needs of the franchisees and increase their level of satisfaction. Since 2018, Żabka's franchisee Net Promoter Score has increased by 43 percentage points, thanks to an increased franchisee margin as well as new tools developed to accommodate better the needs of the franchisees. Those tools include, among other items, a new delivery scheme, a centralised support centre and a new app for store management.

Fig 64 Overview of Żabka's franchise process



1. Refers to setting of maximum prices.

Source: Company information.

Żabka's responsibilities as the franchisor

As the franchisor, Żabka is responsible for the location of the stores as well as its leases. Żabka bears the cost of the rent, which is not billed to its franchisees. Once Żabka has found a location for a given store, it develops the internal store layout to maximise sales and minimise the time a given customer will spend in the store.

Żabka will then search for a franchisee to operate the store. Once a suitable candidate has been found, operational training will be provided with a final exam. The cost of recruitment, onboarding and training are borne by Żabka.

Just before opening a store, Żabka prepares and equips the store with its required features. The store is linked to the group's IT infrastructure and a security system is installed. This initial capex, as well as the store stock-up, is paid by Żabka.

Lastly, once the store is opened, Żabka is responsible for its refurbishment, logistics, assortment (99%) and pricing. If a store is underperforming Żabka's expectations, Żabka can replace the franchisee operating it as the company holds a right-of-use on the store. Involuntary churn was around 8.7%¹¹ of total franchisees in 2023, with Żabka flagging that it continues to focus on reducing the number of multi-franchise operators.

Rights and responsibilities of a Żabka franchisee

Before a store opens, a Żabka franchisee has to agree on the store location and must make an initial investment of c.PLN5,000 to become the owner of the individual cash register and for administrative formalities. The franchisee is then responsible for the recruitment of store staff and their onboarding. All store staff expenses are the sole responsibility of the franchisee, as they are responsible for running the business.

¹¹ As Żabka's total franchisee churn stood at 16% in 2023, we assume the difference between 16% total franchisee churn rate and 7.3% voluntary churn rate (ie, 8.7%) is the involuntary churn rate for 2023.

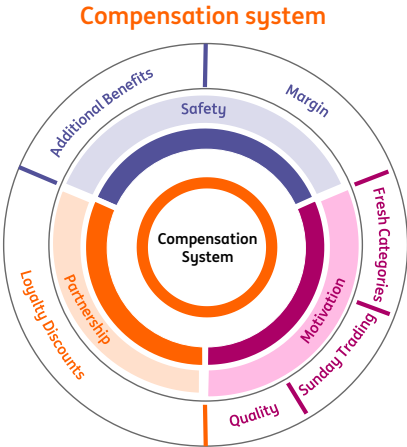
On top of this, franchisees are responsible for the store management, in line with the standards Żabka wants to promote, as well as its inventory. The franchisee therefore bears the responsibility and risks related to shrinkage and food waste.

As an individual company, a Żabka franchisee must fulfil its legal obligations (ie, taxes, accounting, etc) and is responsible for the utility costs related to the store.

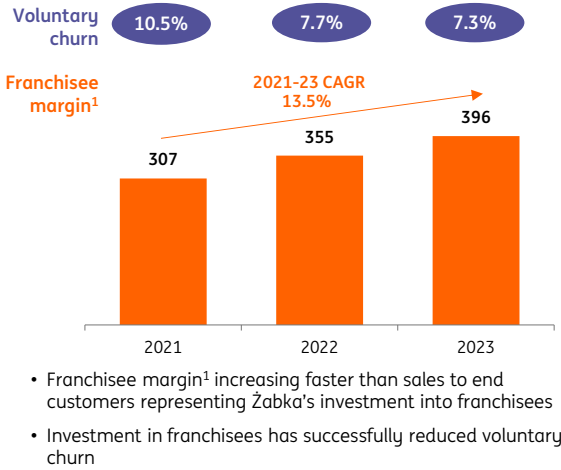
Fig 65 Attractive payout structure offered to franchisees

Key highlights

- ✓ Franchisee model designed to incentivise:
 - Maximising sales
 - Promoting focus categories
 - Ensuring customer satisfaction
 - Maintaining central standards



Evolution of franchisee margin per store (PLNk)¹



1. Franchisee margin defined as Franchisees' sales and other incentives provided by Żabka.
Source: Company information.

A Żabka franchisee will only pay for the goods ordered once sold to the end customers, turning Working Capital Management into a formality for those franchisees. With 60% of Żabka franchisees being first-time business owners with a secondary level education, we view this as a key feature for the success of Żabka's franchising model.

Franchisee take-home pay is designed to be attractive in the context of Polish benchmarks. A Żabka franchisee will be entitled to a percentage of the total store Sales to its End Customers. In 2023, this franchisee margin had grown by a 13.5% CAGR versus 11.6% for Polish minimum wage between 2021 and 2023. This margin is, however, dependent on several incentive programs, such as the level of sales per store, the weight on sales in strategic categories, the maintenance of Żabka's business standards and a strong customer satisfaction.

A franchisee can exit a contract if and when they want to. Over the past two years, the group voluntary churn rate decreases quite materially, reaching 7.3% in 2023 (-320bp versus 2021). Furthermore, according to the company, roughly 30% of those franchisees were operating a store for less than a year.

Per store economics: The franchisee point of view

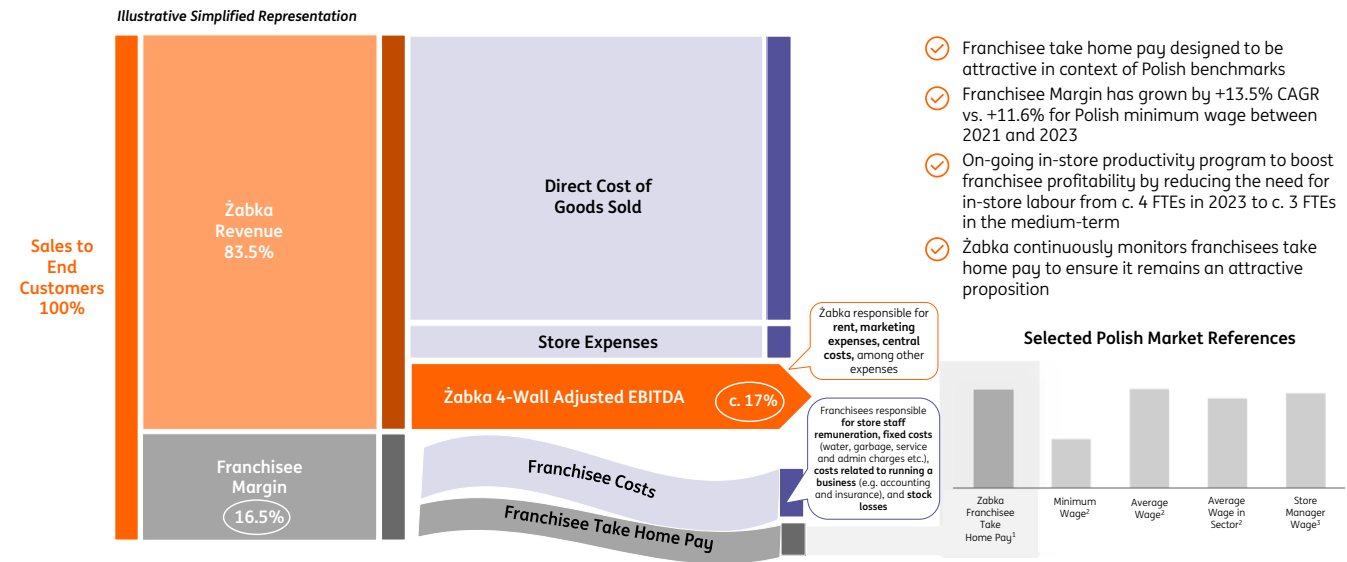
Given its expansion strategy and its total franchisee churn rate of roughly 16%¹², a key element of Żabka's business model is the continual recruitment of new franchisees. As per company disclosure, a Żabka franchisee operates a store for an average of four years.

According to Żabka's analyst presentation, a franchisee take-home pay compares well against Polish benchmarks, with the franchisee take-home pay being somewhat in line with the average wage in Poland, and slightly above the average of the Retail sector as shown in Figure 66.

¹² Source: Żabka Group ESG report 2023

Fig 66 Illustrative franchisee compensation

Illustrative Store Economics Split Between Żabka and the Franchisee



To cross check this, we have modelled a theoretical income statement for a store that would have opened in January 2021. As per our estimates, the take-home pay of a franchisee (incl. initial investment) would be negative on the first year of opening, due to the store reaching only c.71 of its total sales potential for the year, while the franchisee will still have to support the wage of three employees. In reality, we flag that the franchisees are guaranteed a minimum wage by Żabka.

Fig 67 Our view on store economics - vintage 2021, 2021-24F (PLN000)

Y/E Dec	2021	2022	2023	2024F
Sales to End Customers	1,394	2,054	2,390	2,485
Growth (%)		47.3	16.3	4.0
Cost of Goods Sold	(947)	(1,392)	(1,621)	(1,666)
As a % of Sales to End Customers (%)	67.9	67.7	67.8	67.0
Fee paid to Żabka	(233)	(336)	(374)	(397)
As a % of Sales to End Customers (%)	16.7	16.4	15.7	16.0
Franchisee margin	214	326	394	423
Employee benefit expenses*	(163)	(180)	(201)	(217)
As a % of Sales to End Customers (%)	11.7	8.8	8.4	8.7
SG&A (incl. utility costs)	(56)	(101)	(88)	(84)
As a % of Sales to End Customers (%)	4.0	4.9	3.7	3.4
Franchisee operating profit	(4)	44	105	122
As a % of Sales to End Customers (%)	-0.3	2.2	4.4	4.9
Taxes	1	(8)	(20)	(23)
Tax rate (%)	19.0	19.0	19.0	19.0
Initial investment	(5)			
Franchisee take-home pay	(8)	36	85	99
As a % of Sales to End Customers (%)	-0.6	1.8	3.6	4.0
Take-home pay versus minimum wage (%)		100	201	193
Take-home pay versus average wage (%)		44	100	101

*We assume four FTEs are required to operate the store, three employees and the franchise owner

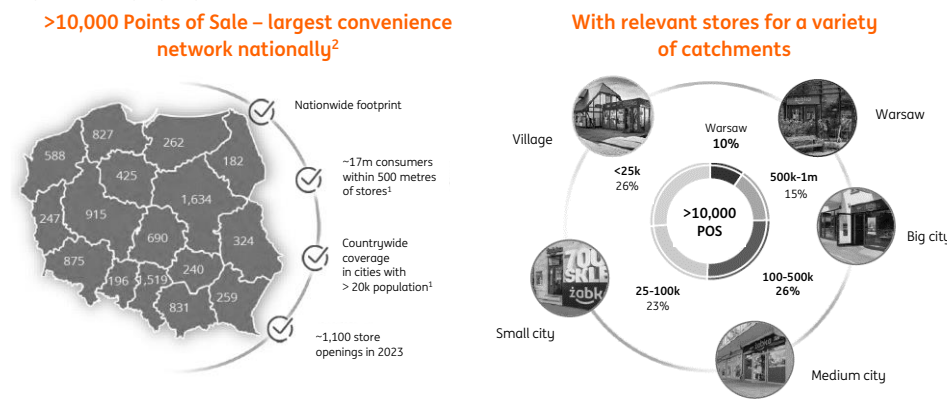
Source: ING estimates

As of year two, we note that the franchisee take-home pay would have been in line with the minimum wage in Poland. However, we flag that Poland was heavily impacted by the energy crisis in 2022, which explains why we model such an increase in SG&A due to the utility bill climbing materially. As of year three, we assume that the take-home pay of a franchisee would indeed be in line with the national average in Poland.

Żabka's expansion strategy

With over 10,000 points of sale, Żabka is already the largest convenience store network in Poland. With its stores, the company is able to cater to the needs of the whole country, with roughly half of the Polish population (ie, c.17m people) living within 500 metres of a Żabka store, according to company data.

Fig 68 Engaging close to 40m consumers nationwide across >10,000 points of sale



Note: Number of stores and split across cities reflected as of December 2023.

1. Based on company analysis; 2. Based on number of stores.

Source: Company information

Despite having opened more than 1,000 stores in 2023 alone, Żabka plans to continue to expand its portfolio of stores in the country. Whitespace for roughly 4,500 stores has been identified¹³, the number of stores the brand aims to open over the medium term.

Looking at the number of stores per inhabitants, we note that, throughout Poland, 26 Żabka stores are available per 100,000 inhabitants, although this figure increases to roughly 35 stores in three provinces: West Pomerania, Pomerania and Silesia. In some other voivodeships, Żabka's stores are far less present, such as in Lublin and Subcarpathia.

Fig 69 Stores per 100k inhabitants: Żabka versus Dino Polska - voivodeship comparison (end 2023)

Voivodeship	Capital city	Population (m)	Żabka	Dino Polska	Żabka store per 100k inhabitants	Dino Polska per 100k inhabitants
West Pomeranian	Szczecin	1.7	588	171	34.7	10.1
Pomeranian	Gdansk	2.4	827	85	35.1	3.6
Lubusz	Zielona Gora	1.0	247	167	24.8	16.8
Greater Poland	Poznan	3.5	915	537	26.2	15.4
Kuyavian-Pomeranian	Bydgoszcz	2.1	425	187	20.7	9.1
Warmian-Masurian	Olsztyn	1.4	262	73	18.4	5.1
Lower Silesian	Wroclaw	2.9	875	282	30.1	9.7
Lodz	Lodz	2.4	690	239	28.2	9.8
Masovian	Warsaw	5.4	1,634	185	30.1	3.4
Podlaskie	Bialystok	1.2	182	30	15.4	2.5
Opole	Opole	1.0	196	106	20.3	11.0
Silesian	Katowice	4.5	1,519	167	33.7	3.7
Świętokrzyskie	Kielce	1.2	240	101	19.7	8.3
Lublin	Lublin	2.1	324	44	15.4	2.1
Lesser Poland	Krakow	3.4	831	58	24.4	1.7
Subcarpathian	Rzeszow	2.1	259	8	12.3	0.4
Poland		38.3	10,014	2,439	26.2	6.4

Dino Polska's number of stores may differ from publicly available source due to rounding. Computation based on stores per 100k inhabitants.

Source: Company data, Dino Polska FY23 presentation, 2022 population data

¹³ Related only to 2024-28, but there is more than 5,000 whitespace unidentified

Furthermore, we note that Żabka's stores tend to be more concentrated in voivodeships with a higher population, such as Silesia, Lower Silesia and Masovia.

If the group were to increase its average of stores per 100,000 inhabitants to the Silesian level this would equate to the opening of roughly 3,000 stores. Furthermore, at the time of writing, the geographical exposure of Żabka differs greatly from that of Dino Polska, which is currently present mostly in suburban areas, as shown in Figure 69.

Continued expansion in Poland expected to remain the No.1 priority

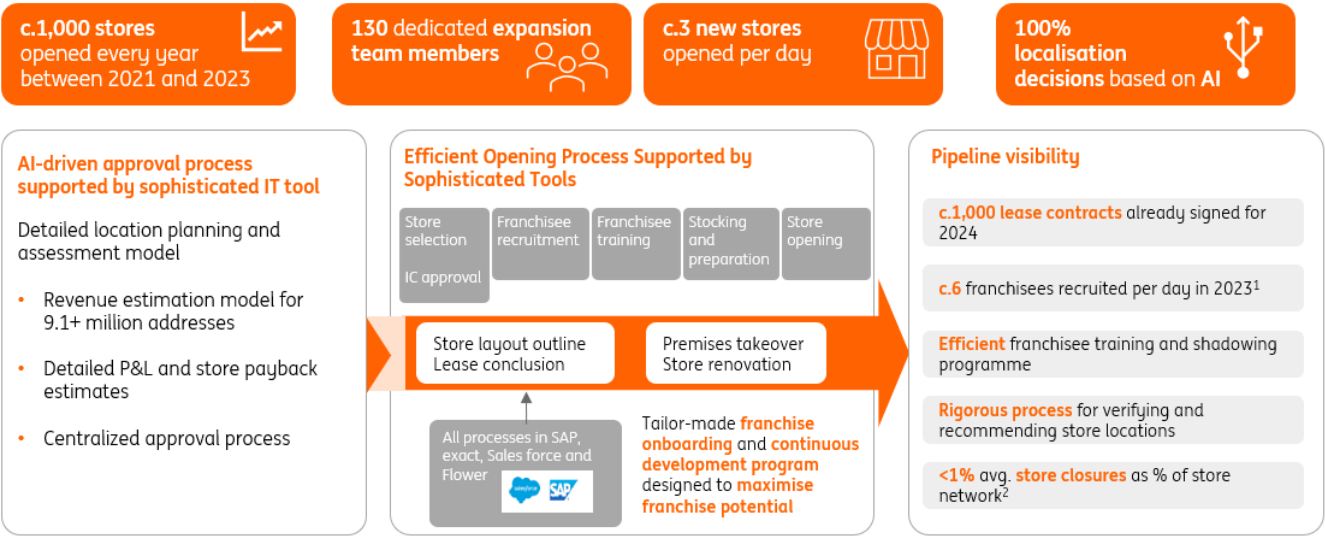
The company has opened more than 1,000 stores annually across the country over 2021-23, making its store portfolio the largest in the Polish industry. This implies that Żabka opens, on average, three new stores every day.

To support this rate of expansion, Żabka has created a dedicated team at corporate level of around 130 members that are fully focused and dedicated to the store roll-out and the brand expansion in new voivodeships.

Given the sheer number of store openings on a daily basis, Żabka started very early to rely on diverse tools and technologies to smooth the process. Store locations are decided using an Artificial Intelligence tool, enabling a standardised approach for every opening, considering potential cannibalisation with existing stores, traffic data and levels of affluence.

Following this process has limited the number of stores Żabka has had to close, with an average c.0.8% closure rate (on total number of stores). Management intends to continue to use this model for the foreseeable future with a view to opening a similar absolute number of stores as over the five prior years.

Fig 70 Proven growth model to open more than 1,000 stores per annum

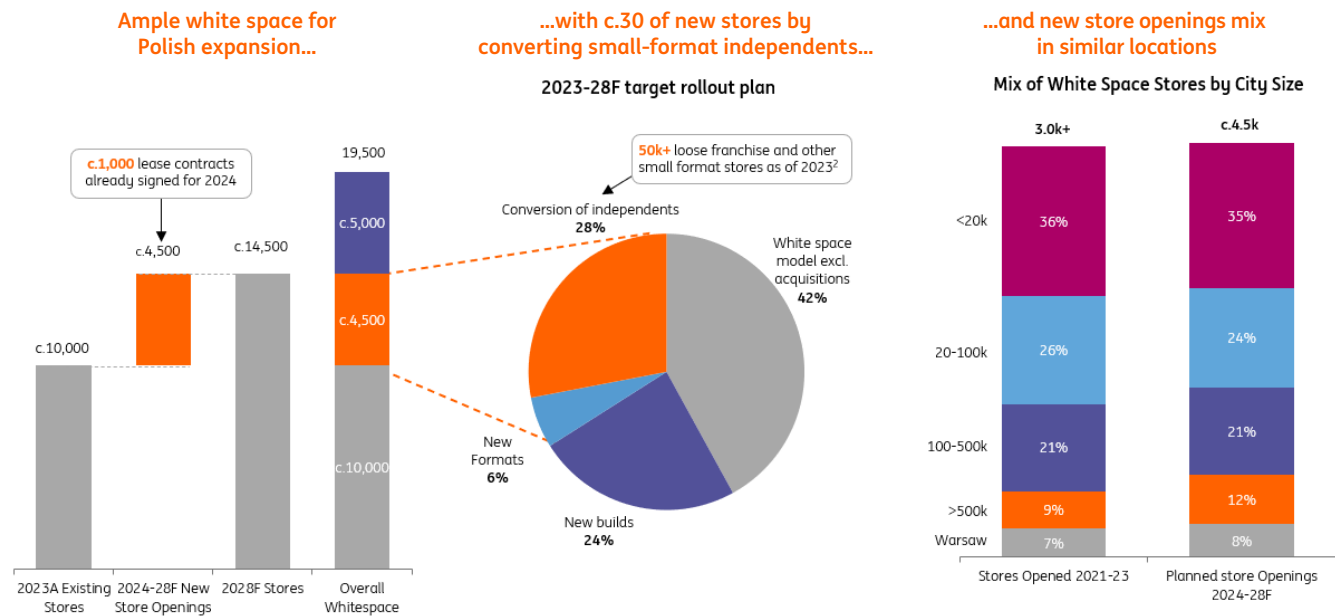


1. LTM as of January 2024; 2. Average 2021-23
Source: Company information

Even though Żabka is widely spread across Poland, management believes there is still ample white space for further expansion. A clear expansion plan over 2023-28F has been set out, aiming at opening roughly 4,500 stores throughout the country by the end of the five-year period. On the path to achieving this, Żabka has already signed more than 1,000 lease contracts for 2024.

To identify whitespace, management has considered the company's own operations and the convenience store segment of the Polish Food Retail market. By 2028, the company sees whitespace for an additional c.9,500 stores and aims to capture roughly half of this amount.

Fig 71 Scaling Żabka with the core on-the-go convenience platform



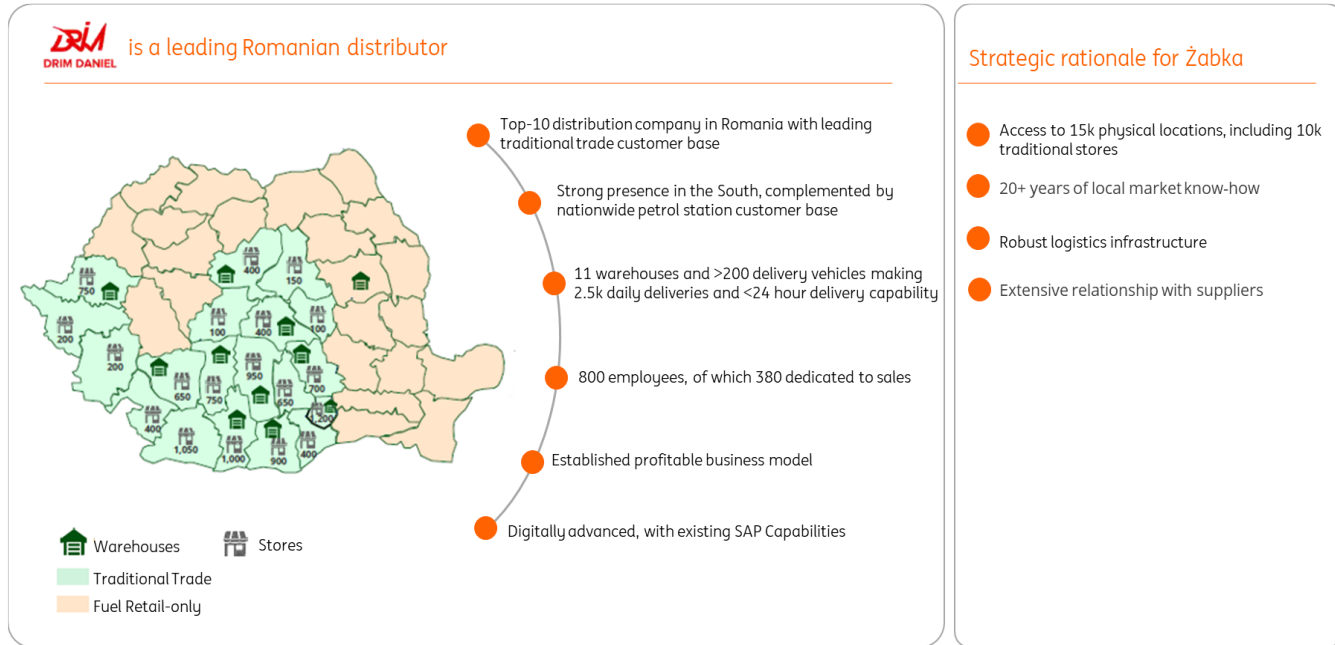
1. As of 2024; 2. Includes traditional trade and small chained stores.
Source: Company information, OC&C analysis

Different sources of stores will contribute to store openings, with a key component being the conversion of other independent operators to the Żabka brand. This is expected to contribute to roughly a third of the planned new stores of Żabka, with the company flagging that more than 50,000 independent and loose franchise stores are available for conversion.

