

Results 2Q23

August 11th, 2023



CENTRO VETERINÁRIO
seres



petix.
o melhor para seu pet

**CANSEI
DE SER
GATO**



Disclaimer

The statements contained in this document regarding outlooks for the business, forecasts of operations, financial results, and growth outlooks for Petz are mere projections. They are solely based on the expectations of management regarding the future of the business. These expectations substantially depend on market conditions, performance of Brazilian economy, the industry and international markets. Therefore expectations are subject to change without prior notice. All changes presented herein are calculated based on figures in thousands of reais, as well as rounded numbers.

This performance report includes accounting and non-accounting data, such as operational, pro-forma financial data, and forecasts based on management's expectations. Non-accounting data was not reviewed by the company's independent auditors.

2Q23 Results Video Conference Agenda

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1 Message from Management

Sergio Zimmerman | Founder and CEO

Key messages of 2Q23/1H23

Focus on productivity and operational improvements agenda



Control of expenses and investments

- More **cohesion** between teams;
- Recurring forums with the Company's main leaders
- Alignment via **short-term goals**;
- **Efficiency in store expansion and operation:** new formats, headcount optimization, rent renegotiation;



Improvement of Digital Petz profitability levels

- **Leader responsibility:** importance of leading initiatives in favor of greater rationality;
- Pilot initiatives since 4Q22, focused on reducing the **profitability gap vs. physical channel** (e.g. service fee);
- **Continuous tracking** of KPI's in order to **maintain our levels of competitiveness**;



Efficiency gains in working capital

- **More efficiency** in inventory levels and in flow of imports;
- **Gains in tax efficiency** with the new Hidrolândia-GO DC and **the reduction in the accumulation of tax credits**;



Capturing synergies with integrated companies

- Integration of back-office and systems in an **advanced stage**;
- **Re-design of the structure** of the integrated companies aiming higher savings.

Petz store expansion

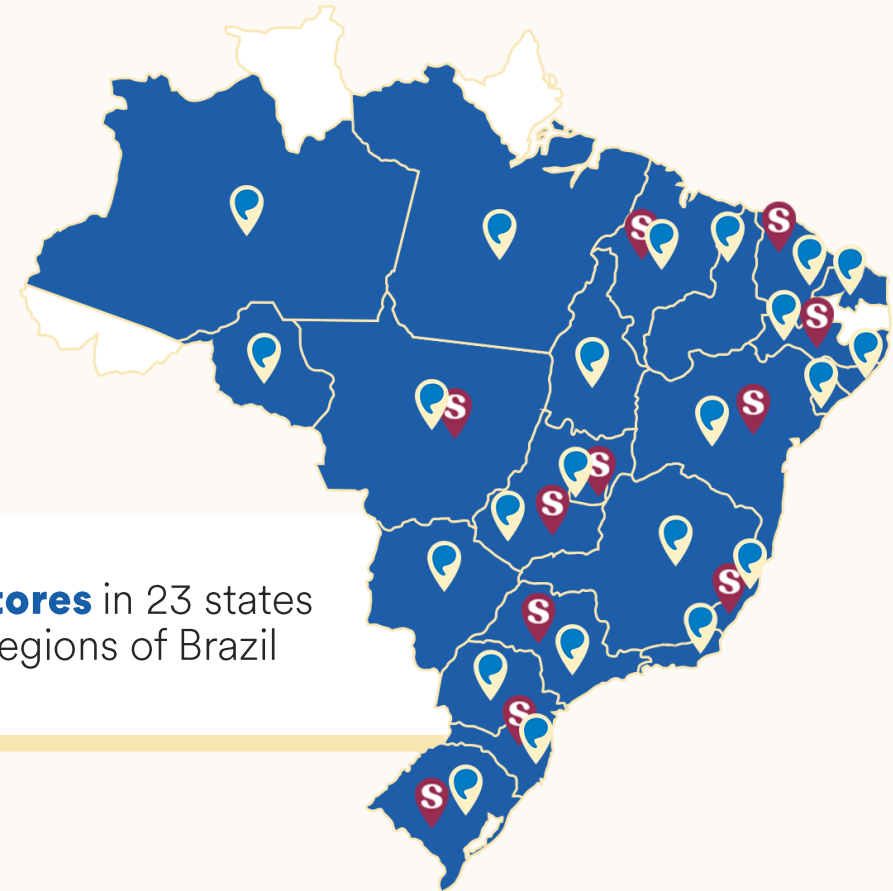
On track with store opening guidance of 30-40 units in 2023

