



## COMPANY NEWS | EDITION 11

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### EPP POSTS IMPRESSIVE ANNUAL RESULTS

*CEO Hadley Dean talks about the recent results for the year ended December 2017:*

EPP's management continued to roll out a strong investment case in 2017. When we formed EPP in 2016, we intended to create a fund that investors who bought shares on the JSE and the LuxSE could buy into and be rewarded for their capital. Being a newly listed company we will continue investing in our people and properties which we expect will generate sustainable income and capital returns to our shareholders.

Operationally, the portfolio exceeded our expectations with footfall and retail sales growing by 4,6% and 7%, respectively for the year. While the positive macro-economic conditions have definitely benefited the performance of our centres, we believe our excellent asset and property management teams have really done an outstanding job at making our centres desirable and attractive places to shop and meet.

Financially, it's been a great year. Not only have we met our stated distribution guidance despite tax regulation changes but we concluded EUR 334 million in acquisitions during the year. In line with our long term strategy of becoming a purely retail focused fund we sold EUR 160 million worth of office assets towards the end of the year. The capital structure of our business also improved during the year with our LTV declining from 52,7% to 47,4% at the end of the year. The net asset value per share grew to EUR 1,32 which is a 16% increase from the previous year.

Looking ahead, our key focus areas in building wealth for our shareholders will be through the integration of all our acquisitions, asset management, capital structure and implementing our capital recycling strategy.

EPP 's share price increased by 21.81% in the last month.

**OMNICHANNEL - RETAIL OF THE FUTURE**



Source: <https://itelligencegroup.com/wp-content/usermedia/omni-channel-commerce-2.png>

Omnichannel is a multichannel approach to sales that seeks to provide a customer with a seamless shopping experience whether the customer is shopping online from a desktop or mobile device, by telephone or in a bricks and mortar store. **A study by Verdict and British Land (2015), concluded that click 'n' collect and store browsing boosted physical sales by +5%, with this rising to +9% when excluding food & grocery store sales. The boost to physical sales varies considerably by sector, e.g. sales of electricals are boosted by +32%, while health & beauty sales only see a +3% boost. This is one of the most popular omni-channels utilised by Polish consumers and one of the first types of omin-channel introduced by Polish retailers.**

With the catchment area of 40% of Poland's population EPP is ready to benefit from the growing click 'n' collect services in the local market.

This approach to sales is quickly gaining in popularity across Poland and numerous EPP tenants are using this multi platform approach to shopping. As an example **Empik**, a Polish chain selling books, international press and media products, including film, music, and software, recently won the prestigious *Omnichannel Retailer of the Year* award for 2017.

Last year Empik launched the new Future Store concept, the My Empik programme, a mobile application and a website ([empik.com](http://empik.com)) . These projects which are all operated by Empik, connect the company's offline and online stores and have been lauded by experts.

At the awards ceremony President of Empik, Ewa Szmidt-Belcarz said Empik was setting trends for omnichannel shopping in Poland. "Our initiatives have a real impact and influence on the shape of the retail not only in our country, but also in this part of Europe," she said.

The prize was awarded at the key shopping centre conference for retailers in central and eastern Europe - the V Shopping Center Forum in Warsaw.

Empik said that the openness to multi-channelling was a natural direction of the brand's development. For more than two years, Empik consistently implemented a strategy that focused on building ever-increasing synergy and integration of showrooms with an online channel. The company also announced the launch of next, just tested, offline and online solutions, including express booking and pickup.

Another standout user of omni-channel strategies is leading children's toys and clothes retailer **Smyk**. The company has developed a new online store and invested in the development of a network of stationery stores, both in Poland and abroad. Smyk owns the largest chain of specialist stores for children in Poland and is implementing a very successful omnichannel strategy. The group currently operates more than 215 stores in Poland, Russia, Ukraine and Romania, and in Germany, under the Spiele Max brand. In Poland, the network has about 125 stores.

More than 12% of Smyk's revenues are generated from online sales. In mid-2016, the network launched a new version of its online store which is based on the Magento platform. Thanks to the extensive filter system within Magento, buyers can easily familiarise themselves with a wide assortment of the store's products and quickly find the product they need. The e-store has also implemented a dynamic category mechanism.

The new website has been integrated with existing Smyk IT solutions such as the ESB data bus, the product description system or Master Data Management, the PIM (Product Information Management) system which seamlessly pushes updates to sales teams, distributors and partners, and the central customer base. Smyk is one of EPP's top 10 tenants by income and anchors the majority of the income-generating shopping centres.

## ENTERTAINMENT AND F&B - THE PULSE OF EPP'S RETAIL



EPP owns 18 shopping centres and some entertainment as well as food & beverage trends are evident throughout them.