The company's new stores will have a mix similar to the store openings during 2021-23 based on the city size, with roughly a half of store openings in large cities (ie, with a population of >100,000 people).

Targeting a gradual entry into Romania as long-term growth plan

Fig 72 Romanian market entry



Source: Company information

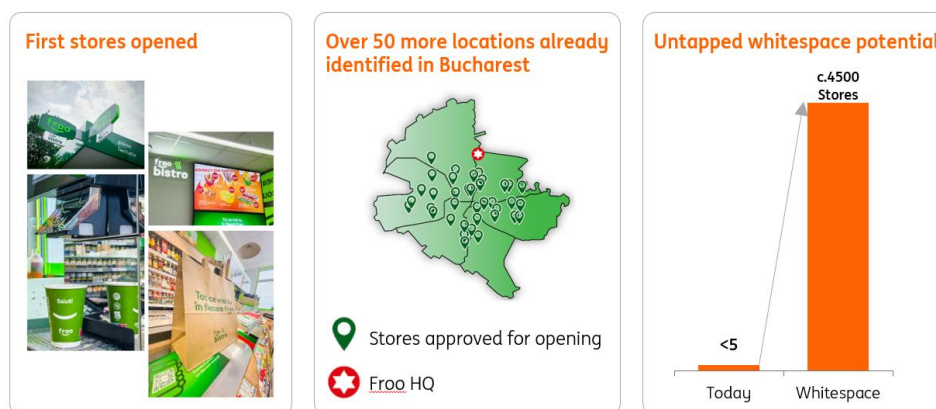
Having become the largest convenience chain in Poland, the group does not plan to slow down and is confident it can continue its rapid growth both in Poland as well as in other countries.

Initially, Żabka aims to break into the Romanian market, as management sees strong similarities in customer profiles between the two countries. This will be the second time the brand has exported its concept to another country, with Żabka present in the Czech Republic before it sold the subsidiary to Tesco in 2011.

To accelerate growth into Romania, Żabka recently closed the acquisition of a c.60% stake in DRIM Daniel, a Romanian wholesaler for traditional retailers, as well as forecourt stores (ie, stores next to fuel stations). A key element of this acquisition is the logistics capabilities of DRIM, which owns 11 warehouses across the south of the country as well as distribution capabilities with more than 200 delivery vehicles.

As a wholesaler, DRIM Daniel currently supplies c.15,000 physical locations, having had a presence in the Romanian market for more than twenty years. Żabka will continue to operate the wholesale activity of DRIM Daniel, alongside the historical shareholder, and will use the group's logistics capabilities to support the expansion of its subsidiary, Froo.

Fig 73 First Romanian store open with defined pipeline of stores approved for opening in 2024



Source: Company information

Żabka's first store under this new brand was opened in 2024 in Bucharest, the capital city of Romania, with more than fifty other stores already having been granted approval to open. Żabka sees a whitespace potential for c.4,500 stores in Romania, although the first phase of testing will consist of roughly 200 stores to be opened by the end of 2024¹⁴.

To access this whitespace, Żabka will consider both: (1) opening new stores organically; and (2) converting independent stores that are already served today by DRIM Daniel.

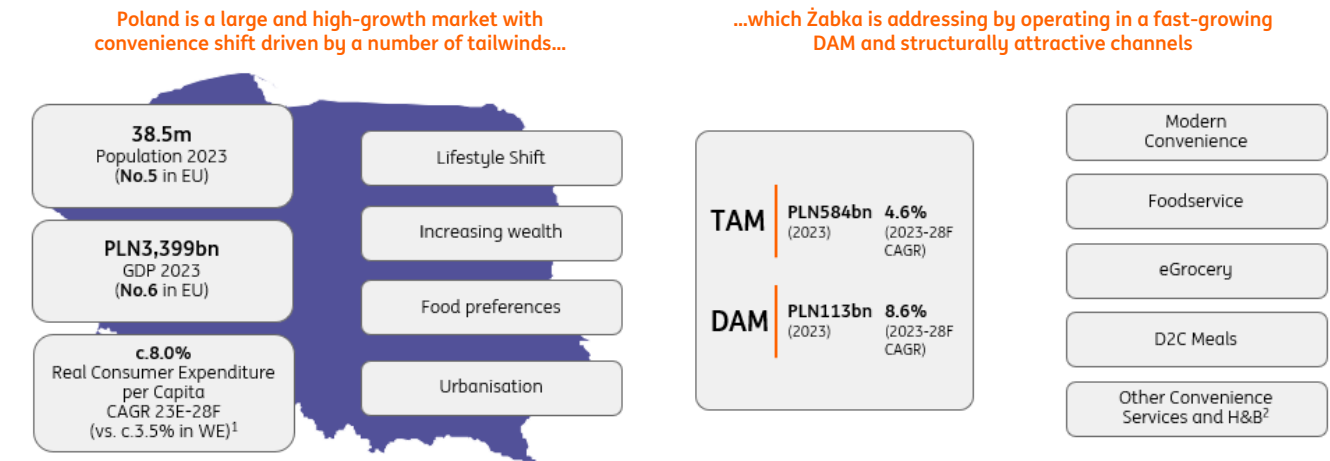
¹⁴ Source: Romanian news website Economica

Industry overview

Poland: Strong fundamentals for growth in Food Retail

Poland is one of the most populous countries in Europe and its growth potential is one of the highest for both the Grocery and Foodservice segments. The Food Retail market in Poland has strong macroeconomic fundamentals, particularly in selected attractive channels in which Żabka specialises, such as convenience stores, foodservices and eGroceries.

Fig 74 Żabka operates in a sizeable fast-growing market



1. Average for Germany, UK, France, Italy, Spain, Netherlands, and Belgium; 2. Health & Beauty.
Source: OC&C, Eurostat, Polish Statistics Office, World Bank, Euromonitor

This growth is being driven mainly by a continued increase in average wage in the country, which has rapidly improved Real Disposable Income for the Polish population. This is expected to continue to support higher food retail growth in Poland compared to other large European countries where the industry has already matured (such as Germany and France). As Żabka is active in multiple segments of the market, its Total Addressable Market (TAM) encompasses several segments of the Food industry, like grocery, eGrocery and foodservices.

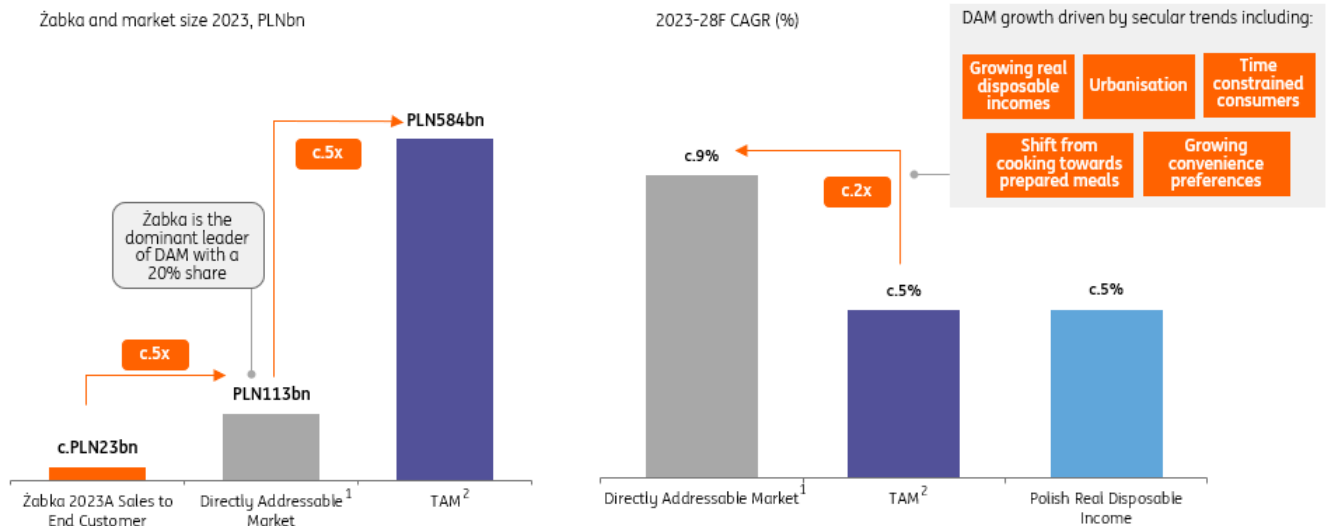
In Poland, the TAM was an estimated PLN584bn in 2023 and is expected to grow at a CAGR of c.5% over 2023-28F, versus 8.6% over 2019-23. The physical grocery segment is expected to remain the largest niche of this industry, followed by Foodservice.

In addition to strong macroeconomic fundamentals, large and professional players are gaining market shares at the expense of independent stores, with the number of operators gradually decreasing. The decline in the number of operators has been driven mainly by a decline in independent family-owned shops, unable to withstand the heightened competition of far larger and more organised players.

The general shift in the market from traditional models to the channels listed above, next to discount chains, is driven by a combination of catalysts, including lifestyle changes, urbanisation, wealth enhancement and changes in food preferences.

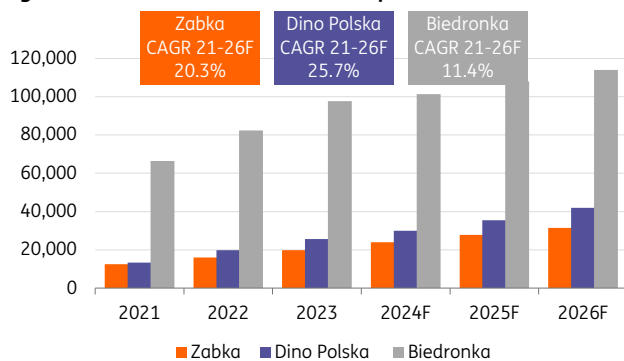
We see two main shifts in the Food Retail landscape in Poland:

- 1) Discount stores continuing their growth path, mostly to the detriment of hypermarkets and supermarkets and the traditional segment.
- 2) Strong growth of the convenience segment, at the expense of other food retail store formats. Convenience stores should also benefit from a shift in consumption habits, with a material growth expected over the medium term for the Foodservice industry in Poland.

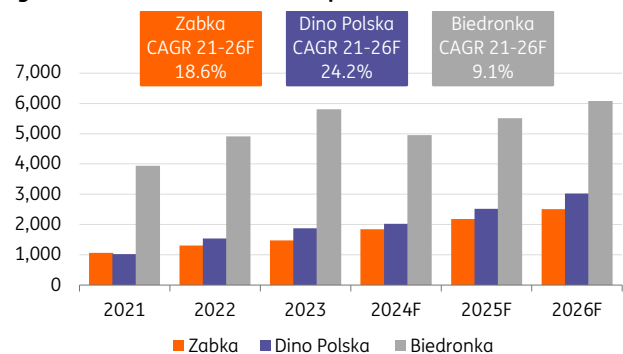
Fig 75 Żabka Polish TAM is expected to grow at a healthy c.5% and its DAM at almost double that rate...**Żabka operates in a Directly Addressable Market c.5x its size...****...growing at c.9%, almost double that of wider TAM**

Source: OC&C analysis; Euromonitor; PMR

As shown in Figures 76 and 77, Biedronka, Dino Polska and Żabka have all experienced strong growth since 2021 and should continue to do so over the next three years. Both Dina Polska and Żabka should see sales and EBIT grow more than 20 per annum between 2021 and 2026F.

Fig 76 Revenue evolution versus peers (Charts Master)

Sources: Company data, Bloomberg consensus, Visible Alpha consensus, ING estimates

Fig 77 EBIT evolution versus peers

Sources: Company data, Bloomberg consensus, Visible Alpha consensus, ING estimates

When considering historical growth (2021 to 2023) and future growth (2023 to 2026F), we note strong, double-digit performance for all. The top performers with regards to revenue and EBIT growth from 2023 to 2026F onwards, are Dino Polska and Żabka.

Fig 78 Revenue and EBIT growth - Żabka, Dino Polska and Biedronka (%)

	Sales CAGR 2021-23	Sales CAGR 2023-26F	EBIT CAGR 2021-23	EBIT CAGR 2023-26F
Żabka	25.9	15.5	17.4	16.4
Dino Polska	38.6	16.4	35.3	14.7
Biedronka	21.3	5.7	21.4	-0.3

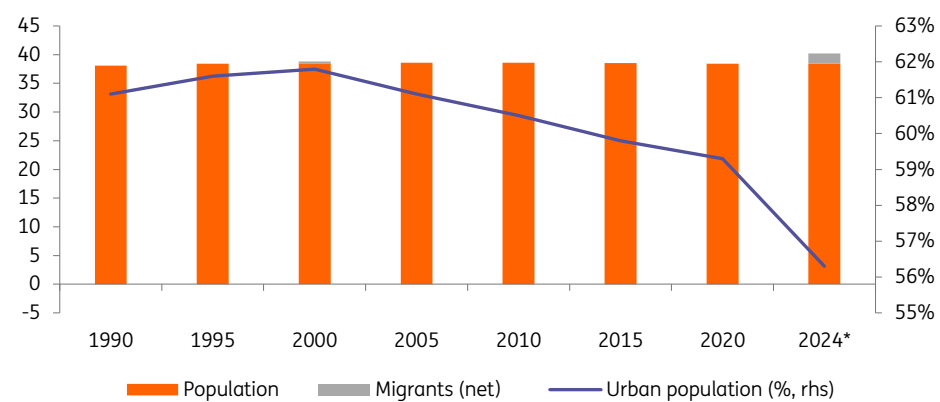
Source: ING estimates for Żabka, Visible Alpha Consensus for Biedronka and Dino Polska (19 November 2024)

Poland is expected to continue to experience strong economic growth

Demographics: Poland is one of the most populated countries in Europe

By population size, Poland is the fifth largest country in Europe, with c.38m inhabitants in 2023. According to Worldometers¹⁵, the Polish population has remained broadly stable over the past three decades, although we note that it has increased since 2022, with more than 1.5m Ukrainian refugees now living in Poland.

Fig 79 Poland: population evolution, 1995-2024 [FC: net singular + check number

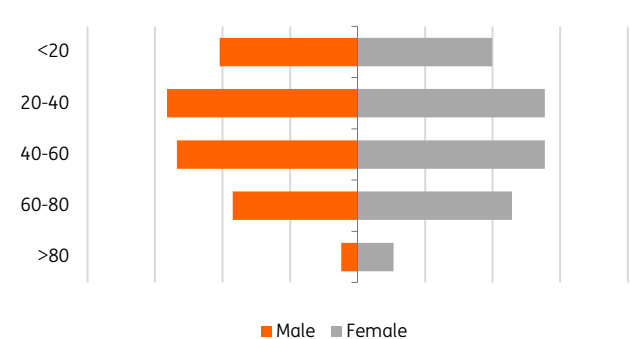


*2024 migrants include c.1.5m net Ukrainian refugees over 2022-24
Source: Worldometers, UN Refugee Agency, EIB

Interestingly, the urban population in Poland is expected to increase between 2020 and 2028F¹⁶, bucking the trend of stagnation/moderate decline of the urban population in absolute numbers in Poland since 2000¹⁷, while the overall evolution of the population in Poland between 2022 and 2024 was boosted by waves of Ukrainian refugees.

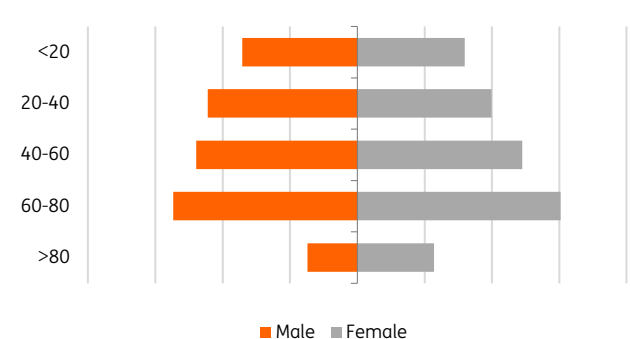
Furthermore, and like all Western European countries, Poland has an ageing population. Its population is therefore expected to decrease, with the World Health Organisation estimating it will reach c.35m people by 2050F. At this point in time, it is expected that c.38% of the Polish population would be older than 60 years.

Fig 80 Poland: Age pyramid, 2023



Source: World Health Organisation

Fig 81 Poland: Age pyramid, 2050F



Source: World Health Organisation

Economics: Poland is one of the best-in-class European countries on unemployment

With an unemployment rate of 2.9% (July figure, source Statista), Poland has the second-lowest rate in Europe, and is best-in-class compared with large Western European markets (such as France, Germany and Spain).

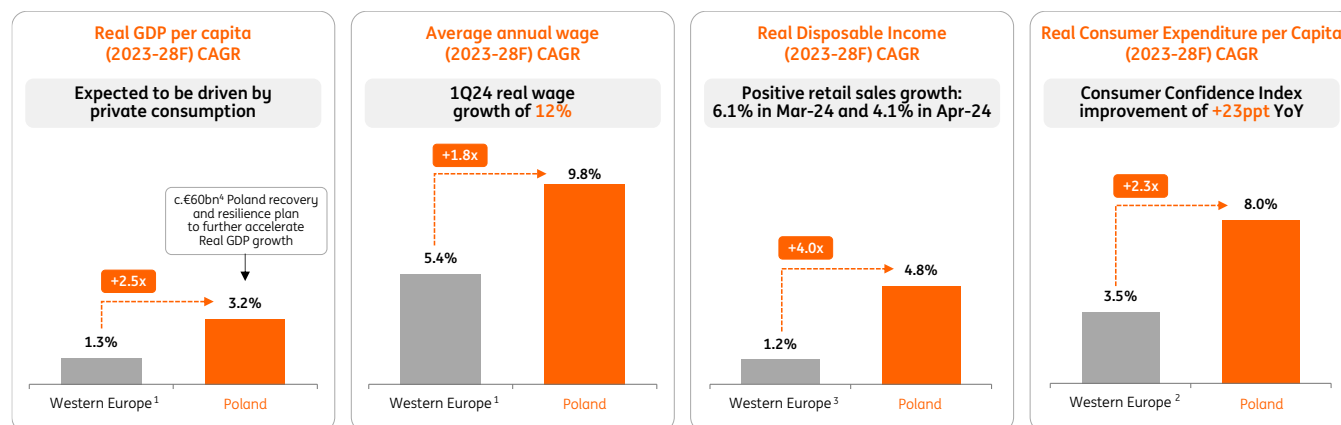
This strong workforce has enabled Poland to become the sixth-largest European economy in terms of both Gross Domestic Product and consumer expenditure. The

¹⁵ Source: Worldometers (<https://www.worldometers.info/world-population/poland-population/>)
#:~:text=Poland%202024%20population%20is%20estimated,(and%20dependencies)%20by%20population.)
¹⁶ Source: OC&C analysis
¹⁷ Source: Worldometers

private consumption rate was 6.1% during 2018-23 and ranked first if plotted against Western European countries, while purchasing power of Polish consumers is strong, with real wage growing at a CAGR of 2.9% over 2018-23, the second highest growth if plotted against Western European economies.

Fig 82 Macroeconomic benchmark: Western Europe versus Poland, 2023-28F CAGR (%)

Poland will continue outperforming Western Europe across macroeconomic growth benchmarks



1. Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom; 2. Andorra, Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Gibraltar, Greece, Ireland, Italy, Liechtenstein, Luxembourg, Malta, Monaco, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey and the United Kingdom; 3. Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, UK; 4. Includes €34.5bn RRF loans and €25.3bn RRF grants.

Source: OC&C, Oxford Economics, Euromonitor

This strong economic growth compared to other European economies is expected to continue, with Poland benchmarking strongly compared to its European peers. It is therefore expected that:

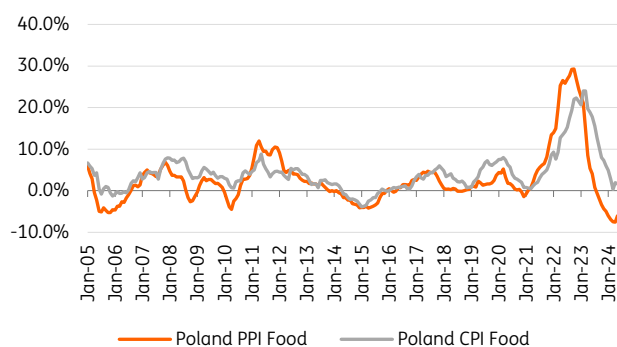
- 1) Real GDP will grow 3.2% per annum over 2023-28F, supported by Poland's recovery and resilience plan. This implies a growth 2.5 times higher than the average in Western Europe.
- 2) Real disposable income will increase by a CAGR of 4.8% over 2023-28F, four times as much as the average of Western European countries. This is expected to be driven mainly by a continued increase in annual wage of CAGR 9.8% over the time span.
- 3) Thanks to these first two factors, real consumer expenditure per capita is expected to grow by a CAGR of 8.0% over 2023-28F, 2.3x faster than in Western Europe.

Core inflation on the rise

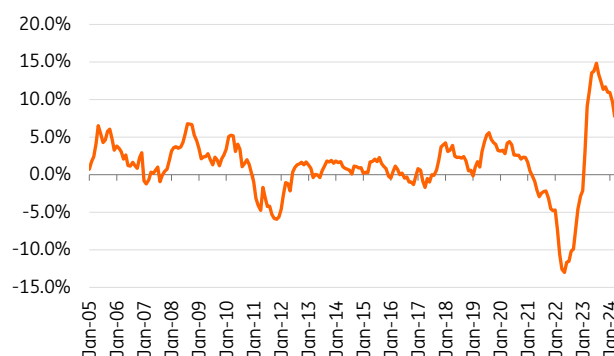
Poland's labour cost increases have outpaced productivity gains over the recent past. In addition, the unwinding of anti-inflation shields is likely to temporarily lift the Consumer Price Index (CPI) to around 4.0-4.5% YoY until the end of 2024¹⁸, which will not allow the MPC to ease monetary policy – especially as the economy remains on a recovery path. Much uncertainty surrounds the inflation outlook for the first half of 2025, as the government's plans for any further shielding measures on energy prices for households are unknown.