2Q23 Highlights

Opening of 11 stores, 45⁽¹⁾ in the last 12 months

52% of stores located outside São Paulo, the highest level ever recorded (vs. 47% in 2Q22)

54% of the stores have not yet completed their 3rd year of operation, with 19% in their 1st year



231 stores in 23 states in all regions of Brazil

¹ Considers the closure of the Ayrton Senna unit, in Rio de Janeiro-RJ in 1Q23. More information in the 1Q23 release (p.9).

Recap of the 1st half of 2023: “Mixed” feelings

Profitability & Cash Generation



Solid levels of profitability and high operating cash generation even with accelerated expansion and higher Digital penetration vs. 1H22

Growth & Market Share Gains

Uncertain consumption environment with demand still soft by macro conditions in Brazil, in addition to a **more intense competitive** scenario with marginal movements in favor of profitability by our competitors



Seeking for the best balance between Growth, Profitability and Innovation

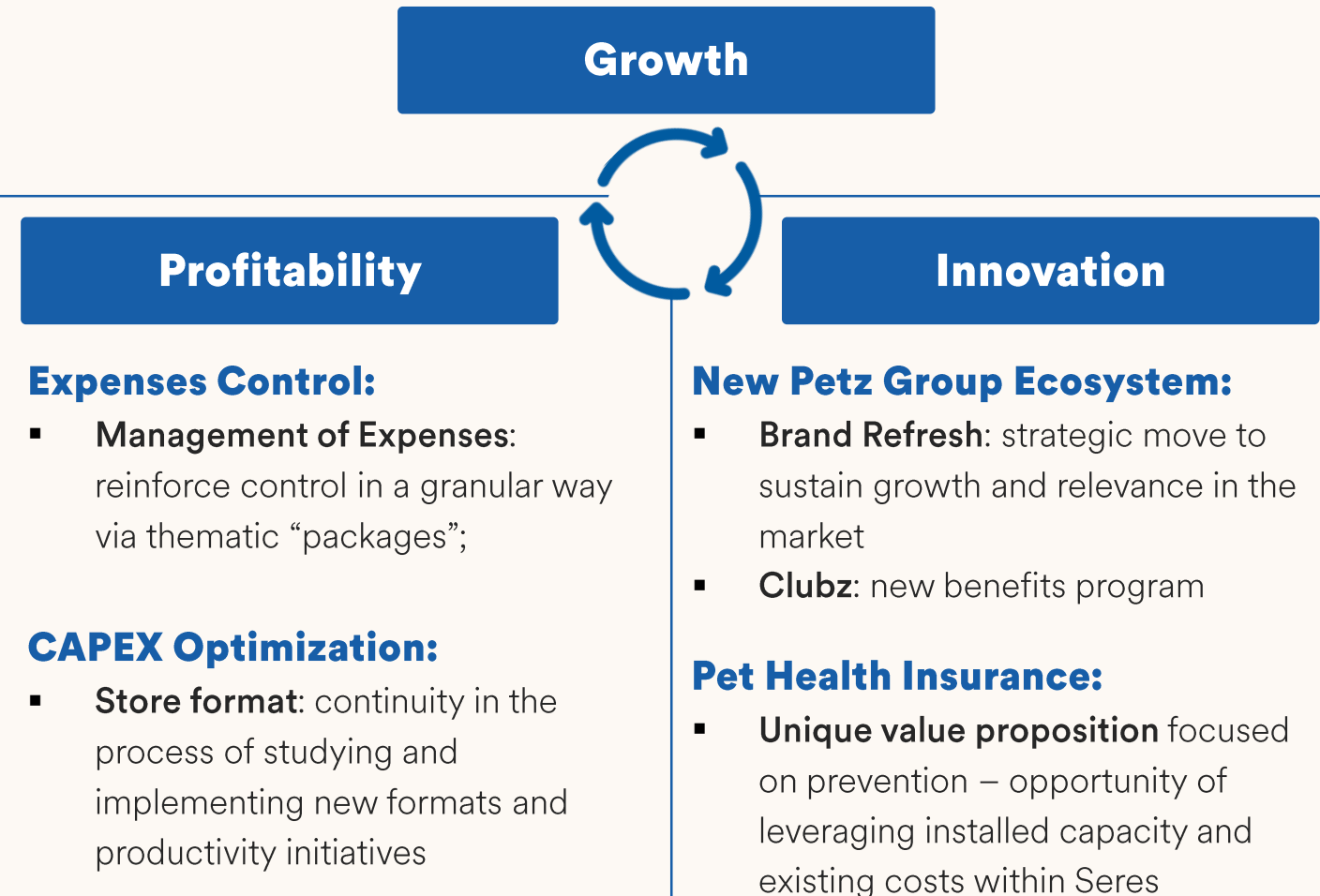
2nd semester priorities

Focus on **increasing the level of competitiveness** through more commercial activity

Goal: to accelerate market share gains and consolidate/expand the leadership position of the Pet segment in Brazil

Increase the level of competitiveness:

- **Commercial Activity:** optimize Omnichannel commercial and promotional campaign initiatives;
- **Private Label:** leverage assortment to gain share of wallet, generate a higher level of customer loyalty/recurrence;
- **Suppliers:** leverage strategic suppliers, with increased shelf exposure and digital channel presence + positive raw material cost outlook.



2 Strategic Projects Update

Aline Penna | VP of Finance, RI/ESG
and New Business

Petz Ecosystem Evolution

Strategic move to sustain growth and enhance market relevance.

Petz Ecosystem





Digital

- Launch of the Petz Benefits Club pilot (Clubz);
- E-commerce: UX improvement, focusing on higher conversion;
- Super App built to facilitate navigation and use of all Petz Group Ecosystem services (cross-selling);

Products




- Strengthening the private label portfolio, defining different price points in different categories;
- Tutor loyalty/engagement tool, profitability and differentiation vs. competitors;

4 Strategic Pillars of the Brand Refresh

Stores

- New visual communication, seeking better customer experience and productivity gains;
- Projects to change the store front and interior of existing stores (pilot in 4 stores);
- Packaging adjustments, other customer touchpoints;

People

- Strengthening the employer brand, generating more engagement and opportunities for employees.
- 



CLUBZ

A benefits program designed for the entire **Petz ecosystem** with roll-out throughout 3Q23