Our shoppers have shown us over the past two years that entertainment is a major draw for them. Poles are starting to gain more and more wealth and enjoy spending their time and money on entertainment at our shopping centres. **“All of our shopping centres have some element of entertainment. Polish people are very excited about how entertainment has improved in the country over the past few years,”** says Czeslaw Jasiewicz, the head of retail operations at

### **EPP's property management team.**

Some EPP centres also include bowling alleys as well as children's entertainment offerings and gaming arcades. **'We always keep our centres top of mind for clients and we take care of building loyalty around them. Our centres have an established and often dominant position in their regions thanks to key factors including the right tenant mix positioned to cater to the needs of local community, effective local marketing and sales supporting activities.'**

'Our centres have something to offer for each of these groups. Families use the kids play areas and there are shops with an offering directed at children such as Smyk - the largest Polish retailer offering children products such as toys, clothing, shoes and accessories.'

EPP will be introducing new innovative kids play areas in the malls including interactive touch screens and other multimedia items including educational programmes or games. The first new kids play will be launched in Galeria Echo in Kielce. EPP will introduce this new concept in the 12 remaining projects during 2018.

Poles are also becoming more conscious about their health. There are gyms and healthy food offerings in a number of EPP's malls.

The entertainment offerings in our shopping centres are generating continued interest and visits to them are increasing. EPP's malls enjoyed 7% turnover growth on average last year. Poles also enjoy eating out at our malls be it at trendy dining restaurants or fast food restaurants. We have found that Poles may be attracted to international fast food brands like KFC and Burger King but some Polish brands are also gaining in popularity. 'Outdoor eating and entertainment has seen growth of approximately 9% in the past year, which includes cinema, fitness, green game arcades bowling and more.'

Following this trend EPP is focusing on extensions and refurbishments of the food courts in its shopping centres. Pasaż Grunwaldzki and Galaxy will be undergoing these improvements this year.

The share of food & beverage tenants is growing significantly. Traditionally food courts occupied only 5% of the area, today they are no longer just food courts, but carefully designed restaurant zones occupying 15-20% of GLA. As many as 60% of millennials prefer to eat dinner in a trendy restaurant than buy another pair of shoes. Nearly half of the customers choose a shopping centre not because of the shopping offering, which is similar everywhere, but rather an attractive food and beverage offering. They also spend more on shopping if they can eat well. Restaurant zones change not only in terms of design, but also in terms of food quality hence our focus to position our food courts towards food halls.

These diverse and demanding needs will be fulfilled by Galeria Młociny, in which EPP has a 70% stake. On the terrace there will be a green garden, closely connected with the restaurant zone. This will be a unique restaurant zone in Warsaw with no similar zones in any other shopping malls.

## **POLISH ECONOMY SHINES DESPITE POLITICAL NOISE**



While certain Polish politicians are vocal about being conservative, investment continues to filter into Poland, the largest economy in central and eastern Europe.

This is while the Polish government has changed some laws and the European Union (EU) has had to interpret these changes as well as changes to government policies.

Poland is currently led by the conservative party Law and Justice (PiS) which is headed by Jarosław Kaczyński. He has been in power since 2015. Some of the government's policies are unpopular with other European states but they are not anti-business.

Poland's economy expanded 4.6% in 2017, which was its fastest pace since 2011, driven by domestic demand and higher economic activity in the region and the EU, which contains Poland's main trade partners.

Investment and Development Minister Jerzy Kwiecinski has said that **a surge in Polish investment in the last quarter of 2017 was a sign of the economy being unaffected by the country's political dispute with the EU.** He added that the EU's largest eastern European economy expanded 5.1% in the last quarter of 2017, compared with the same period of 2016, the fastest growth in six years. The minister stated that investment grew 11.3% year on year in the same period as private companies joined public institutions in spending on EU projects..

**Economists are confident that Poland remains a strong investment decision to place money into Poland.** Business owners will continue to grow their businesses regardless of how politicians' actions may affect Poland's position in the EU and other international organisations. Development Minister Jerzy Kwiecinski says the biggest threat to Polish economic progress is rather a lack of workers than political activity. "The current pace of economic growth won't be sustainable without more sophisticated ways of managing our workforce, including immigrants and our own labour resources," Kwiecinski said.

The ongoing economic expansion in Poland is also projected to continue. **The National Bank of Poland has also recently increased its forecast for Poland's gross domestic product growth to 4.2% for 2018 from 3.6%, and to 3.8% for 2019 from 3.3%.** Private consumption should remain the main component of growth in domestic demand. In addition from 2018-2020 the role of investment in

economic growth will increase due to growing absorption of EU structural funds and a high level of capital utilisation. The low level of interest rates and the resulting low cost of credit will also have a favourable impact on domestic demand.

Sources: *Visegradinsight.eu, Euobserver.com, Reuters*



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