According to ING Economics Research, headline inflation will continue to rise due to less favourable base effects, energy price normalisation, and upward pressure on services prices, keeping core inflation high. High wage growth continues to drive services prices up. Headline inflation hit 5.0% YoY in September and is projected to peak around 5-6% YoY in early 2025 before moderating in the second half of the year. Slower wage growth should bring inflation down in the second half of next year and 2026, as per the team's assumptions.

¹⁸ ING Economics Research

Fig 83 Poland CPI Food vs PPI (2005-24)

Source: Bloomberg

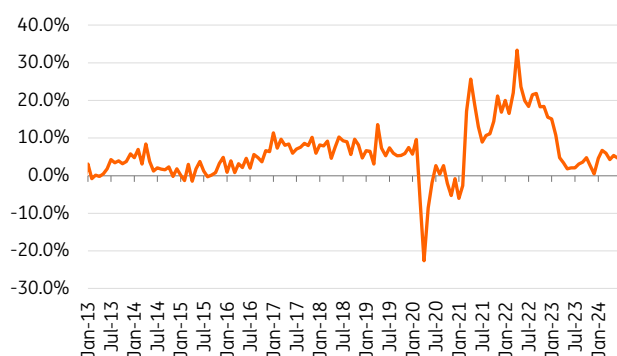
Fig 84 Poland CPI Food and PPI gap (2005-24)

Source: Bloomberg consensus

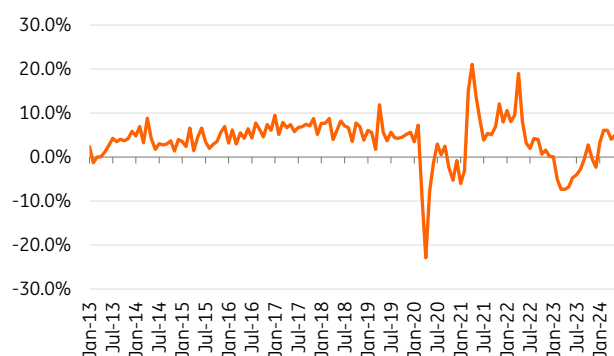
Any gap between Food CPI and PPI would allow Food Retailers to earn slightly higher gross margins. As shown in Figure 83, we note the exceptionally wide positive gap between these indices over the past couple of years, which would imply that sales have increased faster than other costs, such as labour and transportation, which is the main driver of margin improvement, in our view. However, this gap has narrowed materially since the end of 3Q23 but remains largely in positive territory.

Poland's economic recovery continues, but consumption slows

Polish retail sales growth fell short of market expectations in September, as consumers remain frugal and refrain from purchases that could be postponed or are not necessary or urgent. Still, with robust growth in real disposable incomes, households have the resources to increase their spending while still rebuilding savings. Polish retail sales of goods decreased by 3% YoY in September, against market expectations of a 2.1% rise and slipping from a 2.6% growth in the previous month. Food, beverages & tobacco products dropped 7.6% vs -0.4% in August.

Fig 85 Poland nominal retail sales (2013-24)

Source: Bloomberg

Fig 86 Poland real retail sales (2013-24)

Source: Bloomberg

Recent data for industry, retail trade and construction fits into the ING Economics Research scenario of a continued recovery in the Polish economy – although its pace is likely to be slightly lower than previously anticipated.

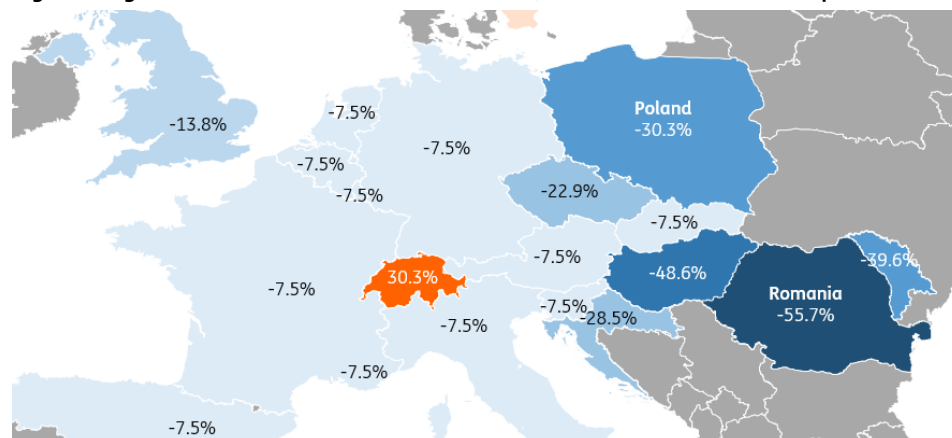
Big Mac index¹⁹ as a purchasing power parity (PPP) proxy

The Big Mac Index, a measure of comparing the PPP between countries, serves as a unique lens to understand the world economy. Utilising the price of McDonald's

¹⁹ The Big Mac Index compares the relative price to purchase a Big Mac hamburger sold at McDonald's restaurants. It is an informal way of measuring the PPP between currencies and providing a test of the extent to which market exchange rates result in goods costing the same in different countries. Although a single sandwich may seem overly simplistic for PPP theory, the price of a Big Mac is derived from the culmination of many local economic factors, such as the price of the ingredients, local wages and how much it costs to put up billboards and buy TV ads. As such, it provides a 'reasonable measure of real-world purchasing power'.

ubiquitous Big Mac hamburger, this index offers a digestible perspective on the economic standing of nations. It helps to reveal economic disparities between countries, reflecting the cost of living, labour cost and economic health. The reference country and benchmark is the US (point zero), to which the PPP of other countries is compared.

Fig 87 Big Mac Index (see footnote) – Western, Eastern and Central Europe



Source: The Economist, datapandas.org

Within Europe, with its high-income level and high cost of living, Switzerland tops the Big Mac Index with a score of 30.33, indicating that it is the most 'expensive' country. Romania's PPP is below that of its neighbours; Moldavia at -39.63 and Hungary at -48.59. When comparing Poland's PPP (-30.32) to its neighbouring countries, its score is significantly lower than that of Germany, Lithuania and Slovakia (all -7.47) as well as being below that of the Czech Republic (-22.88).

Poland: A land of convenience and discounters

Over 2019-23, 'Modern convenience' was the fastest growing format of physical grocery sales while discounters and supermarkets also showcased strong double-digit growth rates. Discounters, like Biedronka, and small supermarkets, like Dino Polska, accounted for more than 50% of the Polish physical grocery market, as shown in Figure 88.

Over the past four years, most food retail categories experienced positive growth, with the noteworthy exception of Traditional Trade (ie, independent players) and Hypermarkets. These categories are expected to continue to lose market share over the years to come at the expense of discounters, small supermarkets and convenience players.

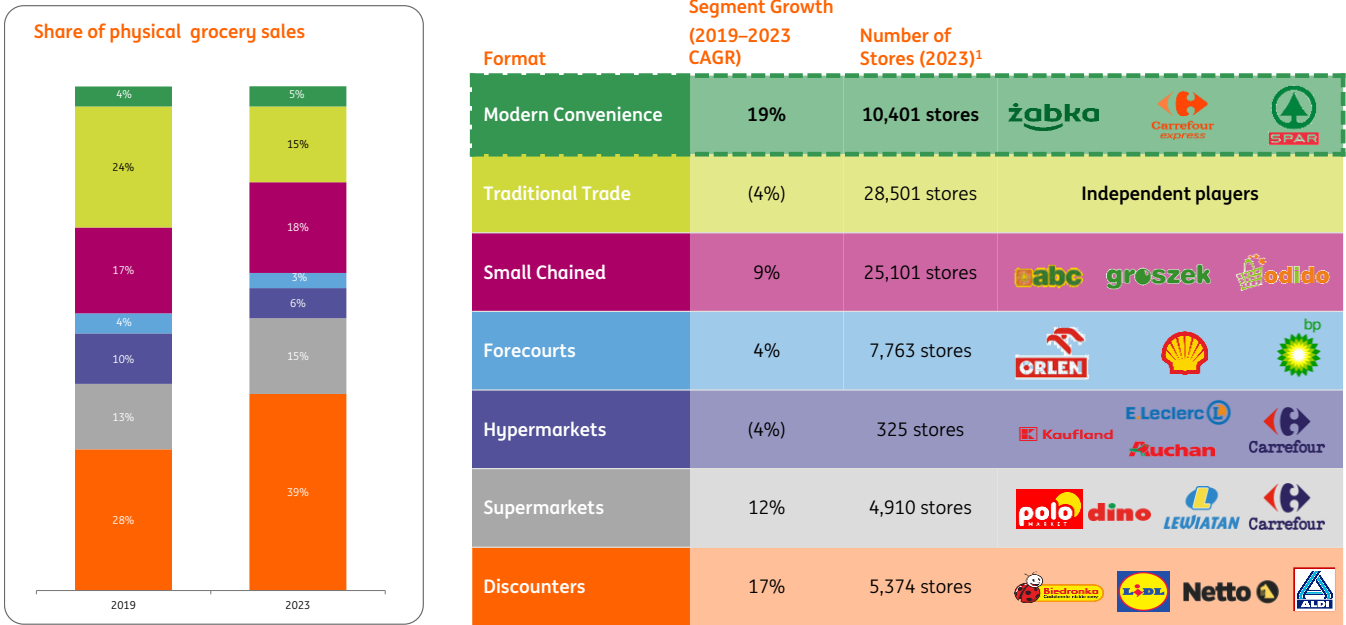
Digging deeper, the 'modern convenience' segment grew in value by 19% over 2019-23, increasing its share of physical grocery sales to 5% by end-2023. In this category, Żabka has to compete with Carrefour Express and Spar, although we note that more than 90% of the stores accounted for in this category are operated by Żabka's franchisees.

On top of this, local supermarket chains (Abc, Groszek, Odibo) and national supermarket players (like Dino Polska), accounted for 33% of the Polish grocery market. These players have seen their sales grow by more than 10% on average over 2019-23.

Lastly, discounters accounted for c.40% of the Polish market, with the two largest national players being Biedronka and Lidl. These players continued to experience strong commercial traction, with their sales growing by CAGR 17% over 2019-23.

Somewhat surprisingly, the frontiers in between small supermarkets, convenience stores, foodservices and discounters are somewhat blurred in the Polish market, with more often than not players having characteristics of different groups. This helps to explain why some larger formats and discounters also have a relatively high proportion of 'same-day' sales compared to proximity stores.

Fig 88 Physical grocery store formats and players in Poland



1. Using Euromonitor data.
Source: Company information, PMR, Euromonitor, OC&C analysis

Growth trends lead Poles to seek ‘convenience’...

Against a backdrop of strong macroeconomic fundamentals, several secular trends have emerged in Poland that particularly drive the shift in grocery market dynamics.

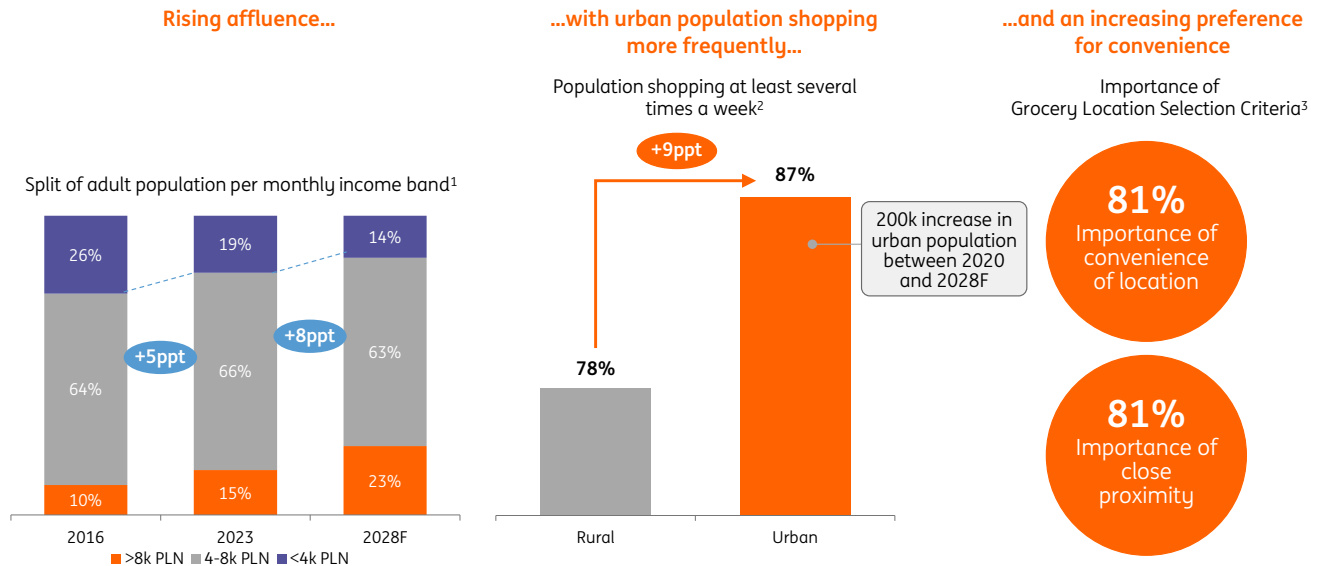
First and foremost, Poland’s average working hours is well above the European average, with Polish workers ranked second²⁰ in terms of total hours worked. Furthermore, the female population is increasingly active in the workforce, in line with Western European standards.

On top of being a highly active and busy population, Polish workers have seen a sharp increase in the pay cheque, with 81% of the population earning more than PLN4,000 per month, versus 74% in 2016. By 2028, 86%²¹ of the Polish population is expected to exceed this level.

Polish consumers are used to shopping frequently, whether living in cities or in rural areas. In addition, consumers are used to visiting different formats and brands of stores. As per Żabka presentation, 81% of its clients also shopped at market leader Biedronka, while 54% shopped at Lidl. However, as Żabka is serving a different shopping mission, the company does not consider discounters a direct competition.

All these factors have contributed to the emergence of convenience stores and small supermarkets in Poland, with hypermarkets having a difficult time settling in. It is expected that convenience stores, discounters and small supermarkets will continue to dominate the market, with the lines between Biedronka’s, Dino Polska’s and Żabka’s business models becoming increasingly blurred.

²⁰ Total 40.4 hours worked in a week, as of 2022 according to Eurostat, OC&C Consumer Survey, OC&C Analysis
²¹ Source: World Bank Development Indicators, Euromonitor, PMR, OC&C Analysis; 1 At constant prices

Fig 89 Market growth is supported by rising affluence, urbanisation and increasing convenience preferences

1. At constant prices; 2. 2023 data; 3. Q20: Thinking about your last grocery shop, how important were the following criteria?; Percentage of respondents choosing 'Important' or 'Very Important'

Source: World Bank Development Indicators, Euromonitor, PMR, OC&C Analysis

...which should also spur the growth of Foodservice

In 2023, in Poland the total grocery consumer spend per capita is €2.5k²² with a predicted CAGR between 2023 and 2028 of 2.3%. The foodservice consumer spend/capita is US\$250²³. The average disposable income per capital in Poland in 2023 was PLN10,609.70 with a predicted CAGR of 9.5% between 2023 and 2028.

The key profit sector channels in Poland's foodservice market are quick-service restaurants (QSRs), food-service restaurants (FSR), the workplace, pubs, clubs & bars, retail, accommodation, coffee & tea shops, mobile operators, leisure, travel, and ice cream parlours. QSR dominates Poland's foodservice market, followed by FSR and the workplace. In terms of number of outlets, Żabka is the dominant force in Poland, with more than 10,000 outlets. Following some way behind are McDonald's and KFC with a few hundred outlets each.

- **Quick-Service Restaurants:** In 2021, the QSR channel was the largest channel in the Polish foodservice profit sector. During the Covid pandemic, deliveries and take-aways played a key role in the channel's growth. Outlets are frequently visited by millennials, owing to factors such as convenience, value-for-money and the provision of unique and exciting flavours.
- **Food-Service Restaurants:** The FSR channel was the second-largest division of Poland's foodservice profit sector in 2021, led by independent operators. Although the channel's sales were hindered by the enforcement of partial lockdowns and restrictions in some cities and provinces in response to the spread of coronavirus, the channel is expected to record value growth, driven by consumers that visit FSRs at least once a week (frequent visitors) due to convenience, value for money and the availability of unique and exciting flavours.

A number of chains, such as Starbucks, Costa Coffee, Caffè Nero, McDonald's, KFC and Burger King with local subsidiaries are already present in Poland.

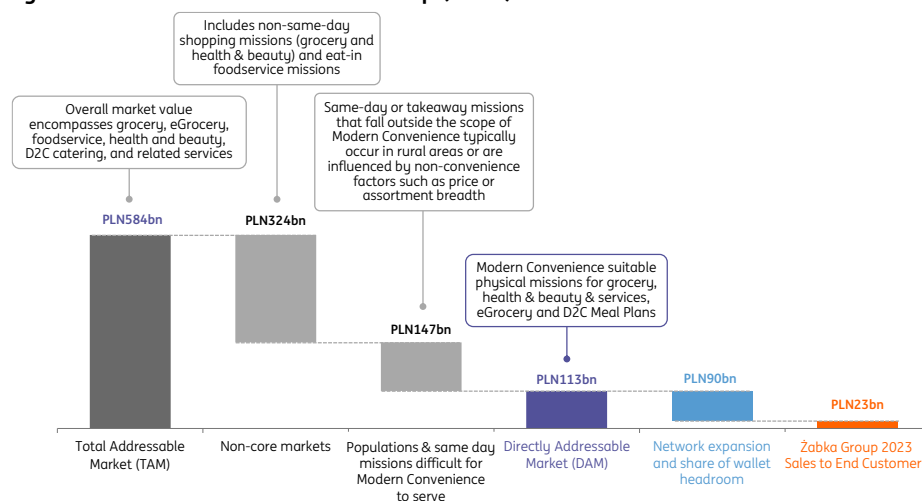
²² Source: GfK, OC&C

²³ Source: OC&C

Żabka's addressable market to grow by high single digit CAGR

Żabka's total addressable market (TAM) was estimated at PLN584bn, consisting of grocery, eGrocery, food services, health and beauty, direct-to-consumers catering and related services. It is expected to grow by a CAGR of c.5% over 2023-28F, with grocery accounting for north of 80% of the market total value over this time span.

Fig 90 Żabka's DAM and TAM build-up (2023)



1. Health & Beauty; 2. Presence in rural or driven by non-convenience key purchase criteria (price led or assortment led)

Source: OC&C

Żabka's Directly Addressable Market (DAM) encompasses modern convenience solutions for above categories. It accounts for c.19% of the TAM, or c.PLN113bn. Żabka's DAM is expected to grow at CAGR 8.6% over 2023-28F, with physical grocery growing at 8.2% per annum.

The build up from DAM to TAM can be categorised under two segments.

- **Non-core markets (PLN324bn)**, including non-same-day shopping missions and eat-in food service missions, reflecting c. 55% of TAM.
- **Same-day or takeaway services that fall outside the scope of modern convenience.** Typically occur in rural areas or influenced by non-convenience factors such as price or assortment breadth. This market portion was valued at **PLN147bn**, reflecting c.25% of the overall TAM.

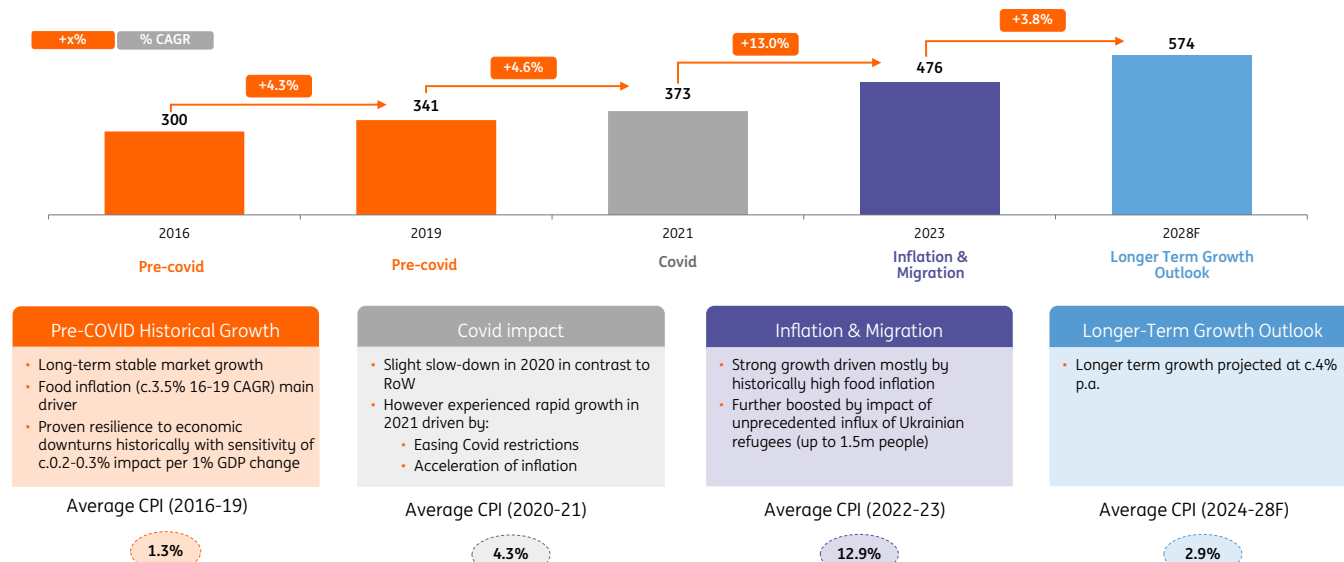
Total Addressable Market: Polish physical grocery expected to grow by CAGR 3.8%

The Physical Grocery segment is by a mile the largest category of Żabka's Total Addressable Market, with an estimated value of PLN476bn (>80% of total). It includes the sale of food, beverages, tobacco products and alcohol as well as selected non-food products (health and beauty, home care, pet care, etc).

Over 2016-21, the physical grocery market grew by CAGR 4.4%, driven mainly by food inflation (c.3.5% over 2016-19). Despite slightly contracting in 2020, the Polish grocery market experienced, on average, a long-term stable growth.

The story has however been somewhat different since 2021, with the market growing by CAGR 13.0% over the last two years due to (1) high food inflation and; (2) an influx of Ukrainian refugees in Poland, with the population growing by c.1.5m people over a two-year span. Now that those effects have normalised, it is expected that the market will go back to its traditional mid-single-digit growth over the medium term, with the average Consumer Price Index going back to historical levels as well.