What

Personalized offers, coupons, CashPetz and member-only benefits

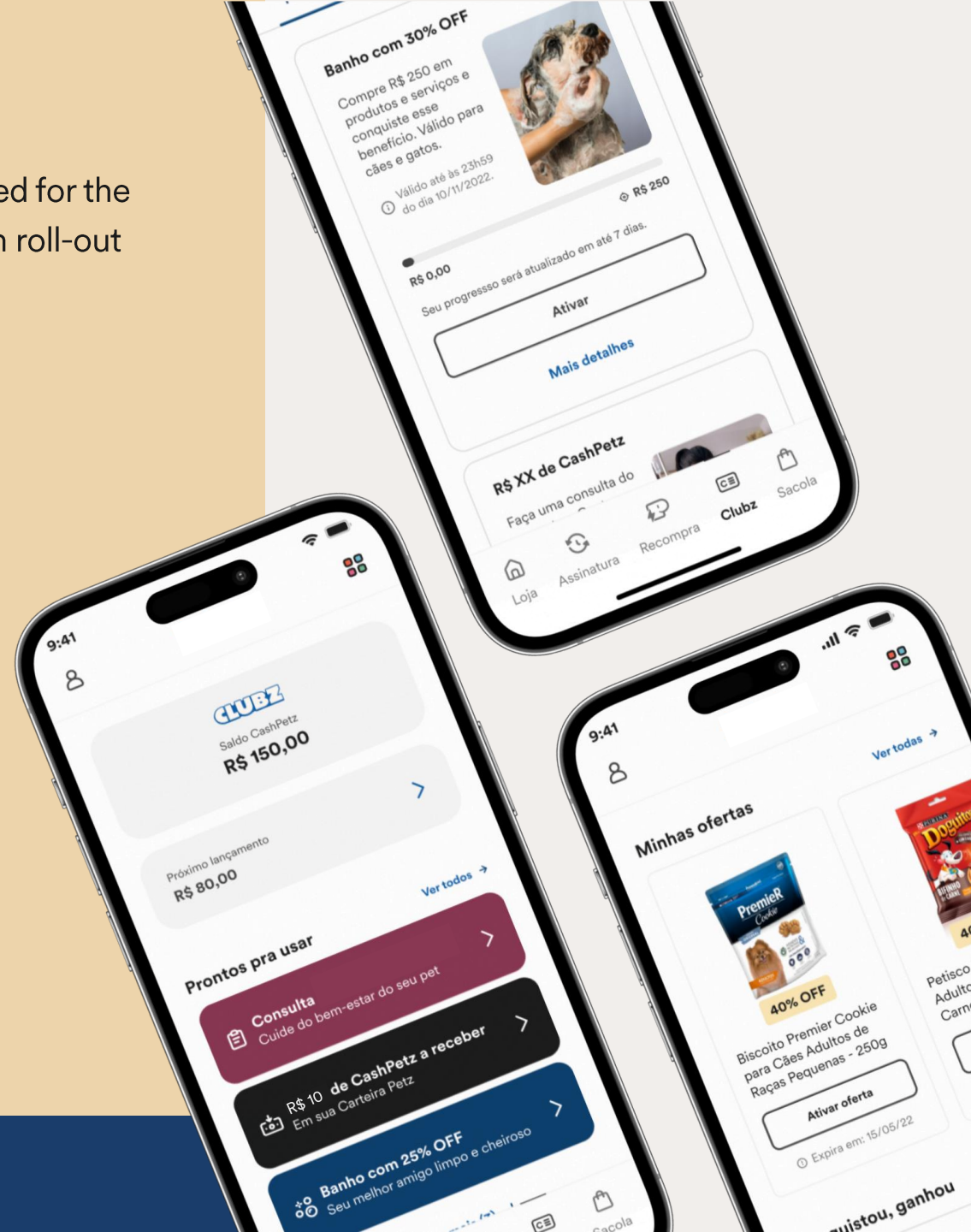
Why

Increased **conversion efficiency, monetization and organic flow** for Petz Ecosystem

How

Gamified and fun journey, generating value in the interaction within client and brand

Strong differentiating factor vs. competition



Petz Group Private label

Products portfolio strengthening through the expansion of the **value proposition with a new assortment in different categories**

1H23 Launches

Spike accessories

Collections of leashes, collars and harnesses



Petz Cat Litter

Biodegradable cereal cat litter

Fresh Dog Pads

Traditional, Slim and Charcoal lines



Petz Puff Beds

Different colors & sizes

Petz Group Private Label

Pet owner loyalty/engagement tool, profitability and differentiation vs. competitors

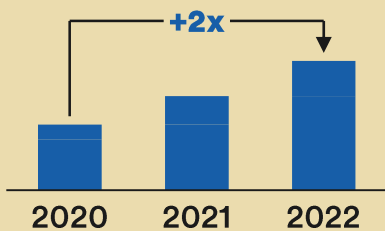
24% (+5 p.p. y/y)

Private label share in the current categories in Jun/23

8% (+1 p.p. y/y)