Fig 91 Physical nominal grocery market in Poland, 2016-28F (PLNbn)



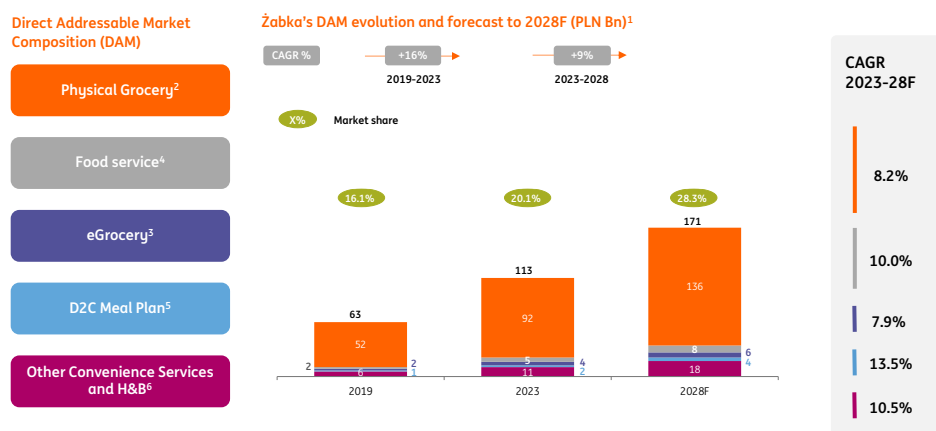
Source: Euromonitor, PMR, GlobalData, Nielsen, OC&C analysis

Żabka excludes the majority of physical grocery from its definition of Directly Addressable market with c.56% of sales being defined as 'to consume later than same day' and another share being related to sales in rural areas. Sales of products destined for same day consumption have gained share in the Physical Grocery mix in Poland over 2016-23, although we flag that the share of same-day consumption products remained flat at c.45% since 2021 and the heightened level of inflation that has followed.

Żabka's Directly Addressable Market expected to grow at CAGR 8.6% over 2023-28F

As per Żabka's definition, its Directly Addressable Market was valued at PLN113bn in 2023 and is expected to grow at a CAGR of 8.6% over 2023-28F. On an absolute level, the bulk of this growth is expected to remain in the hands of the Physical Grocery segment, which should grow at CAGR 8.2% over the forecast period.

Fig 92 Directly addressable market of modern convenience missions will grow close to double-digit



Note: 1 Includes sales tax; 2 Physical grocery including food & beverages, tobacco & alcohol, selected non-food: health & beauty, pet care, home care sold in Grocery Stores, as well as sales of food outside of grocery retailers such as at marketplaces & drugstores; 3 All products included in physical grocery market but delivered through eCommerce or qCommerce; 4 Cafes/Bars, full & limited-service restaurants, self-service cafeterias, street stalls/kiosks; 5 D2C Dietary meal plans as well; 6 Health & Beauty products sold outside groceries; Other Convenience Services include parcels commissions, lotto commissions, international money transfer commission, car insurance commission, and bill & utilities payments commission

Source: OC&C analysis

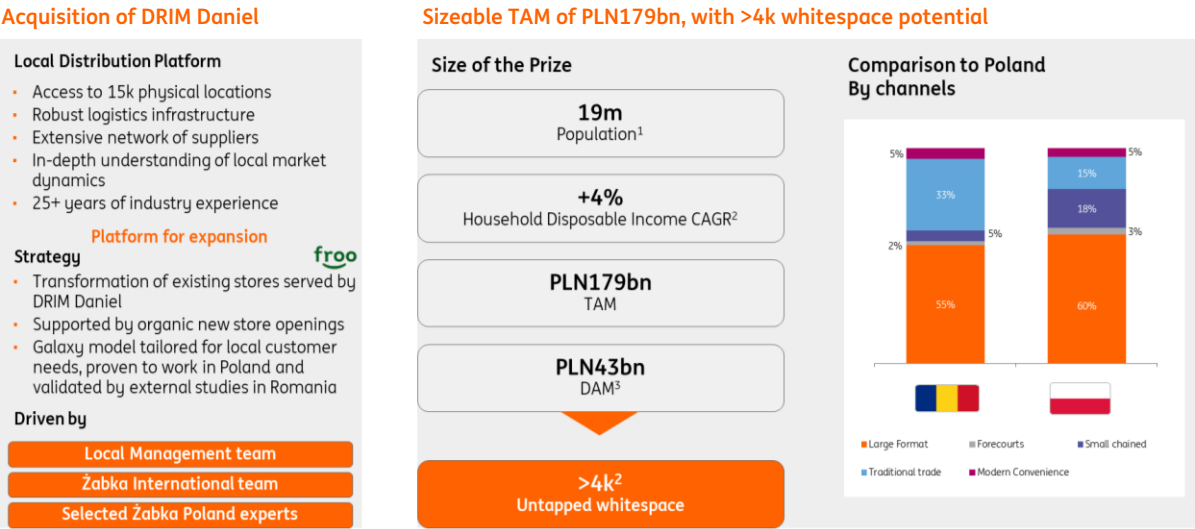
On top of this, the growth of this DAM should be supported by a double-digit growth CAGR for both the Foodservice segment and the Direct-to-Consumers meal plan.

eGrocery is, on the other hand, expected to grow broadly in line with the Physical Grocery market.

Żabka’s market share in its DAM was 16.1% in 2019, reached 20.1% in 2023, and is expected to increase to 28.3% by 2028F.

Romania shows growth potential in the long term

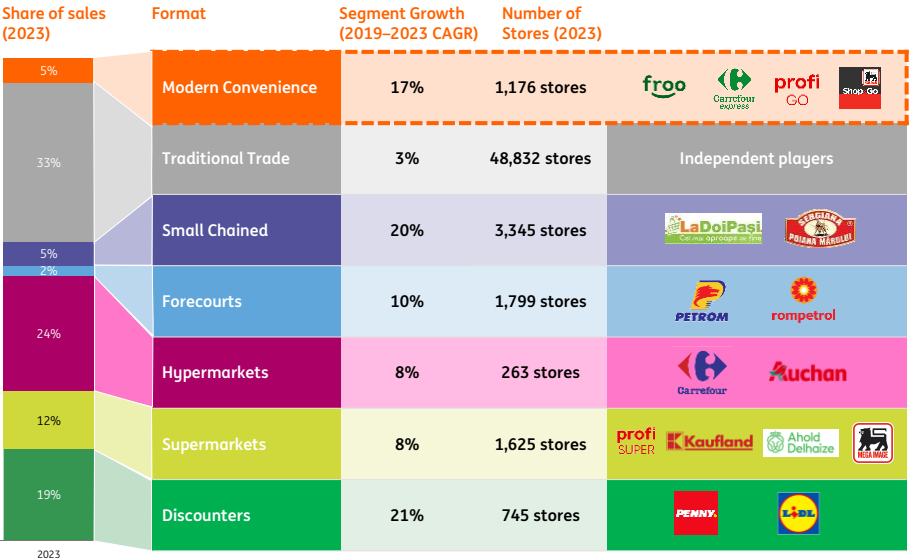
Fig 93 Acquisition of DRIM Daniel in Romania



1. Based on World Bank data; 2. Based on Euromonitor, refers to 2024-2026; 3. Directly Addressable Market
Source: Company Information & OC&C

Żabka’s new market, Romania, is smaller than Poland with a directly addressable market (DAM) of PLN43bn and total addressable market (TAM) of PLN179bn. Żabka’s management, however, believes that the growth potential of this country may be significant, with traditional trade channels still occupying a sizeable share of the total market at 33%, more than twice the level it occupies in Poland.

Fig 94 Romanian grocery landscape remains fragmented



Source: PMR, Euromonitor, OC&C analysis

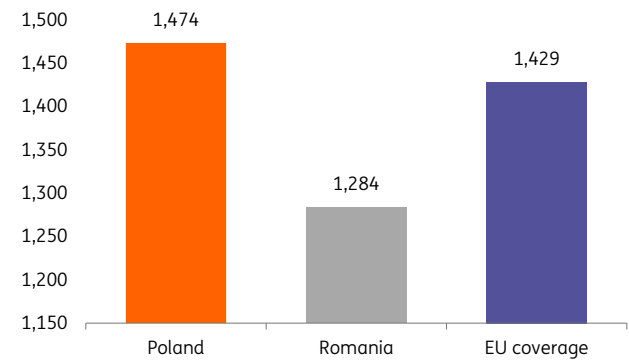
Żabka sees whitespace for more than 4,000 stores in the country, although we note that the modern convenience segment in Romania might be more competitive than in Poland, especially if accounting for the potential acquisition of Profi Rom Food by Ahold

Delhaize, which would consolidate the position of the Dutch group in this segment throughout the country.

The Romanian consumer profile is somewhat similar to that in Poland, with certain secular trends, including long working hours compared to Western Europe, a growing number of single-person households and an average wage growing faster than in Western Europe.

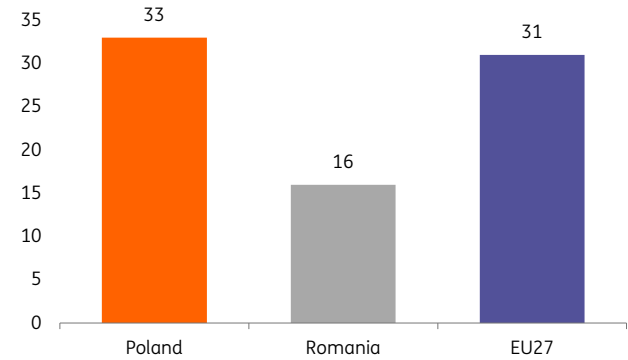
On the other hand, Romania’s grocery spend per capita lags that of Poland, with Romanians spending, on average, c.28%²⁴ less than their Polish counterparts. It is estimated that this would represent a lag of roughly five years. Furthermore, the workforces of the two countries are materially different.

Fig 95 Total PISA scores (2022)



Source: OECD

Fig 96 Population with tertiary education (of total, 2023)



Source: Eurostat

Poland can certainly claim to have an educated workforce, with a significant proportion of graduates in STEM fields (Science, Technology, Engineering and Mathematics). Poland has become well known for its strong education system, as reflected in the latest PISA scores and population with a tertiary education.

As shown in Figures 95 and 96, Poland exceeded the EU27 average in these categories in 2022-23, while Romania remains far below, currently indicating a less sophisticated workforce.

On top of a lower level of education, Romania’s activity rate also trails Poland and the EU27 average materially, at 63% versus >70% for Poland.

²⁴ Source: GfK, OC&C Romania Consumer Survey – Sep-22, OC&C Poland Consumer Survey Nov-21, OC&C analysis

Polish retail 3Q24: Reaching the trough?

Listed traditional Polish Retailers Jeronimo Martins (operating market leader Biedronka) and Dino Polska posted encouraging 3Q24 results, despite Poland showing weak macroeconomic data in September 2024. Both companies indeed published results above expectations with regards to profitability, although margin continued to slide down compared to 2023. Like-for-Like growth remained subdued (Dino Polska +2.3%, Biedronka -1.9%) and at the lower end of market expectations.

Market leader Biedronka flagged in its press release that it is aiming to continue to grow in volume terms, which should lead to price investment in 2H24, which may lead to a continued margin pressure. Dino Polska, on the other hand, posted an improvement in gross margin in 3Q24, signalling to the market that the price war in Poland may come to an end in the short term.

This led to a positive share price reaction, with Jeronimo Martins and Dino Polska being up c.7% and 15%, respectively, over the past month.

On the other hand, Żabka has underperformed its two peers, its share price being down c.5% since its Initial Public Offering. Despite showing a better Like-for-Like growth than its peers, as well as a stable margin, we view those results as somewhat disappointing, with the group Like-for-Like growth coming at 6% in 3Q23, materially below the group guidance of a Like-for-Like growth of 7.5-9.0% in FY24.

Over the first 9 months of 2024, Żabka outperformed other physical grocery formats on both price and volume while improving its physical grocery market share from 6.7% in December 2020 to 10.3% in September 2024 (as per Nielsen data).

Biedronka: Continues to invest heavily in prices

Event: Jeronimo Martins 3Q24 results

Conclusion: Biedronka's owner Jeronimo Martins (listed in Lisbon) published a somewhat better than anticipated 3Q24 results in our view for its Polish subsidiary, which accounts for the majority of its sales and Adj. EBITDA. The sales of the leading Food Retailer in the Polish market stood at €5.9bn, an increase of 7.8% YoY and Like-for-Like growth standing at -1.9%, a miss of 110bp to Visible Alpha Consensus.

Its EBITDA stood at €465m, a decline of 3.3% YoY and in line with Visible Alpha consensus. Despite Jeronimo Martins' caution in 1H24, indicating potential additional margin pressure in 2H24F; we note that Biedronka's EBITDA margin was down c.100bp YoY, a pressure similar to the one the group had experienced in 1H24 on heightened price competition and cost pressure related to employee expenses.

Fig 97 Biedronka: 3Q24 results vs. 3Q23, 2Q24 and consensus (€m)

Y/E Dec.	3Q24	3Q23	%YoY change	Consensus	% Diff vs consensus	2Q24	%QoQ change
Net sales	5,921	5,494	7.8	5,977	-0.9	5,788	2.3
LfL growth (%)	-1.9	12.8	-1,470bp	-0.8	-110bp	-4.6	270bp
EBITDA	465	481	-3.3	465	0.0	434	7.1
Margin (%)	7.9	8.8	-90bp	7.8	10bp	7.5	40bp

Source: Jeronimo Martins 2Q24 results, Visible Alpha consensus

This, combined with a material increase in employee wages, put pressure on the margin, which dropped by 90bp in 3Q24. However, this represents a 40bp improvement compared to the group margin in 2Q24, while Like-for-Like growth was also 270bp higher than in 2Q24.

Despite a decline in sales, Biedronka flagged that it continues to gain market share in Poland, thanks to continued volume growth and the continued opening of new stores in the country. Jeronimo Martins flags that consumer demand remains sluggish, with price being the critical factor for Polish customers in their view.

Highlights:

- Jeronimo Martins, the owner of Polish market leader Biedronka, published its 3Q24 results on 31 October 2024. Its share price has increased by c.5% since this release.
- **Net sales stood at €5,921m**, an increase of 7.8% YoY and a miss of 0.8% to Visible Alpha consensus. On a Like-for-Like basis, sales declined by 1.9% in 2Q24.
- **EBITDA stood at €465m**, a decrease of 3.3% YoY and in line with Visible Alpha consensus. This implies a margin decline of 900bp YoY, mainly driven by a continued increase in employee expenses while the top line was negatively impacted by food deflation.
- **Outlook 2H24:** Management expects to continue to invest in prices to maintain its lead in the Polish market and grow in volume terms. This is expected to continue to put pressure on margins.

Dino Polska: Rebounding after a weak 2Q24

Event: Dino Polska 3Q24 results

Conclusion: Dino Polska published encouraging 3Q24 results on 07 November 2024, showing sales of PLN7.6bn, an increase of 10.6% YoY and a miss of 2.4% to Visible Alpha consensus, while EBITDA stood at PLN673m, an increase of 3.5% YoY and a miss of 3.2% to Visible Alpha consensus. Net profit stood at PLN438m, an increase of 3.3% YoY and a miss of 1.4% to consensus. On a QoQ basis, sales increased by 5%, while EBITDA was 29% better than in 2Q24 despite a soft month of September due to the poor weather in the country.

In its conference call, Dino Polska's CFO also flagged that it expects continued gross margin improvement, which should be supportive for EBITDA growth in 2025F. Management still expects to grow Like-for-Like by a single digit in 4Q24F.

Since this release, Dino's share price has gone up by c.11%.

Fig 98 Dino Polska: 3Q24 results vs 3Q23, 2Q24 and consensus (PLNm)

Y/E Dec.	2Q24	2Q23	%YoY change	Consensus	% Diff vs consensus	1Q24	%QoQ change
Sales	7,607	6,875	10.6	7,792	-2.4	7,243	5.0
LfL growth (%)	2.3	16.3	-1,400bp	5.5	-320bp	1.8	50bp
EBITDA	673	650	3.5	678	-0.7	521	29.2
Margin (%)	8.8	9.5	-60bp	8.7	10bp	7.2	160bp
Net profit	438	424	3.3	444	-1.4	348	25.9

Source: Dino Polska 2Q24 results, Visible Alpha Consensus

Highlights:

- Dino Polska published its 3Q24 results on 07 November. Its share price has gone up by c.17% since this release.
- **Net sales stood at PLN7,607m**, an increase of 10.6% YoY and a miss of 2.4% to Visible Alpha consensus. On a Like-for-Like basis, sales increased by 2.3% in 3Q24.
- **EBITDA stood at PLN673m**, an increase of 3.5% YoY and a miss of 0.7% to Visible Alpha consensus. This implies a margin decline of 60bp YoY, despite the group gross margin being up 45bp. This pressure was mainly driven by a sharp increase in employment costs.

Żabka: Subdued LfL growth for its first reporting

Event: Żabka 3Q24 results

Conclusion: Żabka published a rather disappointing 3Q24 results in our view, showing Sales to End Customers of PLN7.5bn, an increase of 17% YoY while its Adj. EBITDA stood at PLN1.1bn, an increase of 18% YoY. The group's top line growth was driven by the continued opening of new stores, with the store count increasing by 10.1% YoY, but the group Like-for-Like growth stood at 6%, a clear deceleration compared to 1H24 at 10.3%. Żabka guides toward a Like-for-Like growth of 7.5-9.0% for FY24F.

In 3Q24, the physical grocery market in Poland has grown by 5.4% as per Nielsen, with volumes going up by 1.8%. In its release, Żabka flags that its Like-for-Like growth was driven by a balanced mix on price and volume. Furthermore, in its conference call, Żabka flagged that it did not see a material discrepancy in terms of performance in September compared to July and August.

We note that Żabka has shown a deceleration in Like-for-Like growth in 3Q24 compared to 2Q24, while both Biedronka and Dino Polska have shown an improvement, leading to Żabka posting a Like-for-Like growth for the quarter below its 7.5-9.0% guidance for FY24. On top of this, we note that the New Growth Engines division presented a negative EBITDA of €29m over 3Q24 (€42m loss over 9M24), while the company has guided that this division would be break-even at EBITDA level over 2024F.

Margin at EBITDA level was flat compared to 2Q23, although we flag that Żabka is not directly impacted by increasing employment costs. We would expect this to be reflected in the margin it offers to its franchisees in the short term, however. Management expects 4Q24F Adj. EBITDA margin to be at least in line with 4Q23 level at 14.3%. The release also shows the seasonality of Żabka's business model, with a third quarter materially stronger than the first two.

Fig 99 Żabka: 3Q24 results vs 3Q23 and 2Q24 (PLNm)

Y/E Dec.	2Q24	2Q23	YoY change	1Q24	QoQ change
Sales to End Customers	7,499	6,410	17.0	7,126	5.2
LfL growth (%)	6.0	12.7	-670bp	9.1	-310bp
IFRS revenue	6,578	5,594	17.6	6,133	7.3
Gross profit	1,345	1,118	20.3	1,109	21.3
Margin on IFRS revenue (%)	20.4	20.0	40bp	18.1	240bp
Adj. EBITDA	1,119	950	17.8	880	27.1
Margin on IFRS revenue (%)	17.0	17.0	0bp	14.4	270bp
Number of stores (u)	10,906	9,907	10.1	10,640	2.5

Source: Company data

Żabka's share price is down c.13% since the publication of those results, and c.14% since its IPO.

Highlights:

- **Sales to End Customers stood at PLN7,499m**, an increase of 17% YoY. On a Like-for-Like basis, sales increased by 6.0% in 3Q24, or c.310bp lower than in 2Q24.
- **Gross profit stood at PLN1,345m**, an increase of 20.3% YoY, which implies a margin increase of 40bp on IFRS revenue.
- **Adj. EBITDA stood at PLN1,119m**, an increase of 20.3% YoY, with margin being flat on IFRS revenue. Compared to 2Q24, the group Adj. EBITDA grew by 27%, showing the seasonality of its business model.
- **Net debt** (including leases, excluding reverse factoring) **stood at PLN8,201m**, implying a leverage ratio of 2.4x NFD/LTM Adj. EBITDA.
- **10,906 stores at the end of September 2024**, of which 25 were located in Romania.

- **FY24 outlook:** Żabka expects to generate Like-for-Like sales growth of 7.5-9.0%.

Fig 100 Żabka: 9M24 results vs 9M23 (PLNm)

Y/E Dec	9M24	9M23	%YoY change
Sales to End Customers	20,392	16,942	20.4
<i>LfL growth (%)</i>	<i>8.6</i>	<i>10.8</i>	<i>-220bp</i>
Gross profit	3,174	2,502	26.8
<i>Margin on Sales to End Customers (%)</i>	<i>15.6</i>	<i>14.8</i>	<i>80bp</i>
Adj. EBITDA	2,517	1,998	26.0
<i>Margin on Sales to End Customers (%)</i>	<i>12.3</i>	<i>11.8</i>	<i>60bp</i>

Source: Company data

Guidance and forecasts

Company guidance

Żabka has provided the following financial guidance:

- **Sales to End Customers to double by 2028F** through: (1) the opening of more than 1,000 stores per annum in Poland and Romania; (2) a mid-to-high single digit Like-for-Like growth over the medium term; and (3) a five-fold increase in Digital Customer Offering's sales by 2028. FY24 LfL is expected between 7.5% and 9.0%.
- **Adj. EBITDA margin is expected to gradually improve, reaching the top end of the target range of 12-13%** on Sales to End Customers, versus 12.4% in 2023. Żabka expects a gradual improvement in margins in the near- and medium terms, supported by its Digital Customer Offering expected to be positive at Adj. EBITDA level as of 2024.
- **Rent payment** (related to IFRS16 leases) **expected to modestly decrease as a percentage of Sales to End Customers** in the medium term, thanks to an increased store performance and unit economics.
- **Net income margin at 2.5-3.0% in 2024 and at c.4.5% in the medium term.** This improvement is expected to be mainly driven by a refinancing of the company's debt structure, with the company having non-deductible debt facilities under Polish law. Żabka expects a tax rate of c.25% in 2024, following its successful listing, and targets an effective tax rate of c.20% in the medium term.

Fig 101 Żabka Group guidance

Sales to End Customers¹	<ul style="list-style-type: none"> • Aims to achieve double current level of Sales to End Customers¹ by 2028 through a combination of new store openings, LfL growth and contribution from Digital Customer Offering • Store Count: Aims to open c.1,100 stores in 2024 and 1,000+ stores pa in the medium term in Poland and Romania. Aims to reduce store closures to c.0.5% of store base pa in the medium-term • LfL Growth: Aims to deliver high single-digit growth in 2024 and mid-to-high single digit LfL growth in the medium term • Digital Customer Offering³: Aims to grow Sales to End Customers¹ by 5x by 2028 and achieve positive Adj. EBITDA in 2024
Profitability	<ul style="list-style-type: none"> • Adj. EBITDA Margin²: Is expected to gradually improve reaching the top end of the target range of 12-13% on Sales to End Customers target range in the medium term. • Rent: Anticipates a modest improvement as a percentage of Sales to End Customers¹ in the medium term from increased store performance and unit economics • Interest: Żabka has agreed in principle a c.100bp re-pricing across the facilities with the majority of the syndicate. Margin on financial debt expected to improve as Żabka intends to reprice its existing capital structure subsequent to the IPO • Effective Tax Rate: The 2024 tax rate is guided at 25%. Anticipates a meaningful improvement in effective tax rate in the near term as non-deductible debt facilities repaid. In the medium term, expects a gradual improvement to c.20% effective tax rate
Cash Flow and Balance Sheet	<ul style="list-style-type: none"> • New Store Capex: Anticipates approximately PLN470k of Capex per New Store over the near term and expects increase with inflation over the medium term • Other Growth Capex⁴: Between 1.5% and 2.5% of Sales to End Customers¹ in the medium term, with near-term at higher end of the range due to planned store upgrades, trending to 1.5% in the medium term. • Maintenance Capex: is anticipated to be relatively stable as a percentage of sales to end customers in the near-term, and trending to c.1% in the medium term.¹ • Change in Net Working Capital: Anticipates continued positive cash flow impact as the company grows; although reflecting increased investment in suppliers in the medium term • Leverage: All else being equal, Żabka anticipates Net Debt (excluding leases)/EBITDA (post rent) to be <1x in the medium term • Dividend Policy: Immediate focus will remain on growth; however, the Board will continually review capital allocation policy vis à vis growth ambition and shareholder returns
Other	<ul style="list-style-type: none"> • Stock Based Compensation (LTIP): Anticipates c.2% dilution in share count overall between 2026 and 2028 assuming delivery of guidance, with the majority of dilution expected in 2028⁵

1. Sales to End Customers represents Żabka Sales to End Customers and sales of Maczfit, Dietly and Q-Comm and does not represent the company's reported revenue. DRIM Daniel financials are not consolidated in 2023 (sales of PLN573m and EBITDA of PLN22m in 2023); 2. Adjusted EBITDA excludes EBITDA pre Rent and margins calculated based on Sales to End Customers; 3. Includes Nano stores; 4. Includes Remodelling and Retrofit Capex and Other Growth Capex; 5 Excluding one-off IPO grants to franchisees representing c.0.3% dilution in 2025. LTIP expense is non-cash and will not be included in Adj. EBITDA and Adj. Net Income.

Source: Company information

- **A continued inflow stemming from the group Change in Net Working Capital**, although some decline in payables' outstanding days is to be expected.
- **Capex per new store to amount to PLN470,000 in 2024F**, and growing with inflation going forwards. We model that this would imply the company would spend **c.PLN517m in new store capex over 2024F**.
- **Other growth capex to amount to 1.5-2.5% of Sales to End Customers**, with the near term remaining at the higher end of the provided range due to planned store upgrades. Based on ING computation, it would imply a total other growth capex budget of **c.PLN700m over 2024F**.
- **Maintenance capex to remain stable around 1.3% of Sales to End Customers**.
- Despite all the investments, Żabka expects its **leverage ratio to be below 1.0x NFD/Adj. EBITDA over the medium term**. This is to be computed with the group net debt excluding IFRS16 lease liabilities, while the Adj. EBITDA should be adjusted for rent payments.
- **Żabka does not expect to pay a dividend at the time of writing**, with the group's Board of Directors expected to regularly review the group capital allocation policy.
- **The group's Long-Term Incentive Plan** is expected to lead to a **c.2% dilution over 2026-28F**, the bulk of it materialising in 2028F. At the time of the IPO, a **one-off grant to franchisees of c.0.3%** has been guided for, which should impact the group number of shares outstanding as of 2025F.

Balance sheet

Fig 102 Żabka: Balance sheet key items, 2021-28F (PLNm)

As at end-Dec	2021	2022	2023	2024F	2025F	2026F	2027F	2028F
Total assets	11,680	13,296	15,571	17,546	19,547	21,686	24,213	27,128
Non-current Assets	9,351	10,530	11,812	13,106	14,252	15,249	16,229	17,188
Goodwill	3,387	3,387	3,387	3,624	3,624	3,624	3,624	3,624
O/w related to CVC acquisition	3,166	3,166	3,166	3,166	3,166	3,166	3,166	3,166
Other Intangible assets	737	873	1,010	1,010	1,010	1,010	1,010	1,010
Tangible Assets (incl. right-of-use)	5,186	6,169	7,120	8,177	9,323	10,320	11,301	12,260
Total current assets	2,328	2,766	3,758	4,440	5,295	6,437	7,984	9,939
Inventories	425	596	775	825	1,001	1,130	1,271	1,423
Trade Receivables	1,263	1,663	2,079	2,358	2,705	3,055	3,435	3,847
Cash and cash equivalents	483	281	649	1,002	1,334	1,997	3,023	4,414
Total Equity and Liabilities	11,680	13,296	15,571	17,546	19,547	21,686	24,213	27,128
Equity	217	575	898	1,644	2,519	3,633	5,194	7,186
Shareholders' equity	217	575	898	1,543	2,409	3,512	5,057	7,029
Non-controlling interests	0	0	0	101	110	121	137	157
Liabilities	11,463	12,721	14,673	15,902	17,028	18,053	19,019	19,942
<i>Non-current liabilities</i>	<i>6,516</i>	<i>6,625</i>	<i>8,550</i>	<i>9,049</i>	<i>9,495</i>	<i>9,900</i>	<i>10,255</i>	<i>10,551</i>
LT Loans	3,698	3,393	5,045	5,045	5,045	5,045	5,045	5,045
Leases	2,565	3,031	3,368	3,868	4,313	4,718	5,073	5,369
Deferred tax liabilities	148	95	108	108	108	108	108	108
<i>Current liabilities</i>	<i>4,946</i>	<i>6,097</i>	<i>6,123</i>	<i>6,852</i>	<i>7,533</i>	<i>8,153</i>	<i>8,764</i>	<i>9,391</i>
ST Loans	343	482	173	173	173	173	173	173
Lease Liabilities	496	568	644	644	644	644	644	644
Trade payables	3,754	4,478	4,742	5,593	6,274	6,894	7,505	8,132
O/w Reverse Factoring	2,259	2,429	2,444	2,796	3,137	3,447	3,752	4,066
Refund liabilities	155	226	279	279	279	279	279	279
Working Capital Needs¹	(2,067)	(2,219)	(1,888)	-2,409	-2,567	-2,708	-2,799	-2,861
As a percentage of IFRS revenue (%)	-16.5	-13.9	-9.5	-10.2	-9.5	-8.9	-8.1	-7.4
Net Financial Debts (incl. leases)	6,620	7,193	8,582	8,729	8,842	8,584	7,913	6,817
NFD/Adj. EBITDA (incl. IFRS16 leases) (x)	3.3	3.0	3.0	2.5	2.3	1.9	1.6	1.2
NFD/Adj. EBITDA (post-rent) (x)	2.5	2.1	2.3	1.7	1.4	1.0	0.6	0.2
NFD (incl. Reverse Factoring)	8,879	9,622	11,026	11,525	11,979	12,031	11,665	10,883
NFD (incl. Reverse Factoring)/Adj. EBITDA (incl. IFRS16) (x)	4.5	4.0	3.9	3.3	3.1	2.7	2.3	1.9

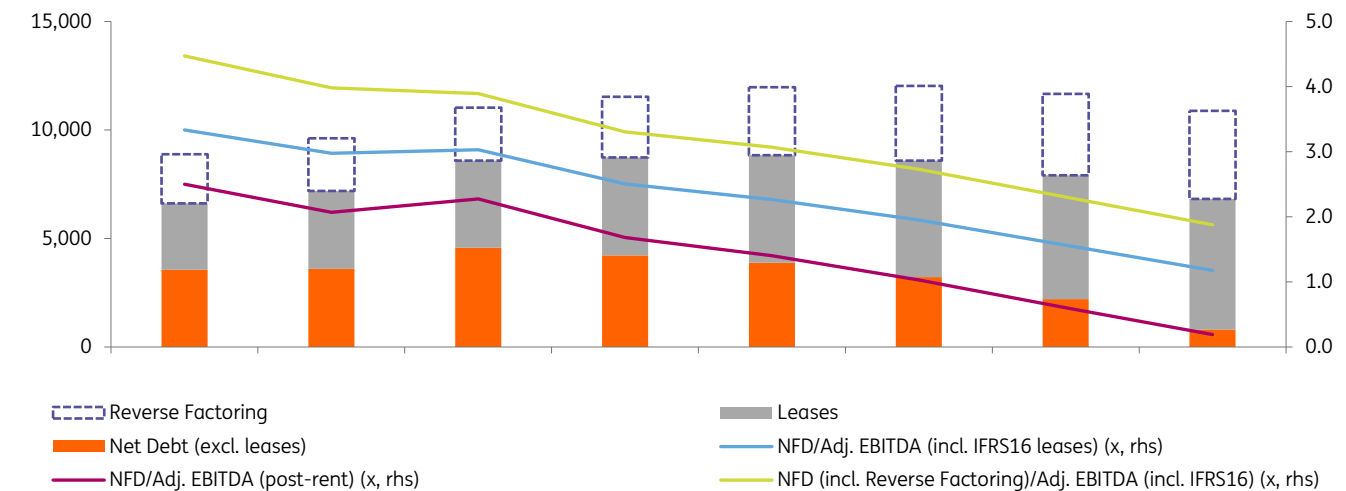
¹ Working capital needs computed as "Inventories + Receivables - Payables"

Source: Company data, ING estimates

Self-help and debt refinancing to help deleverage Żabka's balance sheet swiftly

Żabka expects to deleverage its balance sheet rather quickly. Historically, we note that the group's leverage ratio remained relatively stable above 2.0x NFD/Adj. EBITDA (excluding leases, post-rent) with the company investing heavily in growth capex with: (1) the roll-out of new stores and the required distribution centres to support future growth; (2) the acquisition and investments in the group's digital offering (ie Maczfit, Dietly); and (3) the refurbishment of stores to accommodate its Żabka Café 2.0.

Fig 103 Żabka: Net debt evolution, 2021-28F (PLNm)



We expect the leverage ratio to improve materially with the group leverage ratio dropping to 0.2x NFD/Adj. EBITDA (excluding leases, post-rent) by year-end 2028F, thanks to: (1) a lower capital intensity as a percentage of sales, with Żabka expecting to open a roughly similar number of new stores than historically, despite having grown materially; (2) a continued working capital inflow, despite this ratio degrading as a percentage of sales; and (3) a lower financial and tax burden thanks to the refinancing of non-deductible debt instruments under Polish law.

We adjust this net debt computation to include the group's reverse factoring facility, with Żabka's classifying those expenses as financial ones. Including this, Żabka's leverage ratio stood at 3.9x NFD/Adj. EBITDA (including IFRS16) at the end of 2023.

By 2028F, we expect it to be around 1.9x. thanks to the improvement in Adj. EBITDA as well as a PLN2bn decrease in Net Financial Debt, which we expect to be driven mainly by a decline in bank loans going forwards, with the weight of leases and reverse factoring in the mix set to continue to increase.

Fig 104 Żabka: Financial instruments outstanding as at 31/12/2023

Lender	Type	Currency	Amount (PLNm)	Interest	Maturity date	Comment
Syndicate of banks	Bank loans	PLN	3,939	WIBOR + margin	2029	c.70% to be paid in one go in 2029F
	Bank loans	EUR	797	EURIBOR + margin	2029	c.30% to be paid in semi-annual instalments as of June 2024
Bank	Bank loans	PLN	118	WIBOR + margin	2027	To be paid in semi-annual instalments
	Bank loans	PLN	310	WIBOR + margin	2029	To be paid in semi-annual instalments as of June 2024
	Bank loans	EUR	33	EURIBOR + margin	2029	To be paid in semi-annual instalments as of June 2024
Financing entity	Non-bank borrowing	PLN	22	WIBOR + 1m margin	2028	To be paid in monthly instalments
Various lessors	Leases	PLN	4,013	n/m	n/m	10-year contract on average for store leasing
n/m	Reverse Factoring	PLN	2,444	n/m	n/m	

Source: FY23 audited financial statements

Żabka's bank loans with the syndicate of banks and the lone bank have the same covenants attached to those, with Żabka flagging that all financial covenants were fulfilled at the end of FY23. These covenants force Żabka to have:

- A leverage ratio that should not exceed 4.0x NFD/Adj. EBITDA from June 2024 to March 2027 and 3.75x from March to June 2027,
- An interest cover ratio that should not be below 1.5x in a respect of an undisclosed relevant period.

As per the group's financial statement, Żabka provided security to those lenders, namely: registered and financial pledges over bank accounts, registered pledges over the group's assets and the group shares, and registered pledges under Polish law over intangible assets (ie the Żabka trademark). Żabka expects to refinance its debt structure, and only share pledges are expected to remain.

Capex as a percentage of sales expected to continue to decrease over 2023-28F

Fig 105 Żabka: Capex evolution, 2021-28F (PLNm)

Y/E Dec	2021	2022	2023	2024F	2025F	2026F	2027F	2028F
Total Capex	1,089	1,432	1,351	1,557	1,702	1,727	1,901	2,089
% of Sales end customers	7.5	7.7	5.9	5.7	5.4	4.8	4.7	4.6
O/w Maintenance Capex	180	261	306	354	408	463	523	589
% of Sales end customers	1.2	1.4	1.3	1.3	1.3	1.3	1.3	1.3
O/w Growth Capex	909	1,171	1,045	1,202	1,294	1,264	1,378	1,500
% Sales to End Customers	6.3	6.3	4.6	4.4	4.1	3.5	3.4	3.3
New Store Capex	336	484	529	517	488	505	521	537
Remodelling & Retrofit Capex	13	27	42	86	179	47	52	57
Other Growth Capex*	560	660	474	599	628	712	805	906
Capex ex. Property fund	944	1,325	1,232	1,556	1,573	1,601	1,764	1,939
As a % of total gross capex	86.7	92.5	91.2	99.9	92.4	92.7	92.8	92.8
Property Fund outflow (inflow)	145	(161)	119	1	129	126	138	150

*Includes mainly new distribution centres expenses, capex in the Digital Customer Offering (Maczfit, Lite, Dietly, Nano, Property Fund), costs activation before store openings, store concept development projects (e.g. Lotto, Parcels) and IT-related projects.

Source: Company data, ING estimates

Żabka expects to continue to open new stores in the medium term, with the company having shared a clear growth plan out to 2028F for both Poland and Romania. This growth plans aims to fill the whitespace the company has identified in Poland, as well as to start to break into another geography.

We model absolute total capex level to increase from PLN1.4bn in 2023 to PLN2.1bn by 2028F. This, however, implies that capex as a percentage of Sales to End Customers would drop from 5.9% to 4.6%, compared to an average of 7.1% over 2021-23.

This decrease will be driven mainly by a decline in growth capex as a percentage of Sales to End Customers, moving down from 4.6% in 2023 to 3.3% by 2028F despite the continued roll-out of new stores in Poland and Romania. This decrease will be driven by a lower increase in new stores Year-on-Year on a relative level, with the company expecting to continue to add c.1,000 stores per annum, although we expect the capex per new store to continue to increase in this inflationary environment.

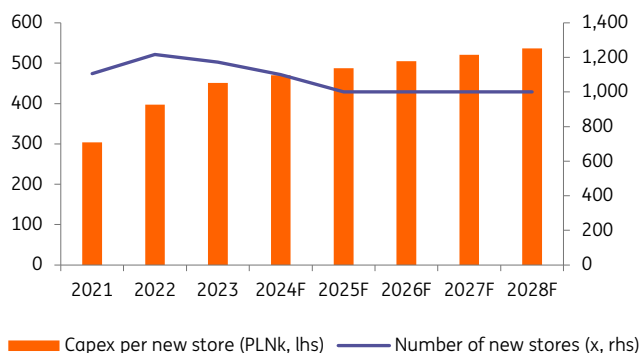
On the other hand, we expect remodelling and retrofit capex to increase in 2024-25F, driven by the roll-out of Żabka Café 2.0 in the group's existing store portfolio. As of 2026F, we expect this capex spending to decrease materially, with Żabka's whole estate being equipped with this new feature.

A Żabka Café 2.0 costs, on a standalone basis, c.PLN50,000 per store, with ING modelling that Żabka will have to remodel c.7,500 stores over the next two years to reach its ambition to have its entire estate equipped with this feature by end 2025F. The

company has, however, flagged that some expenditures related to this roll-out had already been invested through the 'other growth capex' line in the recent past, and we therefore expect a limited c.PLN30,000 remodelling capex per store over 2024-25F.

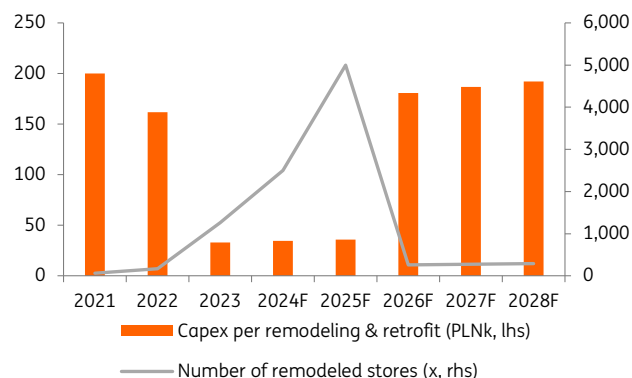
Once this roll-out is over, we expect the group's remodelling & retrofit capex per store to be back at a normalised level of c.PLN180,000 per store. This number includes the full refurbishment of a given store, which we assume would cost roughly a third compared to building a new one.

Fig 106 Żabka: Capex per new store, 2021-28F (PLN000)



Source: Company data, ING estimates

Fig 107 Żabka: capex per remodelled store, 2021-28F (PLN000)



Source: Company data, ING estimates

Lastly, we expect maintenance capex to remain stable at c.1.3% of Sales to End Customers over 2024-28F, in line with the disclosed historical average.

Żabka operates its own property development fund for sale and lease back purposes

One of the key differences in Żabka's business model compared to traditional Food Retailers is related to its operation as a property developer for stores distribution centres and production facilities through a property fund. This fund, owned by Żabka Group, is responsible for building those projects, which are then sold to financial investors and leased-back by Żabka.

One of the key projects of this property fund was the building of the group's new automated distribution centre. This was completed in 2022, with the property fund booking a capital inflow of PLN161m, following the sale and lease back of a distribution centre in Malopole (Poland) to Furmint (part of Macquarie CEE). We understand from company comments that it was the last sizeable project in the property fund, which is now mainly focused on building and refurbishing sites for potential new stores. Going forwards, we model that 10% of the group's total growth capex will be spent through its Property Fund, in line with the historical average over 2021-23.

Furthermore, Żabka flags that all its stores are leased, with more than 90% of those contracts lasting for 10 years. Similarly to the lease of its distribution centres, those lease payments are linked to a Consumer Price Index. Żabka flags that it is the responsibility of the landlord to request this change in fee. Furthermore, Żabka proactively renegotiates those lease contracts, with c.600 renegotiated in 2023 alone.

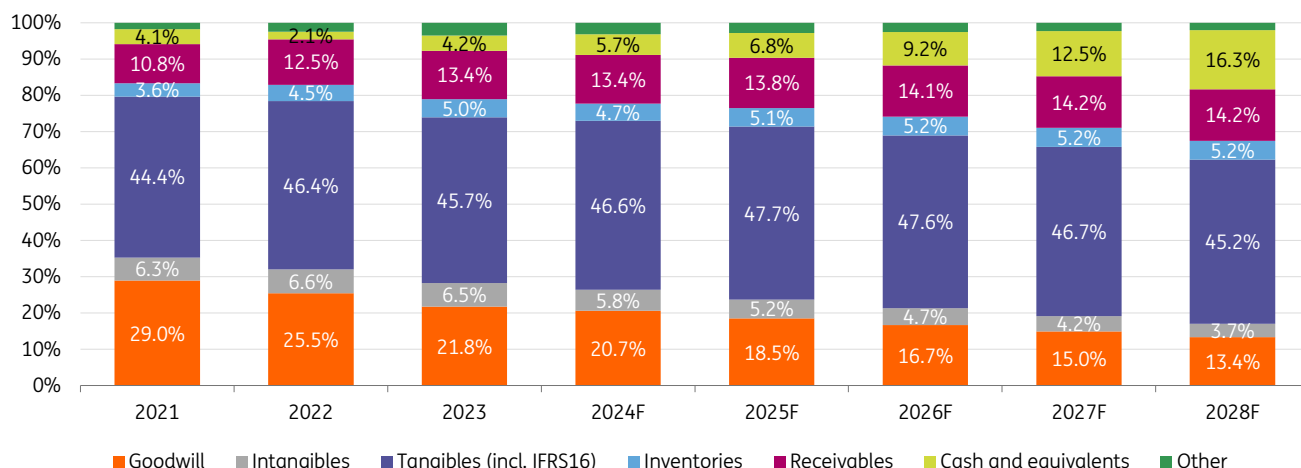
As Żabka owns the lease, it can replace the franchisee of a given store if the company believes this store is underperforming.

Strong Return on Capital Employed... despite CVC acquisition-related goodwill

We flag Żabka's Return on Capital Employed is heavily impacted by the structure of its balance sheet, with intangible assets (including goodwill) accounting for more than 25% of group total assets by end 2023. This is due to the legacy of CVC's ownership, with north of PLN3bn of goodwill being created when CVC acquired Żabka back in 2017.

We therefore do not consider that this goodwill is to be related with the group's business strategy, and therefore opt to exclude it from our Return on Capital Employed computation. We believe this provides a better view on the company's returns, while we flag that historical returns have been also impacted by the higher-than-usual capital intensity of the group over the past three fiscal years to develop its new distribution centre and prepare for the roll-out of its new feature, Żabka Café 2.0.

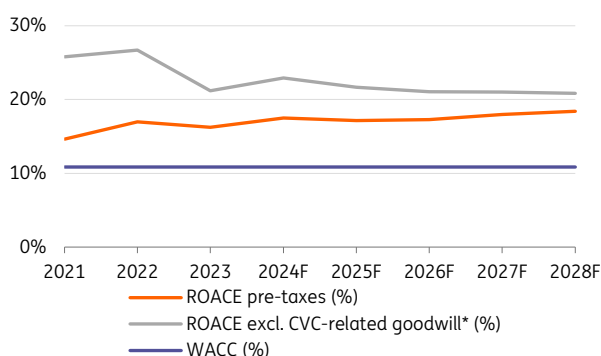
Fig 108 Żabka: Common size balance sheet, 2021-28F (%)



Source: Company data, ING estimates

Despite this adjustment, we note that Żabka's Return on Capital Employed (pre-taxes) has been rather strong at c.16% over 2021-23 (including CVC goodwill and not considering reverse factoring as a financial liability), in spite of the continued roll-out of its stores in Poland. We expect this to continue going forwards, with Żabka's improving operating margin thanks to operational leverage and better store economics. By 2028F, we assume its Return on Capital Employed to yield c.21% pre-taxes, materially above our weighted average cost of capital of 10.9% (excluding CVC goodwill and reverse factoring). At goodwill's book value, we estimate a potential ROCE of c.18% by year-end 2028F.

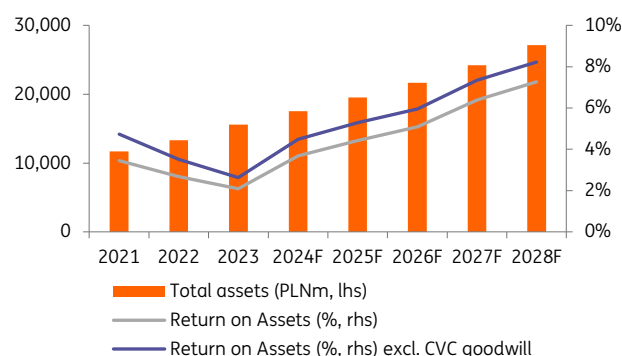
Fig 109 Żabka: Return on Capital Employed pre-taxes, 2021-28F (%)



Defined as Adj. EBIT divided by the sum of total equity and net financial debt. Reverse factoring not included as a financial liability. (FY23: PLN2.4bn)
*Adjusted for PLN3.1bn of goodwill related to the acquisition of Żabka by CVC in 2017.