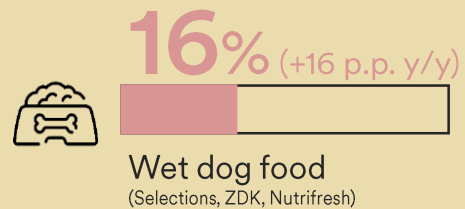
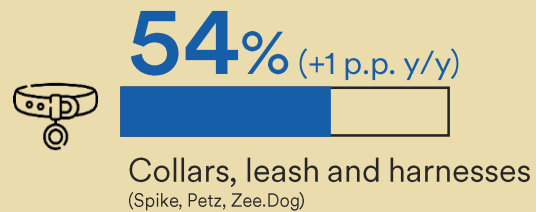
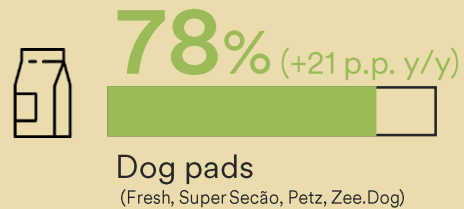
Share of private label in total product revenue

Assortment evolution
(# of SKUs)



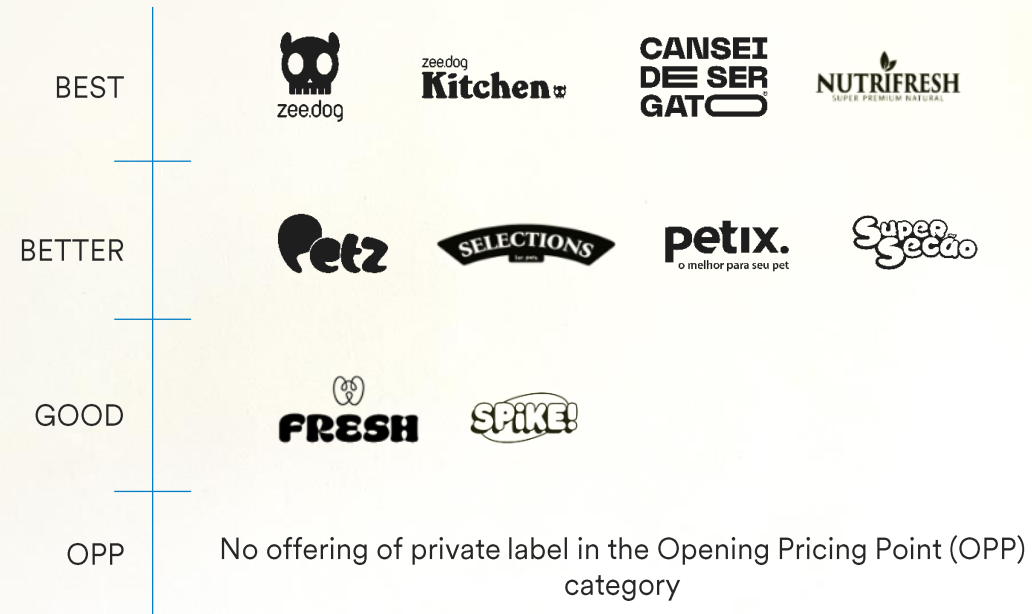
Negotiations with potential partners for private-label dry pet food production.

Share by Category in 2Q23
(% Gross Revenue from Petz "Standalone" Products)



Brand re-architecture

Different value proposition strategies to reach a larger addressable market.



Zee.Dog Integration

Strategic roadmap for full integration for greater control and governance of processes.

Incorporation of wholly-owned subsidiary

with future goodwill utilization

Implementation of enabling systems

- ✿ Systemic integration in the accounting, financial, tax and HR areas

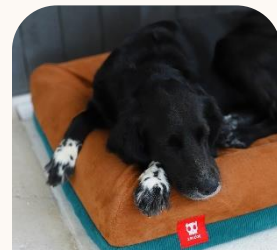
Backoffice

- ✿ Backoffice staff
- ✿ Contractual unification of IT, rents, suppliers and means of payment



Core Areas

- **Zee.Now:**
 - ✿ Integrated management structure with Petz Digital
 - ✿ Logistic optimization: Petz stores as *hubs*
- ✿ **Global/Europe:** reprioritization of strategic objectives, given the challenging consumption scenario
- ✿ **Franquias Zee.Dog:** more governance in the process of approving new points
- ✿ **Zee.Dog Kitchen:** opportunity studies to accelerate the business unit's breakeven curve
- ✿ **B2B Brasil:** leveraging execution know-how and capillarity between Zee.Dog and Petix