Source: Company data, ING estimates

Fig 110 Żabka: Return on Assets, 2021-28F (%)



Defined as Net Income margin times Asset Turnover Ratio. Reverse factoring included in the computation of Asset Turnover Ratio.

Source: Company data, ING estimates

On the other hand, we expect the group's Return on Equity to decrease over 2024-28F, though remaining at a healthy level, in our view. The decrease would be solely driven by a decreasing equity multiplier following the deleveraging of the group balance sheet, while we model the group's Return on Assets to continue its expansion.

Fig 111 Żabka: DuPont analysis, 2021-28F (%)

Y/E Dec	2021	2022	2023	2024F	2025F	2026F	2027F	2028F
Return on Equity (%)	186	90	44	53	44	37	36	33
Net income margin (%)	3.2	2.2	1.6	2.7	3.2	3.6	4.5	5.1
Asset turnover Ratio* (x)	1.07	1.20	1.27	1.34	1.38	1.41	1.42	1.42
Return on Assets (%)	3.5	2.7	2.1	3.7	4.4	5.1	6.4	7.3
Equity multiplier** (x)	53.90	33.58	21.14	14.38	9.89	7.33	5.65	4.49

*Including goodwill related to the acquisition of Żabka by CVC in 2017.

**Total Assets divided by Żabka's average equity Y-1 and Y (except for 2021 as 2020 figure not available)

Source: Company data, ING estimates

Income statement

Fig 112 Żabka: Income statement key items, 2021-28F (PLNm)

Year to end-Dec	2021	2022	2023	2024F	2025F	2026F	2027F	2028F
Sales to End Customers – non-IFRS	14,498	18,530	22,775	27,235	31,379	35,623	40,259	45,313
% Growth		27.8	22.9	19.6	15.2	13.5	13.0	12.6
Franchisee margin	(2,208)	(2,897)	(3,679)	(4,450)	(5,240)	(6,104)	(7,069)	(8,142)
As a % of Sales to End Customers	15.2	15.6	16.2	16.3	16.7	17.1	17.6	18.0
Store Inventory Change	274	461	821	934	1,072	1,211	1,361	1,524
As a % of Sales to End Customers	-1.9	-2.5	-3.6	-3.4	-3.4	-3.4	-3.4	-3.4
Other** (Regional Sales, Sale of Services)	(71)	(90)	(111)	(136)	(157)	(178)	(201)	(227)
As a % of Sales to End Customers	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Revenue – Consolidated IFRS	12,493	16,003	19,806	23,583	27,054	30,552	34,350	38,468
% Growth		22.6	23.8	19.1	14.7	12.9	12.4	12.0
Cost of Sales	(10,120)	(13,014)	(16,273)	(19,191)	(22,096)	(24,939)	(27,907)	(31,105)
As a % of Sales to End Customers	69.8	70.2	71.5	70.5	70.4	70.0	69.3	68.6
Gross Profit	2,374	2,989	3,533	4,393	4,958	5,613	6,443	7,363
Gross margin (% of End Customers)	16.4	16.1	15.5	16.1	15.8	15.8	16.0	16.2
Marketing Costs	(134)	(212)	(225)	(288)	(342)	(402)	(472)	(552)
As a % of Sales to End Customers	0.9	1.1	1.0	1.1	1.1	1.1	1.2	1.2
SG&A	(222)	(317)	(329)	(390)	(413)	(461)	(511)	(563)
As a % of Sales to End Customers	1.5	1.7	1.4	1.4	1.3	1.3	1.3	1.2
Technology, Innovation, Development	(124)	(178)	(230)	(251)	(295)	(342)	(393)	(449)
As a % of Sales to End Customers	0.9	1.0	1.0	0.9	0.9	1.0	1.0	1.0
Other	(12)	52	(9)	(27)	(3)	(3)	(4)	(6)
As a % of Sales to End Customers	0.1	(0.3)	0.0	0.1	0.0	0.0	0.0	0.0
Reported EBITDA	1,882	2,335	2,740	3,437	3,905	4,405	5,063	5,795
Margin (% of End Customers)	13.0	12.6	12.0	12.6	12.4	12.4	12.6	12.8
Adjustments	105	84	94	50	0	0	0	0
Adjusted EBITDA	1,986	2,418	2,834	3,487	3,905	4,405	5,063	5,795
Margin (% of End Customers)	13.7	13.1	12.4	12.8	12.4	12.4	12.6	12.8
Depreciation & Amortisation	(915)	(1,115)	(1,359)	(1,604)	(1,840)	(2,078)	(2,336)	(2,616)
As a % of Sales to End Customers	6.3	6.0	6.0	5.9	5.9	5.8	5.8	5.8
EBIT	966	1,220	1,380	1,834	2,066	2,327	2,727	3,179
Margin (% of End Customers)	6.7	6.6	6.1	6.7	6.6	6.5	6.8	7.0
Net financial expenses	(317)	(671)	(870)	(965)	(937)	(908)	(764)	(689)
As a % of NFD (incl. Reverse Factoring)	3.6	7.0	7.9	8.4	7.8	7.5	6.5	6.3
Profit before tax	649	549	510	868	1,128	1,420	1,963	2,490
Income tax expense	(154)	(165)	(153)	(217)	(254)	(305)	(403)	(498)
% Tax Rate	23.7	30.1	30.1	25.0	22.5	21.5	20.5	20.0
Net Income	495	384	356	651	874	1,114	1,561	1,992
Net Income Margin (End Customers)	3.4	2.1	1.6	2.4	2.8	3.1	3.9	4.4
Minority interest	(8)	(1)	(3)	(7)	(9)	(11)	(16)	(20)
Net Income attr. Equity holders	487	382	354	645	866	1,103	1,545	1,972
Adj. for effects of preference shares	(84)	(26)	(28)	0				
Net Income attr. shareholders	403	356	326	645	866	1,103	1,545	1,972
Number of shares* (m)				1,000	1,003	1,008	1,013	1,021
Dividend paid	0	0	0	0	0	0	0	0
Payout ratio on Adj. Net Income (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

*Based on number of shares at IPO, including future dilution linked to the group LTIP

**Assumed as 0.5% of Sales to End Customers

Source: Company data, ING estimates

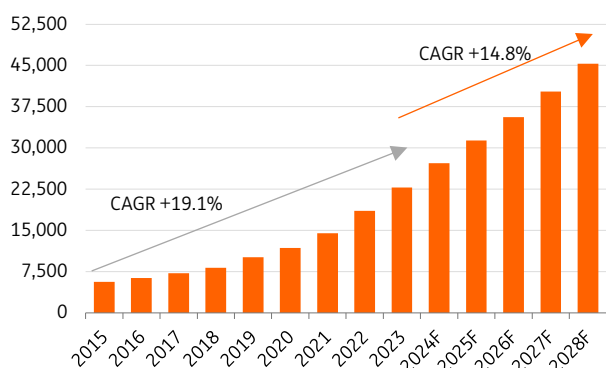
Sales to End Customers expected to grow by CAGR 14.8% over 2023-28F

Compared to traditional food retailers, Żabka reports its (non-IFRS) Sales to End Customers as a primary performance indicator given that the company does not operate retail stores on its own, with the exception of its autonomous Nano stores. Sales to End Customers can be computed by adding up the group (IFRS) revenue with the franchisee margin, adjusted for Store Inventory Change at franchisees' level.

We model Sales to End Customers to grow by CAGR 14.8% over 2023-28F, driven by the opening of thousands of new stores over the forecast period and the continued Like-for-Like growth of existing stores, while the planned acquisition of DRIM Daniel in 2024 (PLN573m sales in 2023) is also expected to accelerate top line growth over the short term.

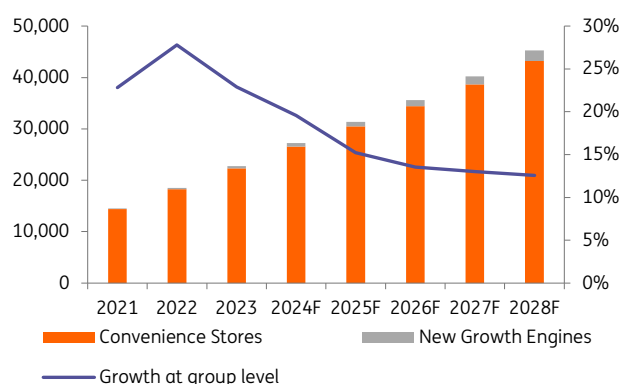
We do not expect any other material transactions to be closed in the foreseeable future, with Żabka's strategy revolving mainly around finding new franchisees to open stores organically. We expect this growth to be driven mainly by the continued roll-out of new stores, while Like-for-Like inflation and Volume/mix growth are also expected to contribute, although to a lesser extent. Management guides that a store generally reaches 90-95% of its sales potential in roughly 17 months.

Fig 113 Żabka: Sales to end customers, 2015-28F (PLNm)



Source: Company information, ING estimates

Fig 114 Żabka: Sales to end customers per division, 2021-28F (PLNm)



Source: Company information, ING estimates

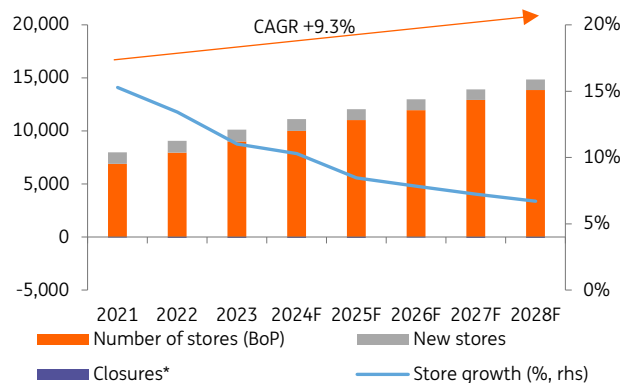
Of the more than 5,000 new stores expected to be opened by 2028F, we estimate that roughly 4,500 of them will be opened in Poland, the group's own market and which currently accounts for almost 100% of its Sales to End Customers.

Fig 115 Żabka: Sales to end customers per store (PLN000)



*Adjusted for the wholesale sales realized through DRIM Daniel in Romania
Source: Company data, ING estimates

Fig 116 Żabka: Number of stores evolution, 2021-28F (unit)

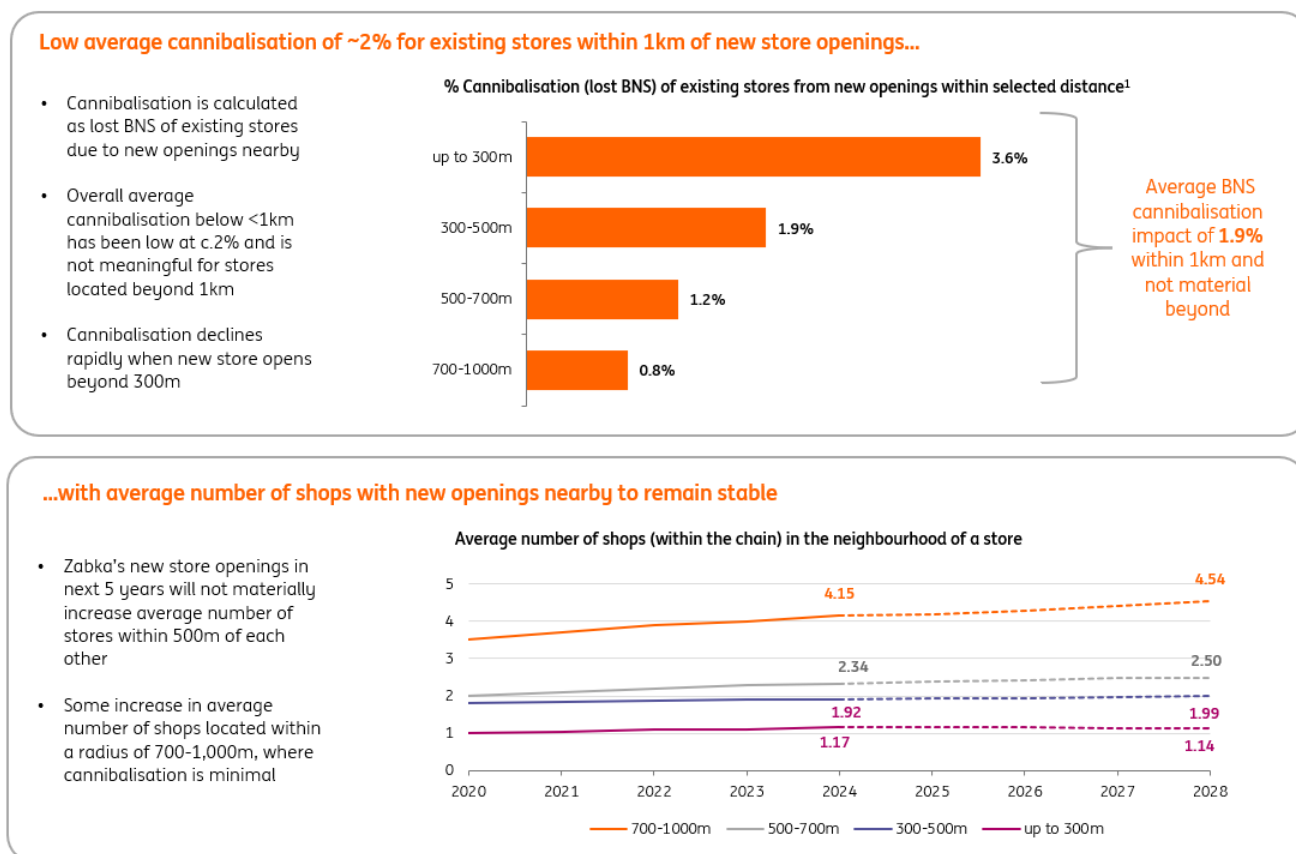


*We estimate that 0.5-0.7% of all Żabka stores are closed every year
Source: Company data, ING estimates

Opening 4,500 new stores in Poland would imply a more than 40% increase in the number of stores in the country. With Żabka currently holding a market share of only <5% (based on ING research), it could be argued that the risk of cannibalisation remains fairly limited for the time being. As a comparison, we estimate that Polish market leader Biedronka (owned by Jeronimo Martins, not covered by ING) holds a market share of c.22% in the country, with more than 3,500 much larger stores.

As per management guidance, cannibalisation has been historically a notch below 2.0% on average for stores that have opened at less than 1km away from another Żabka store. Furthermore, and as disclosed in Figure 117, the company does not anticipate seeing an increased concentration of stores within less than 500 metres of each other. We include potential cannibalisation of stores in both our New Stores Sales and our LfL Volume/mix forecast.

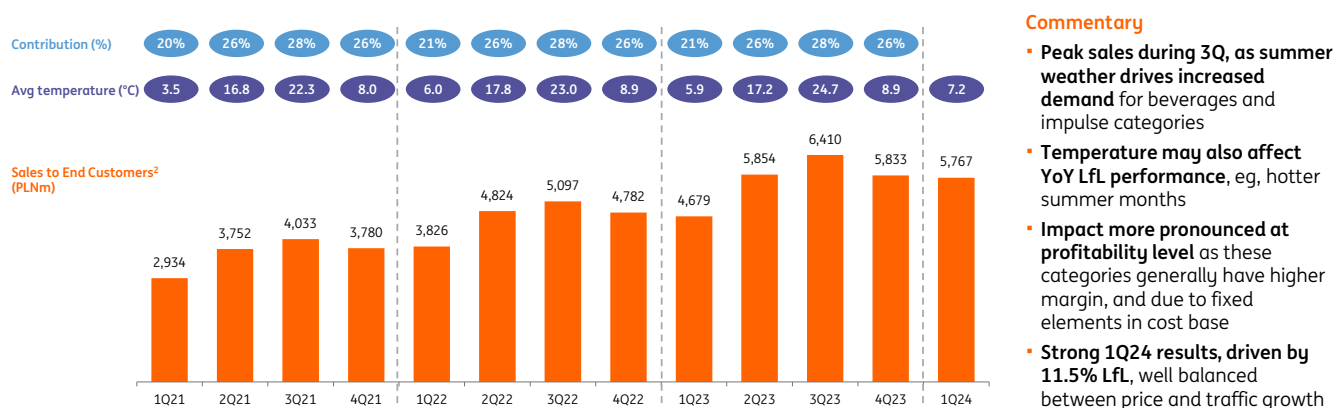
Fig 117 Cannibalisation level has historically been low



Note: 1. LTM Q1'24

Source: Żabka Analysis

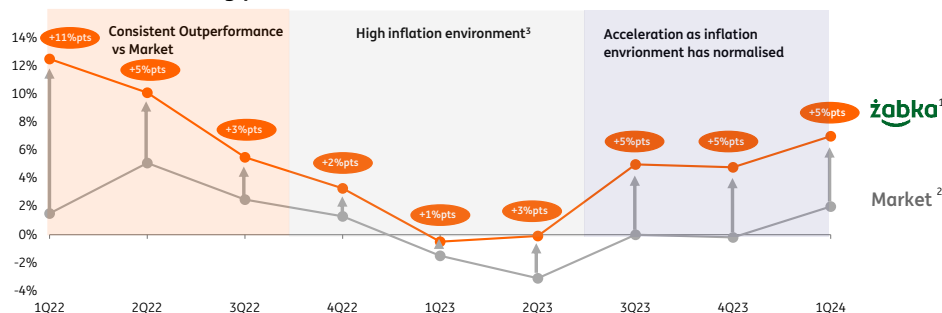
Żabka is exposed to seasonality due to low temperatures in Poland over the first and fourth quarter of its fiscal year. Furthermore, the average temperature over a given quarter has an impact on the group's top line performance, with warmer temperatures driving more sales of key categories, such as snacking and beverage.

Fig 118 Overview of Żabka's seasonality profile: Quarterly development in sales to end customers¹

Note: 1. Calculated as quarterly sales divided by avg. number of stores in that quarter; 2. Represents Żabka Sales to end customers excluding the sales of Maczfit, Dietly, and Q-Comm and does not represent company reported revenue

Source: Company information

On top of its seasonality pattern, we flag that Żabka is, in our view, more cyclical than traditional European Food Retailers given its exposure to: (1) impulse buying, with the snacking, beverages and spirits & tobacco categories accounting for a combined 67% of the group transactions in 2023; and (2) Quick Meal Solutions (QMS), which we view more as a Foodservice activity. QMS is therefore more exposed to economic cycles, with a lower addressable income in a given period having a direct impact on sales in our view.

Fig 119 Żabka LfL has consistently outperformed the market throughout the inflationary period with recent acceleration

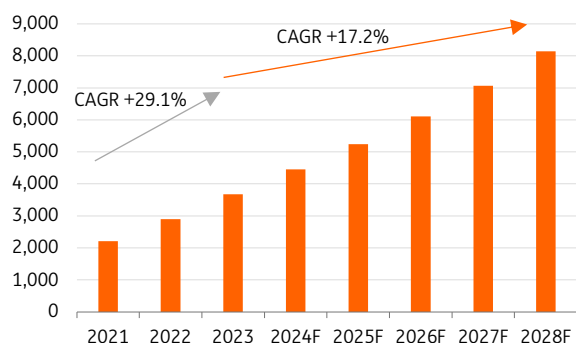
Note: 1. Adjusted for actual weighted price inflation data from Żabka shelf-inflation; 2. Market adjusted for category-weighted inflation rate; 3. Defined as period when food inflation was above 18%.

Source: Company Information

This is in line with data provided by the company during the analyst presentation, with Żabka's Like-for-Like sales growth being roughly 200bp higher than the market in a high inflation environment, versus being 570bp superior in a more normalised environment.

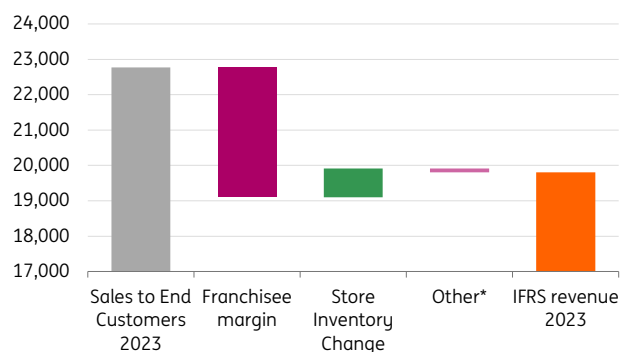
We expect franchisee margin to continue to grow faster than sales at CAGR 17.2%

Fig 120 Żabka: franchisee margin evolution, 2021-28F (PLNm)



Source: Company data, ING estimates

Fig 121 Żabka: Sales to End Customers to IFRS revenue bridge, 2023 (PLNm)



*Other includes Regional Sales, sale of Services and others

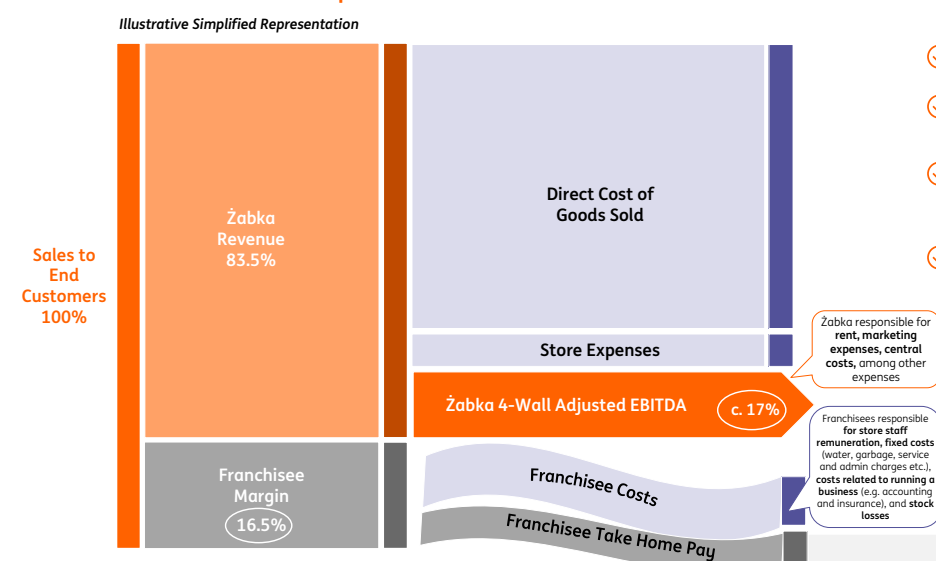
Source: Company data

Over 2021-23, the margin given to franchisees has seen a material increase of CAGR 29.1%, driven by: (1) a continued increase in the number of stores; and (2) an increase in franchisee margin per store of CAGR 13.5%. The key driver of this increase in franchisee margin per store has been the continued increase in Polish minimum wage, which has seen an increase of CAGR 11.6% over the same time span.

As per the company, the main component of the franchisee's compensation scheme is a margin dependent on the level of Sales to the End Customers. All franchisees have a similar contract with Żabka, regardless of the period of cooperation with the brand. Żabka provides its franchisee with a guaranteed minimum wage, with financial liabilities with every franchisee being settled at the end of each calendar month over the term of the agreement.

Fig 122 Illustrative franchisee compensation

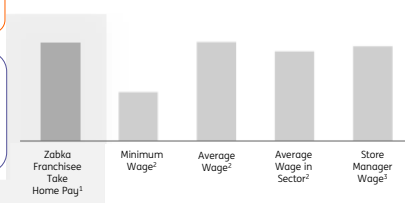
Illustrative Store Economics Split Between Żabka and the Franchisee



Franchisee Take Home Pay

- ✓ Franchisee take home pay designed to be attractive in context of Polish benchmarks
- ✓ Franchisee Margin has grown by +13.5% CAGR vs. +11.6% for Polish minimum wage between 2021 and 2023
- ✓ On-going in-store productivity program to boost franchisee profitability by reducing the need for in-store labour from c. 4 FTEs in 2023 to c. 3 FTEs in the medium-term
- ✓ Żabka continuously monitors franchisees take home pay to ensure it remains an attractive proposition

Selected Polish Market References



Note: 1. As of 2023; 2. Based on data from Poland Statistical Office; 3. Żabka estimate based on job postings for competitors.

Source: Company data

Under this agreement, Żabka grants price discounts to franchisee, which is dependent on the turnover made by this given franchisee. The franchisee also holds the right to return goods at full value if the agreement is terminated.

Given that Żabka does not operate any given stores, the burden of wage inflation has been shifted to the franchisee, who is on average responsible for 3-4 Full Time

Equivalents per store. On top of this, the franchisee margin is designed to cover for other fixed costs (utilities, administrative expenses, etc). After all this, the Żabka franchisee take home pay is broadly in line with the average wage in Poland, and slightly higher than the average wage in the Food Retail sector as per the company materials.

We expect the franchisee margin per store to continue to increase, with the Polish government approving a 7.6% increase in minimum wage to be implemented in 2025F. We expect the franchisee margin per store to continue to increase faster than the Polish minimum wage. Looking at key peer 7-Eleven, we understand that the franchisee margin is expected to amount to c.19% in FY24 for the United States and the International market (source: 7-Eleven Franchisee Website). We model Żabka's franchisee margin to trend towards that level over the medium term.

We therefore model IFRS revenue to grow at CAGR 14.2% over 2023-28F

Fig 123 Żabka: External sales evolution, 2021-28F (PLNm)

Y/E Dec.	2021	2022	2023	2024F	2025F	2026F	2027F	2028F
IFRS revenue	12,493	16,003	19,806	23,583	27,054	30,552	34,350	38,468
YoY growth (%)		28.1	23.8	19.1	14.7	12.9	12.4	12.0
Organic growth* (%)		27.7	23.8	16.7	14.3	12.9	12.4	12.0
O/w inflation* (%)	4.0	10.4	10.4	4.0	3.8	3.5	3.3	3.0
O/w volumes & mix* (%)		10.4	11.6	12.7	10.6	9.4	9.2	9.0
M&A growth* (%)		0.4	0.0	2.4	0.4	0.0	0.0	0.0
IFRS revenue Convenience Stores & Other	12,357	15,721	19,336	22,925	26,149	29,331	32,732	36,365
Growth (%)		27.2	23.0	18.6	14.1	12.2	11.6	11.1
O/w % New stores		10.4	11.6	9.2	7.2	6.5	5.9	5.3
O/w % Like-for-Like		17.0	10.8	7.5	6.8	6.0	6.0	6.0
IFRS revenue New Growth Engines	136	283	470	658	905	1,221	1,618	2,104
Growth (%)		107.2	66.2	40.0	37.5	35.0	32.5	30.0

*Based on ING estimates for the 2021-28F period. Volumes & mix include the opening of new stores in the Convenience Stores division.

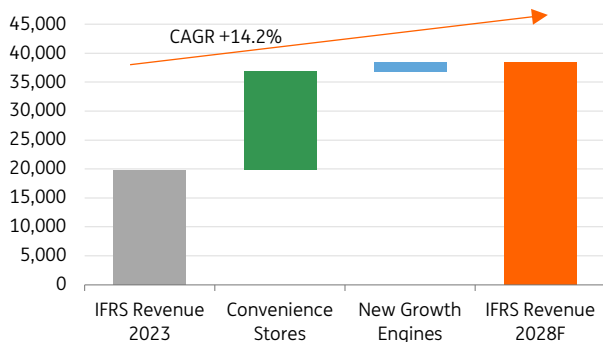
Source: Company information, ING estimates

Żabka's main sources of revenues include: (1) the fees billed to franchisees for the use of the Żabka brand; (2) the sale of goods to franchisees, which is recognised upon delivery; and (3) revenue generated by store space with equipment subleased to franchisees. These three revenue streams accounted for north of 97% of IFRS group revenue in 2023.

Divisionally, our IFRS revenue forecast can be broken down as follows:

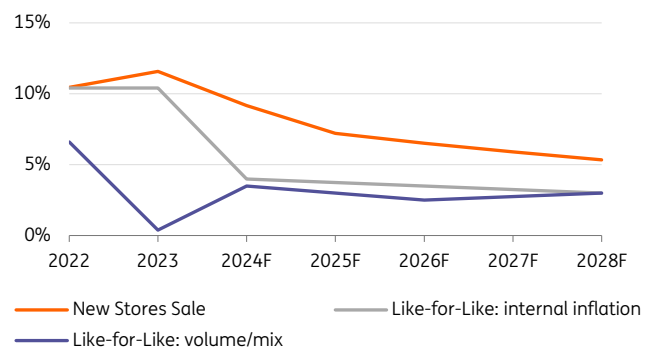
- 1) A 13.5% revenue CAGR for Żabka's Convenience Stores, thanks to the opening of roughly 4,500 new stores in Poland and an additional 500 new stores in Romania. By 2028F, we expect Convenience Stores to generate c.95% of the group sales.

Fig 124 Żabka: Sales bridge per division, 2023-28F (PLNm)



Source: Company data, ING estimates

Fig 125 Żabka: Key contributor to top line growth, 2022-28F (%)



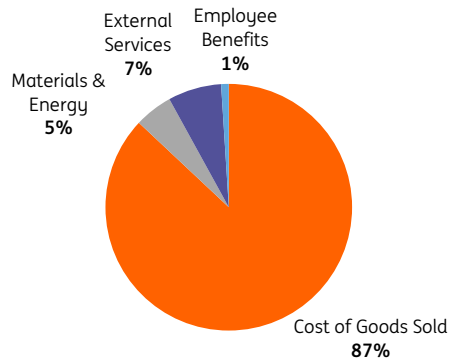
Source: Company data, ING estimates

- 2) A 35.0% sales CAGR for the New Growth Engines division, mainly driven by a strong performance of the group e-Commerce offering. Despite a materially higher sales CAGR than Convenience Stores, we believe this division will have a limited impact on the group's growth trajectory.

In 2023, almost all of Żabka's revenues were generated in Poland. By 2028F, we model that less than 5% of group sales will be generated outside of this country, with Romania accounting for most of the group's potential international sales.

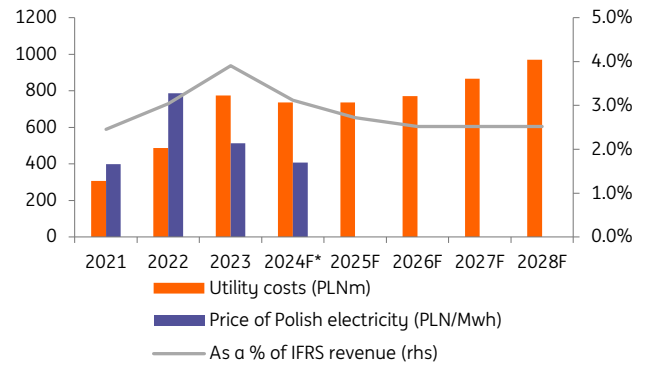
Operating profitability improvement to be driven by Żabka's cost of sales

Fig 126 Żabka: key components of cost of sales, 2023 (%)



Source: Company data

Fig 127 Żabka: utility costs evolution, 2021-28F

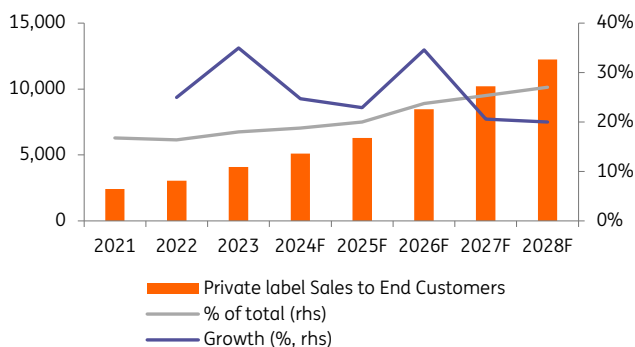


*Year-to-Date average for electricity price in Poland

Source: Company data, Bloomberg-Polish Power Exchange, ING estimates

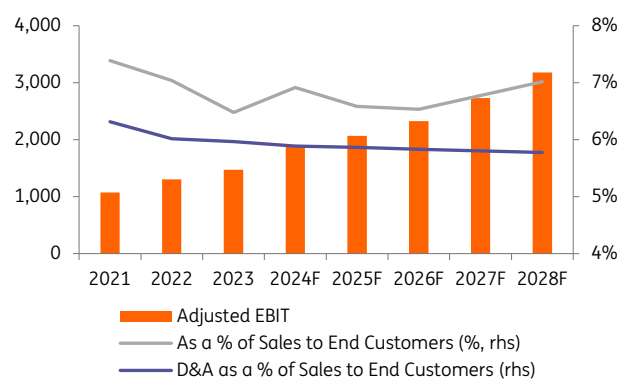
Looking at Żabka's income statement, we note that its cost of sales is by far the largest component to its cost structure, which is quite customary for a Food Retail company. On the other hand, we flag that the bulk of this number is composed of the group's cost of goods sold, with Żabka's employee benefit expenses being limited to overhead functions and its distribution centres (ie workers in store are consolidated by franchisees).

Fig 128 Żabka: private label Sales to End Customers, 2021-28F (PLNm)



Source: ING estimates

Fig 129 Żabka: Adj. EBIT evolution, 2021-28F (PLNm)



Source: Company data, ING estimates

Over 2021-23, Żabka's cost of goods sold accounted for 62.1% of Sales to End Customers, a level around we expect the company to stabilise over the next two fiscal years, with the roll-out of Żabka 2.0 ongoing. As per company guidance, all stores should be equipped with such a feature as of end of 2025F, which should benefit the group's gross margin in our view as 90% of the products sold through Żabka 2.0 are private labels.

Private labels/own brands currently account for 22% of in-store traffic²⁵, a level that Żabka targets to increase with a higher weight of its Quick Meal Solution in the mix. Over

²⁵ Company information

the last two years, Żabka flags that its own brands sales have increased by a 30% CAGR, although the exact number has not been disclosed. We estimate that private labels will account for c.27% of total sales by 2028F, versus c.18% in 2023.

We expect Żabka's Adj. EBIT margin to modestly improve over 2024-28F, reaching 7.0% of Sales to End Customers by 2028F, versus 6.5% in 2023 thanks to an improvement in cost of sales, partially offset by the increasing franchisee margin, as explained previously.

Material improvement in net income expected to be driven by debt restructuring

Fig 130 Żabka: composition of net interest expenses, 2021-28F (PLNm)

Y/E Dec.	2021	2022	2023	2024F	2025F	2026F	2027F	2028F
Net interest expense (income)	317	671	870	965	937	908	764	689
<i>As a % of NFD (incl. Reverse Factoring)</i>	3.6	7.0	7.9	8.4	7.8	7.5	6.5	6.3
Of which interest on Financial Debt	145	339	506	543	481	448	330	340
<i>Interest rate on Financial Debt (%)</i>	3.6	8.8	9.7	8.8	9.2	8.6	6.3	6.5
O/w interest on leases	143	177	247	258	291	322	348	372
<i>Interest rate on Leases (%)</i>	4.7	4.9	6.2	5.7	5.9	6.0	6.1	6.2
O/w interest rate on Reverse Factoring	72	137	192	192	192	192	192	192
<i>As a % of Reverse Factoring</i>	3.2	5.6	7.9	6.9	6.1	5.6	5.1	4.7
O/w other*	(44)	18	(75)	(27)	(27)	(55)	(110)	(220)

*Includes interest income, FX impact, non-interest cost related to bank loans and commissions, loss on derivatives and other items

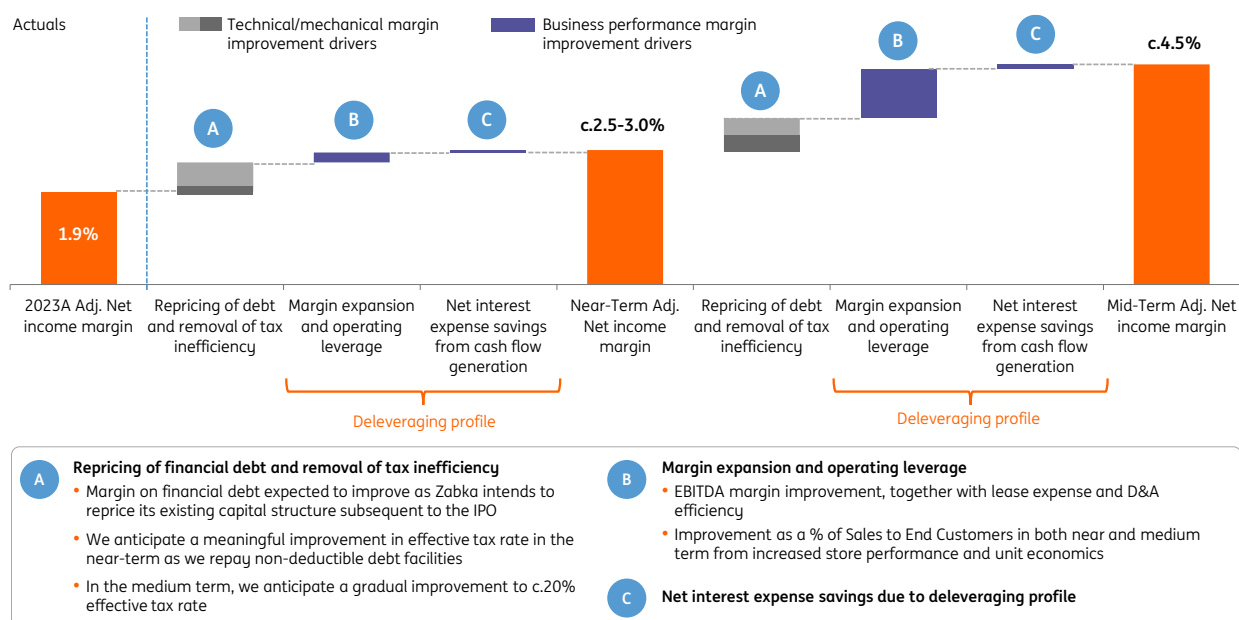
Source: Company data for 2023, ING estimates for all other years

We expect Żabka's financial result to improve materially over the forecast period, moving from a loss of PLN870m in 2023²⁶ to a loss of PLN689m in 2028F. We believe this will be driven by:

- 1) Żabka's financial debts have variable interest rates, with these instruments based mainly on the Warsaw Interbank Offer Rate (WIBOR) augmented by an undisclosed margin. Over 2021-23, the WIBOR 1 month increased materially, moving up from 0.46% on average in 2021 to 6.56% in 2023. This rate is declining steadily, amounting to 5.7% at the time of writing.
- 2) Żabka's expected deleveraging over the years to come, with the group's leverage ratio dropping from 3.9x NFD/Adj. EBITDA in 2023 to 1.9x by end of 2028F (including reverse factoring and IFRS16 leases, Adj. EBITDA pre-rent).
- 3) Flat reverse factoring expenses at the absolute level. Żabka's use of reverse factoring is a key element of its business model. The company reported PLN192m of financial cost related to this reverse factoring facility in its income statement in 2023, with the level expected to remain broadly stable going forwards with the increase in use of reverse factoring being offset by a decline interest rate on those instruments.

On top of this, Żabka's tax rate is also expected to improve thanks to this debt restructuring, with the company aiming to refinance c.PLN2.6bn of debt instruments that are not deductible under Polish law. We understand from the company that these instruments are related to: (1) acquisition debt at the time of the acquisition of Żabka by CVC; and (2) dividend payments through an upstream loan, which is expected to be paid back after listing.

²⁶ Source: Żabka company data FY23: PLN870m net financial result, derived from PLN1012m financial costs and PLN142 financial income

Fig 131 Significant improvement expected in near and medium term largely driven by lower interest and tax improvements

Note: Based on current estimates for WIBOR. Adj. Net Income excludes LTIP expense and is adjusted for one-off costs

Source: Company information, Bloomberg

This explains why the group's tax rate was more than 30% in fiscal years 2022 and 2023, despite the standard Corporate Income Tax rate in Poland being 19%. Assuming Żabka will list on a stock exchange, these debt instruments will be gradually refinanced and we therefore assume that the tax rate will go down to 25% in 2024F. Going forwards, we expect it to trend towards Poland's standard Corporate Income Tax rate. In Romania, the standard Corporate Income Tax rate is lower at 16%.

With these two effects combined, we model that the group's Adj. net income margin (on Sales to End Customers) will go up from 1.9% in 2023 to 4.4% by the end of 2028F, or an increase of c.250bp. We expect this to be driven mainly by the group's lower net financial expenses, with the group's lower income taxes and higher Adj. EBIT contributing by 66bp and 96bp, respectively.

Cash flow statement

Fig 132 Żabka: Cash flow statement key items, 2021-28F (PLNm)

Y/E Dec	2021	2022	2023	2024F	2025F	2026F	2027F	2028F
Profit before tax	649	549	510	868	1,128	1,420	1,963	2,490
Non cash and non-operating adj.	946	1,020	1,274	1,604	1,840	2,078	2,336	2,616
Net interest (income) / cost	280	678	902	965	937	908	764	689
Changes in WC	279	148	(198)	521	158	141	91	63
Income taxes paid - net	(84)	(200)	(308)	(217)	(254)	(305)	(403)	(498)
Operating cash flows	2,070	2,199	2,179	3,741	3,810	4,241	4,751	5,359
Purchase of non-current assets	(1,060)	(1,324)	(1,473)	(1,557)	(1,702)	(1,727)	(1,901)	(2,089)
Divestments of assets / disposals	34	340	8	119				
Acquisition of subsidiaries, net of cash	(287)	(4)	(2)	(142)				
Net impact of loans granted	(20)	(2)	(188)					
Other investments (term deposits)	0	(47)	47					
Interest received	0	6	34					
Other flows	0	1	0	(121)				
Investing cash flows	(1,333)	(1,030)	(1,575)	(1,700)	(1,702)	(1,727)	(1,901)	(2,089)
Repayments of lease liabilities (principal)	(470)	(557)	(639)	(723)	(838)	(943)	(1,060)	(1,190)
Repayments of lease liabilities (interest)	(143)	(178)	(247)	(258)	(291)	(322)	(349)	(373)
Changes in loans and borrowings	143	(167)	1,483					
Interest rate cap settlement	0	0	(19)					
Interest paid	(159)	(470)	(813)	(708)	(646)	(586)	(415)	(316)
Dividends paid on common shares								
Financing cash flows	(629)	(1,371)	(236)	(1,688)	(1,775)	(1,851)	(1,824)	(1,879)
Net change in cash & equivalent	107	(202)	368	352	332	663	1,026	1,391
Cash and cash equivalents at year-end	483	281	649	1,002	1,334	1,997	3,023	4,414
FCF to the Firm (ING definition*)	1,043	1,215	714	2,303	2,107	2,514	2,850	3,270
FCF conversion (%)	50.4	55.3	32.8	61.6	55.3	59.3	60.0	61.0
FCF to equity (ING definition**)	271	11	(985)	615	332	663	1,026	1,391

*Defined as Operating Cash Flows – Net Capital Expenditures.

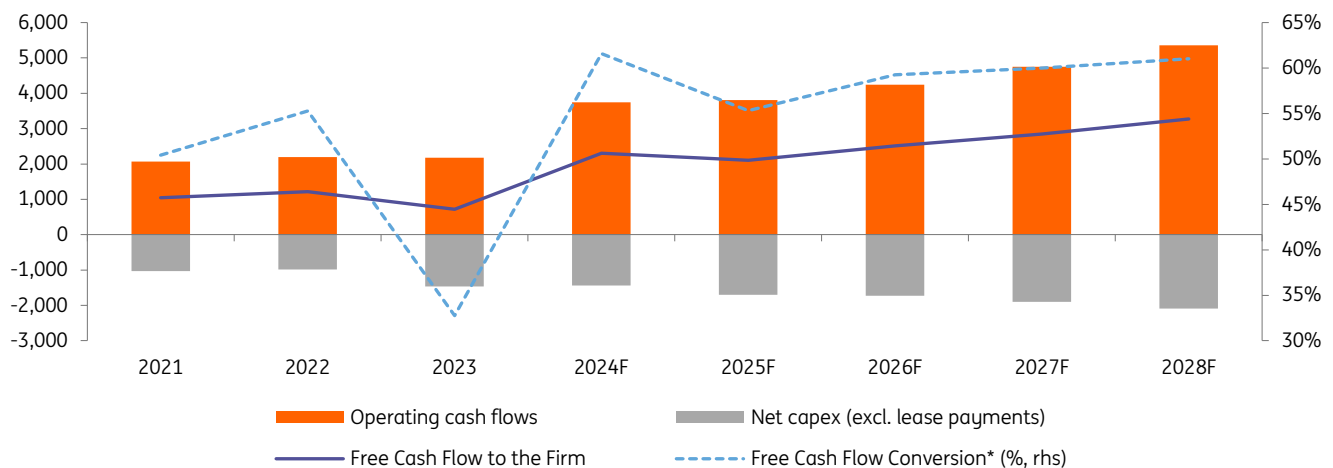
**Defined as FCF to the Firm – Interest paid – repayments of lease liabilities (principal + interest)

Source: Company data, ING estimates

Żabka can self-finance its expansion in Poland and Romania over 2024-28F

We expect Żabka to be able to generate positive Free Cash Flow to the Firm every fiscal year over the forecast 2024-28F period, thanks to the group's high operating cash flow and a positive inflow of working capital, although at a lower level than its historical average. We expect this to compensate for the group's continued investments in its store estate and its digital offering.

Fig 133 Żabka: Free Cash Flow to the Firm components, 2021-28F (PLNm)



*Defined as Free Cash Flow to the Firm divided by Operating cash flows

Source: Company data, ING estimates

We note that the company has been able to generate, on average, a Free Cash Flow to the Firm of roughly PLN1bn over 2021-23, despite a heightened capex level, although Żabka also benefitted from the sale and lease back operation of its distribution centre in 2022, with a divestment proceed of PLN340m.

On the other hand, Free Cash Flow generation in 2023 was below par for the group, due to a material Working Capital outflow due to a material decline in trade payable days in 2023. Żabka flags that this was related to its use of reverse factoring (see *Balance sheet* section), with the reverse factoring facility growing at a slower pace than its business. Going forwards, Żabka's management expects to continue to enjoy a negative Working Capital profile, although our model points to limited inflow over the medium term, as we expect trade payable days to continue to decline.