Operations

- ✿ Unified supply for Zee.Now hubs and Zee.Dog DC
- ✿ Logistic network efficiency
- ✿ Optimization of private label imports

Petz Health Plan

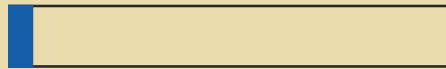
Important tool for cross-selling and optimization of installed capacity

Market still little penetrated, but rapidly expanding

North America Market

(Source: NAPHA, 2022 – Dogs and cats)

2.5%



Penetration rate of pets covered by health plan

22%

y/y growth in the number of insured pets

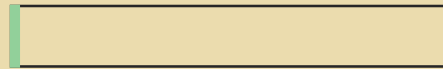
USD 3.5BI

North America pet health insurance market

Brazilian Market

(Source: Company estimates)

0.3%



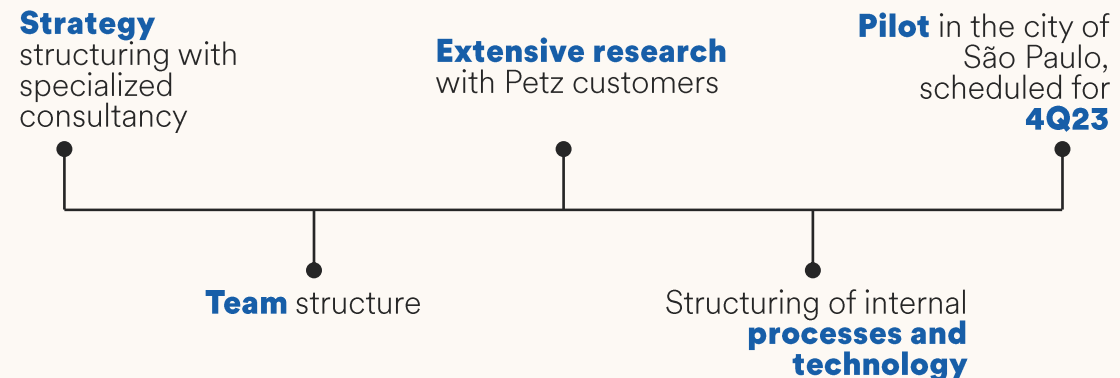
Penetration rate of pets covered by health insurance (or about **350k** pets)



Differentiated Petz value proposition

- Focus on **prevention**
- **Exclusive** and **customized** care plan
- Leverage of Seres' **own network** of **excellence quality** to maximize installed capacity and **optimize costs** and **loss ratio**
- **Low customer acquisition** cost considering Petz's recurring base
- **Highly qualified** and experienced team coming from **human health**


Roadmap:




Sustainability journey update

Main initiatives in 2023

Status

Concluded
May/2023 

Concluded
July/2023 

GHG inventory

Quantification of direct and indirect emissions of greenhouse gases, along with efforts to mitigate emissions, in scope 1, 2, and partial scope 3.

CDP Questionnaire

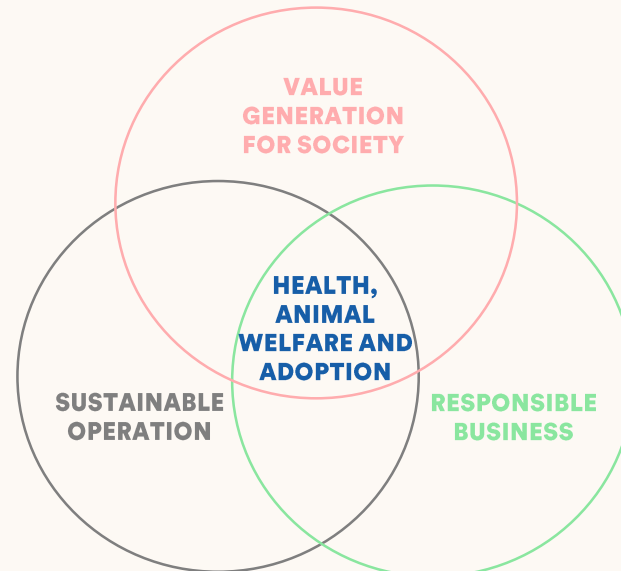
Evaluation of performance indicators and targets related to climate change control