Fig 134 Żabka: Free Cash Flow to Enterprise Value (company definition), 2021-28F (PLNm)

Y/E Dec	2021	2022	2023	2024F	2025F	2026F	2027F	2028F
Adjusted EBITDA	1,986	2,418	2,834	3,487	3,905	4,405	5,063	5,795
Rent	563	681	825	980	1,130	1,265	1,409	1,563
As a % of Sales to End Customers	3.9	3.7	3.6	3.6	3.6	3.6	3.5	3.5
Adjusted EBITDA Post-Rent	1,423	1,737	2,009	2,507	2,776	3,140	3,654	4,231
As a % of Sales to End Customers	9.8	9.4	8.8	9.2	8.8	8.8	9.1	9.3
Total Capex	(1,089)	(1,164)	(1,351)	(1,557)	(1,702)	(1,727)	(1,901)	(2,089)
Changes in WCN and Provisions	279	148	(197)	521	158	141	91	63
FCF to EV (Company definition)	613	721	461	1,471	1,232	1,554	1,843	2,205
FCF Conversion (%)	43.1	41.5	23.0	58.7	44.4	49.5	50.4	52.1
Cash conversion with Maintenance Capex (%)	87.4	85.0	84.8	85.9	85.3	85.3	85.7	86.1

Source: Company data, ING estimates

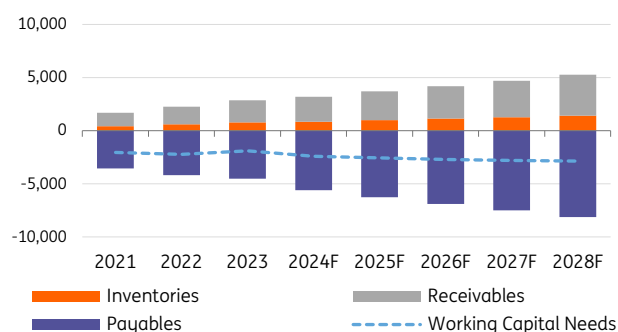
Over 2023-28F, we expect Żabka's Free Cash Flow to the Firm (Żabka definition) to grow by CAGR 37% to reach PLN2.2bn. Żabka adjusts its Free Cash Flow for its stores' rents, which we assume account for the vast majority of the group's lease payments.

Long payable terms allow for positive WCN inflow thanks to Reverse Factoring

Over 2021-23, Żabka has averaged a Working Capital Needs on Sales to End Customers of -11.5%, although this ratio strongly deteriorated in 2023 at -8.3%. This is mainly due to a drop in payables as a percentage of Sales to End Customers, moving down from 24.2% in 2022 to 20.8% in 2023 as the group's top line growth grew much faster than the group's reverse factoring facility, which allows Żabka to pay its payables much later than it should have, in exchange for a fee.

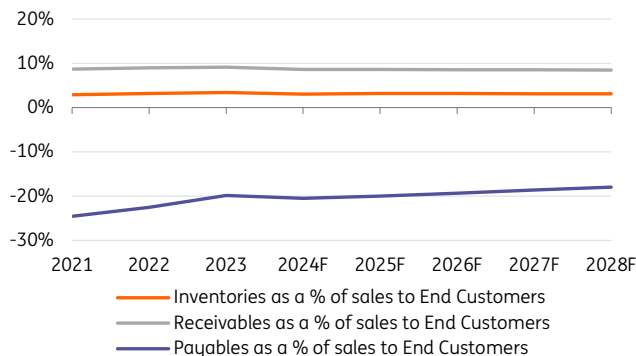
This allows Żabka to have a higher trade payables as a percentage of sales than peers like Ahold Delhaize (c.9% in 2023) and Dino Polska, who also uses such facilities (c.13%).

Fig 135 Żabka: Working Capital Needs* components, 2021-28F (PLNm)



*Working capital needs computed as "Inventories + Receivables - Payables"
Source: Company data, ING estimates

Fig 136 Żabka: Working Capital Needs* components as a % of Sales to End Customers, 2021-28F



*Working capital needs computed as "Inventories + Receivables-Payables"
Source: Company data, ING estimates

Another key element in Żabka's Working Capital structure is its relatively low inventory level for a Food Retailer, accounting for roughly 3% of the group's Sales to End Customers, while the group's Receivables are on the higher side at c.9% of Sales to End Customers. This is driven mainly by the way in which Żabka's business model works, with Żabka solely responsible for the stock it holds in its distribution centres. As soon as the goods are delivered to the franchisees, they are responsible for the management of this (and inventories are therefore not consolidated on Żabka's balance sheet).

On the other hand, the structure of Żabka's agreement with its franchisees allows them to pay for those goods only on the day after they have been sold. We therefore have a transfer of inventories to receivables, although we flag this should have a limited impact on Żabka's Working Capital profile as a whole. These two combined accounted for c.12% of the group's Sales to End Customers in 2023.

For comparison purposes, Dino Polska had a combined inventory and receivables as a percentage of sales of c.11% in 2023, while Ahold Delhaize stood at c.8%.

Fig 137 Żabka: Cash conversion cycle, 2021-28F (in days of Sales to End Customers)

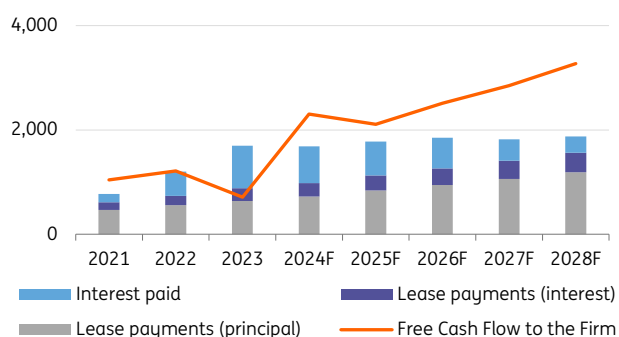
Y/E Dec	2021	2022	2023	2024F	2025F	2026F	2027F	2028F
Cash Conversion Cycle	(47)	(38)	(27)	(32)	(30)	(28)	(25)	(23)
<i>Change in Cash Conversion Cycle</i>		9	11	(6)	2	2	2	2
Payables	(90)	(83)	(72)	(75)	(73)	(71)	(68)	(65)
Receivables	32	33	33	32	31	31	31	31
Inventory	11	12	12	11	12	12	12	11

Source: Company data, ING estimates

Healthy FCF generation leaves room for cash return ... after debt refinancing

Żabka's management has flagged that it does not expect to pay a dividend in the short term, as the company aims to continue to focus on growing in its key country. On top of this, we understand from the group's financial statements that the covenants attached to its debt instruments constrain the amount of dividends the company can pay to its shareholders.

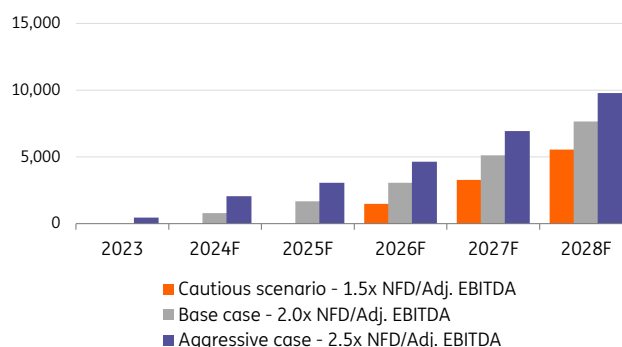
Fig 138 Żabka: Financial outflows versus FCF to the Firm*, 2021-28F (PLNm)



*FCF to the Firm computed as "Operating cash flows + Net capex (excl. lease payments)

Source: Company data, ING estimates

Fig 139 Żabka: Potential room on the balance sheet for cash return, 2023-28F



Source: Company data, ING estimates

We expect the group's FCF to the Firm to be well sufficient to cover for Żabka's financial needs over the forecast period, and we would therefore assume that Żabka's Board of Directors may opt for paying a dividend to shareholders once the debt instruments are repaid. Based on a 2.0x NFD/Adj. EBITDA by year-end 2028F (excluding IFRS16, post-rent), we believe that Żabka may be back up to c.PLN8bn to shareholders.

If the Board do not elect that optionality, we believe this war chest might be used to fund external growth, although we believe Poland leaves little room for external growth, while we would be cautious on aggressive transactions in other geographies.

ESG

The company has established three levels of ESG governance and operates these via four strategic ESG pillars and eight strategic commitments that have been translated into ten operational goals²⁷. Five different flagship initiatives related to ESG were taken in 2024.

Fig 140 ESG strategy pillars and commitments



Source: Company information

The core theme of the ESG initiatives revolves around sustainable living, for everyone, and every day. The initiatives are centred around the four pillars of a sustainable lifestyle, having a mindful business impact, operating as a trusted and responsible organisation and, lastly, the 'Green Planet' concept, under which the company attempts to minimise the environmental impact across the entire value chain.

- Pillar 1: Sustainable Lifestyle:** Significant progress has been made, with Żabka reducing food waste by 18% in 2023, versus a targeted 25% by 2026F. 60% of own brands sales promote a sustainable lifestyle.

Fig 141 Significant progress already made



1. Measured by the Gallup Institute engagement survey; 2. These initiatives resulted in highest level of franchisee satisfaction (fNPS) since tracking of these measurements.

Source: Company Information

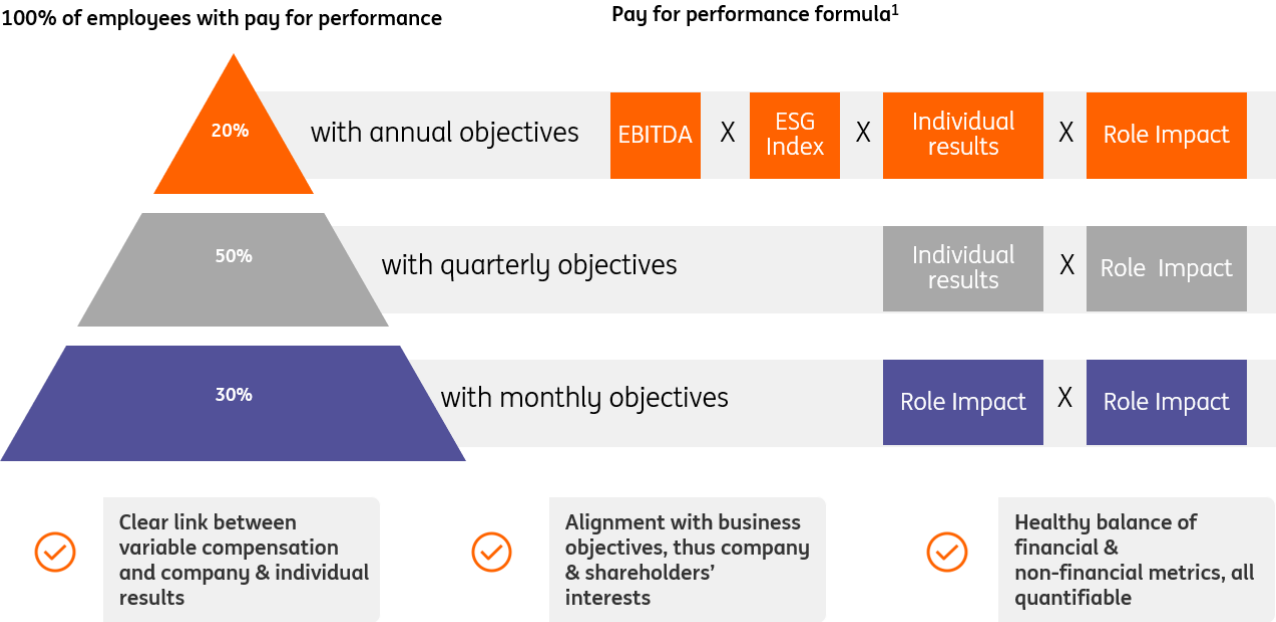
²⁷ Source: Żabka's sustainability report

- **Pilar 2: Mindful Business Impact:** Żabka aims to improve the satisfaction of its franchisees, which is rated via the franchisees' Net Promoter Score. It also aims to involve business partners in responsible purchasing.
- **Pilar 3: Responsible Organisation:** The focus is on being one of the best employers with a well engaged workforce. This has helped the company to attract and retain employees – as illustrated by the rise in headcount, average years of service, and the improvement in inclusivity and diversity. The Gallup Polls found that the company has employees that are five times more engaged than at the average Polish company, and the company is currently in the Top 26 of most engaging organisations globally.

The company follows a clear and transparent mechanism to remunerate employees with a defined pay-for-performance formula, which incorporates company performance as well as individual performance, aligning remuneration with business objectives and a balance of financial and non-financial quantifiable metrics.

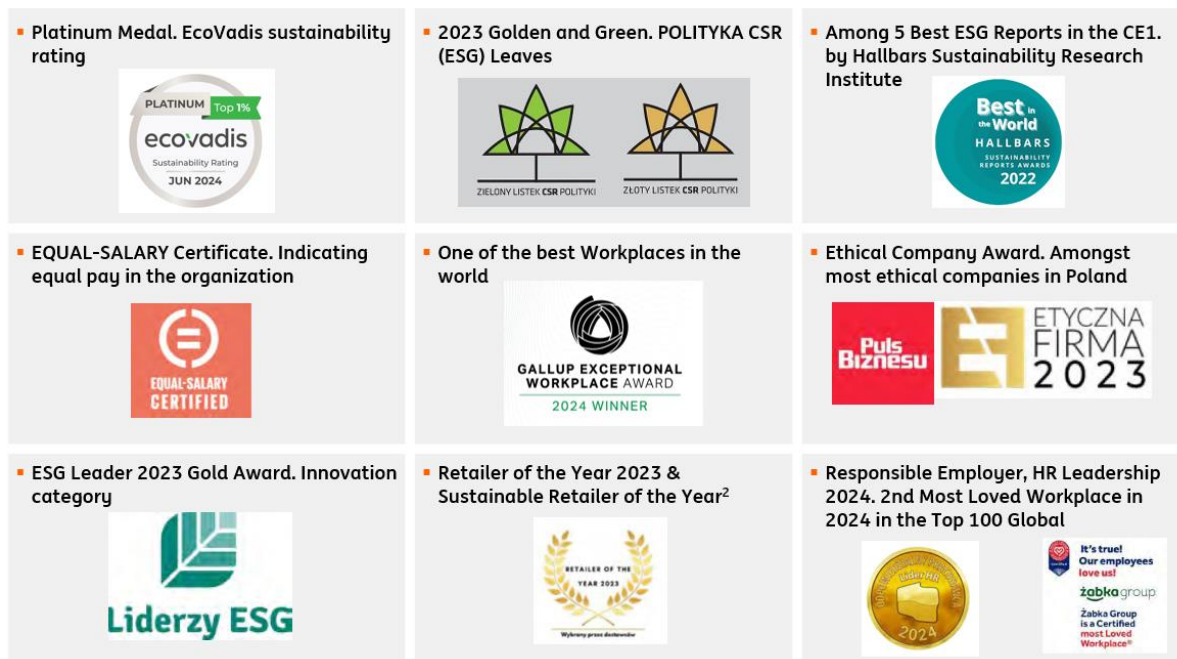
- **Pilar 4: Green Planet:** The company has exceeded its targets of environment impact management:
 - 1) Reducing virgin plastic in own brand packaging by 30% (versus a 25% target by 2026).
 - 2) Reducing total scope 1 and 2 greenhouse gas emissions by 29% (versus a 25% target by 2026).
 - 3) It has also brought down franchisee greenhouse gas emissions by 60% (versus a 70% target by 2026).

Fig 142 Pay for performance ethos: Well remunerated employees with clear incentives



1. Bonus payment subject to the completion of compulsory Compliance Training.
Source: Company information

Fig 143 Recognised by leading global experts



1. Central Europe; 2. Chosen by Suppliers in the category Small Format/Convenience Chain.

Source: Company Information

Financials

Year end Dec (PLNm)	2019	2020	2021	2022	2023	2024F	2025F	2026F
Income statement								
Revenues			12,493	16,003	19,806	23,583	27,054	30,552
Cost of goods sold			(10,120)	(13,014)	(16,273)	(19,191)	(22,096)	(24,939)
Gross profit			2,374	2,989	3,533	4,393	4,958	5,613
Operating costs			(492)	(655)	(793)	(955)	(1,053)	(1,208)
EBITDA			1,882	2,335	2,740	3,437	3,905	4,405
Depreciation & amortisation			(915)	(1,115)	(1,359)	(1,604)	(1,840)	(2,078)
Impairments			0	0	0	0	0	0
EBIT			966	1,220	1,380	1,834	2,066	2,327
Net interest			(317)	(671)	(870)	(965)	(937)	(908)
Associates			0	0	0	0	0	0
Other pre-tax items			0	0	0	0	0	0
Pre-tax profit			649	549	510	868	1,128	1,420
Tax			(154)	(165)	(153)	(217)	(254)	(305)
Minorities			(8)	(1)	(3)	(7)	(9)	(11)
Other post-tax items			(84)	(26)	(28)	0	0	0
Net profit			403	356	327	645	866	1,103
Normalised EBITDA			1,986	2,418	2,834	3,487	3,905	4,405
Normalised EBIT			1,071	1,304	1,475	1,884	2,066	2,327
Normalised net profit			488	424	404	705	866	1,103
Balance sheet								
Tangible fixed assets			5,186	6,169	7,120	8,177	9,323	10,320
Intangible fixed assets			4,124	4,261	4,397	4,634	4,634	4,634
Other non-current assets			41	101	295	295	295	295
Cash & equivalents			483	281	649	1,002	1,334	1,997
Other current assets			1,845	2,486	3,109	3,439	3,961	4,440
Total assets			11,680	13,296	15,571	17,546	19,547	21,686
Short-term debt			843	1,052	938	818	818	818
Other current liabilities			4,103	5,044	5,184	6,035	6,716	7,336
Long-term debt			6,363	6,525	8,413	8,913	9,358	9,763
Other long-term liabilities			154	100	136	136	136	136
Total liabilities			11,463	12,721	14,673	15,902	17,028	18,053
Total equity			217	575	898	1,644	2,519	3,633
Total liabilities & equity			11,680	13,296	15,571	17,546	19,547	21,686
Capital employed			7,422	8,152	10,250	11,375	12,694	14,214
Net working capital			(2,067)	(2,213)	(1,888)	(2,409)	(2,567)	(2,708)
Net debt (cash)			6,722	7,296	8,702	8,729	8,842	8,584
Cash flow								
Cash flow EBITDA			1,411	1,498	1,716	2,255	2,714	3,192
Change in working capital			280	265	(178)	521	158	141
Other non-cash items			463	635	950	1,182	1,191	1,213
Operating cash flow			2,154	2,399	2,488	3,958	4,064	4,546
Cash interest paid			(303)	(647)	(1,060)	(965)	(937)	(908)
Cash taxes paid			(84)	(200)	(308)	(217)	(254)	(305)
Net cash from operating activities			1,767	1,551	1,120	2,776	2,873	3,333
Capex			(1,060)	(1,324)	(1,473)	(1,557)	(1,702)	(1,727)
Net acquisitions			(288)	(4)	(2)	(142)	0	0
Other net investing cash flows			15	298	(100)	(2)	0	0
Cash from investing activities			(1,333)	(1,030)	(1,575)	(1,700)	(1,702)	(1,727)
Increase (decrease) in equity			0.3	0	0	0	0	0
Increase (decrease) in debt			143	(167)	1,483	0	0	0
Dividends & minority distribution			0	0	0	0	0	0
Other financing cash flow			(470)	(557)	(659)	(723)	(838)	(943)
Cash from financing activities			(327)	(724)	824	(723)	(838)	(943)
Forex & discontinued operations			0	0	0	0	0	0
Net change in cash & equivalents			107	(202)	368	352	332	663
FCF			1,043	1,215	714	2,303	2,107	2,514

Normalised earnings (eg, EBITDA, EBIT, net income and other sector-specific line items) are in the opinion of the analyst the best representation of a company's underlying and sustainable earnings derived from its regular operating activities.

Source: Company data, ING estimates

Valuation, ratios and metrics

Year end Dec	2019	2020	2021	2022	2023	2024F	2025F	2026F
Performance & returns								
Revenue growth (%)			n/a	28.1	23.8	19.1	14.7	12.9
Normalised EBITDA growth (%)			n/a	21.8	17.2	23.0	12.0	12.8
Normalised EBIT growth (%)			n/a	21.7	13.1	27.7	9.7	12.7
Normalised EPS growth (%)			n/a	-13.1	-4.9	74.6	22.5	26.8
Gross margin (%)	19.0			18.7	17.8	18.6	18.3	18.4
Normalised EBITDA margin (%)	15.9			15.1	14.3	14.8	14.4	14.4
Normalised EBIT margin (%)			8.6	8.1	7.4	8.0	7.6	7.6
Reported net margin (%)			3.2	2.2	1.6	2.7	3.2	3.6
Reported ROE (%)			n/a	90.0	44.3	52.8	43.8	37.3
Normalised ROA (%)			n/a	10.4	10.2	11.4	11.1	11.3
ROAIC (%)			n/a	12.9	11.5	14.8	14.9	14.9
ROACE (%)			n/a	16.7	16.0	17.4	17.2	17.3
ROACE - WACC (%)			n/a	5.9	5.2	6.6	6.3	6.4
Leverage & solvency								
Working capital as % of sales			-16.5	-13.8	-9.5	-10.2	-9.5	-8.9
Net debt (cash)/EBITDA (x)			3.6	3.1	3.2	2.5	2.3	1.9
Net debt (cash)/equity (%)			3,102	1,268	969.0	530.9	351.1	236.3
EBITDA net interest coverage (x)			5.9	3.5	3.1	3.6	4.2	4.9
Current ratio (x)			0.47	0.45	0.61	0.65	0.70	0.79
Dividend cover (cash flow) (x)			n/a	n/a	n/a	n/a	n/a	n/a
Valuation								
EV/revenue (x)			2.0	1.6	1.4	1.2	1.0	0.89
EV/normalised EBITDA (x)			12.7	10.7	9.6	7.8	7.0	6.2
EV/normalised EBIT (x)			23.6	19.8	18.4	14.5	13.3	11.7
EV/capital employed (x)			3.4	3.2	2.7	2.4	2.2	1.9
EV/invested capital (x)			3.3	3.1	2.6	2.4	2.1	1.9
Normalised PER (x)			37.9	43.6	45.8	26.3	21.4	16.9
Price/book (x)			85.4	32.2	20.6	12.0	7.7	5.3
Dividend yield (%)			0.0	0.0	0.0	0.0	0.0	0.0
FCF yield (%)			4.1	4.7	2.6	8.4	7.7	9.2
Per share data								
Reported EPS (PLN)			0.40	0.36	0.33	0.64	0.86	1.09
Normalised EPS (PLN)			0.49	0.42	0.40	0.70	0.86	1.09
Dividend per share (PLN)			0.00	0.00	0.00	0.00	0.00	0.00
Equity FCFPS (PLN)			0.74	0.57	(0.35)	1.34	1.17	1.59
BV/share (PLN)			0.22	0.58	0.90	1.54	2.41	3.50

Source: Company data, ING estimates

Company profile	Zabka is one of the leading Food Retailers in Poland, and a leader in the Convenience segment with more than 10,000 stores in the country. Zabka operates under a franchise model, with the Convenience Store activity being complemented by a diverse digital customer offering (prepared meals, autonomous stores, e-commerce, D2C marketplace). Zabka currently generates most of its sales in Poland but has started to open Convenience Stores in Romania following the acquisition of wholesaler DRIM. Zabka generated IFRS sales of PLN19.8bn in 2023 and the group Adj. EBITDA stood at PLN2.8bn.
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