In progress
Estimate: October/November 2023

Sustainability Report

Disclosure of the performance and impact of ESG parameters, in addition to a tool for managing goals and future commitments

Sustainability Pillars



Sustainability journey update

Ongoing projects involving different areas of the Company

HEALTH,
ANIMAL
WELFARE
AND
ADOPTION

SUSTAINABLE
OPERATION

VALUE
GENERATION
FOR SOCIETY

RESPONSIBLE
BUSINESS



Reduction of plastic packaging in e-commerce

Reduction of plastic envelopes when sending products with a large volume/weight (such as food packaging over 5 kg and dog pads).

Pilot project implemented in 10 stores and expansion to new stores in the second half.



Adhesive label design used on products shipped without plastic envelope.

Website accessibility tool

First Pet ecosystem player to implement the translation of website texts into Libras.

Sustainability Committee

Advancement in ESG Governance with more frequency of meetings. Composed of Board members and VPs.

Air conditioning automation in stores

Pilot project to reduce energy consumption in 21 stores, started in March/23.

Expansion to 155 new stores in the second half, with an estimated reduction of 15%.

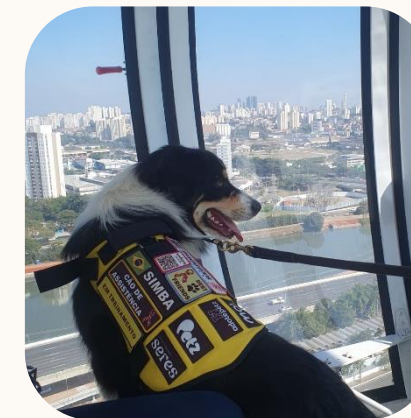


Diversity Census

Ongoing project in the Diversity & Inclusion area, to collect census data from employees.

New partnership of Adote Petz and Seres

Partnership with Instituto Reddogs, offering veterinary support through Seres for assistance and emotional support dogs, among others.



Instituto Reddogs service dog, supported by Petz

CDSG + Adote Petz Center

In July/23, Petz Augusta opened the first cat adoption center in partnership with the CDSG.







Adote Petz space decorated with CDSG products – Loja Augusta

3 Financial Results

Aline Penna | VP of Finance, RI/ESG
and New Business



Financial Highlights | Petz Group 2Q23





2Q23	 Total Gross Revenue (TGR)	 Gross Profit	 Adjusted EBITDA	 Operating Cash Generation
Petz Group	R\$ 944.8 MM +18.0% y/y	R\$ 375.0 MM +14.5% y/y 39.7% TGR (-1.2 p.p. y/y)	R\$ 69.9 MM +5.9% y/y 7.4% TGR (-0.8 p.p. y/y)	+R\$ 60.0 MM vs. +R\$3.0 MM in 2Q22

Highlights

- **Petz Standalone Gross Revenue:** R\$870.3 MM; **+16.2% y/y**, with highlight on Products **(+17.2% y/y)**
- **Petz Standalone Digital Gross Revenue (PDGR):** R\$311.8 MM; **+28.4% y/y**
- **Same-Store-Sales: +5.7% y/y**, with **normalized SSS¹: ~8% y/y**
- **Petz Standalone Gross Profit:** R\$345.8 MM; **+13.8 y/y**; Gross Margin of 39.7% of PGR **(-0.8% y/y)**
- **Petix:** Consolidated figures since 3Q22, business model (factory, B2B) that **has a gross margin of around 15%**
- **Petz Group Operating Expenses** R\$305.0 MM; **+16.7% y/y**
- **Petz Group Adjusted EBITDA Margin: +0.3 p.p. q/q**
- **Petz Standalone Adjusted EBITDA :** R\$71.3 MM; **+3.3% y/y**; Adjusted EBITDA Margin of **8.2%** of TGR **(-1.0 p.p. y/y)**
- **Acquisitions EBITDA :** **-R\$1.3MM**, an improvement vs. 2Q22 and 1Q23
- **R\$24.5 MM** of Adjusted Net Income **(-25.1% y/y)**, reflecting the **increase in D&A, lower financial result** in 2Q23 and the **still negative effect from acquisitions**
- Efficiency in working capital, mainly reflecting the **reduction of inventory levels**
- Significant **improvement** from **9** days of Petz Standalone cash cycle

¹ Excluding stores that were impacted by the opening of new Petz units in areas of influence and/or in the same city.

Financial Highlights | Petz Group 1H23

1H23	 Total Gross Revenue (TGR)	 Gross Profit	 Adjusted EBITDA	 Operating Cash Generation
Petz Group	R\$ 1,857.7 MM +20.1% y/y	R\$ 738.4 MM +17.0% y/y 39.8% TGR (-1.1 p.p. y/y)	R\$ 134.9 MM +14.3% y/y 7.3% TGR (-0.4 p.p. y/y)	+R\$ 94.5 MM vs. -R\$60.9 MM in 1H22

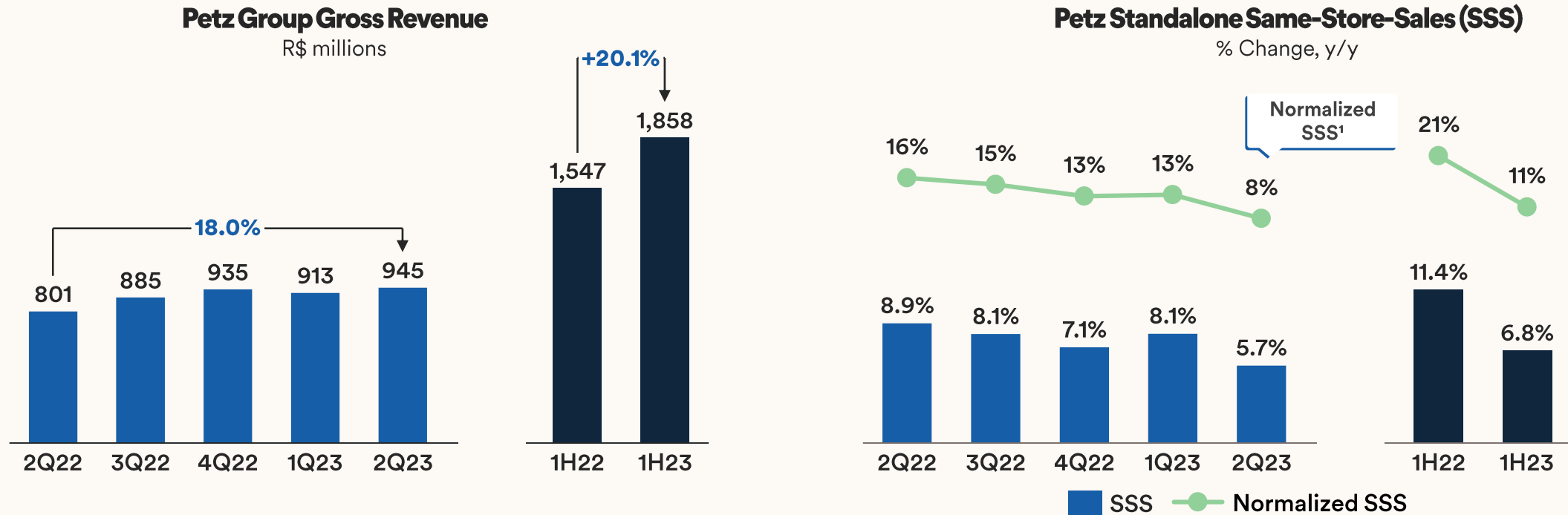
Highlights

- **Petz Standalone Gross Revenue:** R\$1,706.0 MM; **+18.3% y/y**, with highlight on Products **(+19.1% y/y)**
- **Petz Standalone Digital Gross Revenue (PDGR):** R\$612.4 MM; **+32.3% y/y**
- **Same-Store-Sales: +6.8% y/y**, with **normalized SSS¹: ~11% y/y**
- **Petz Standalone Gross Profit:** R\$683.3 MM; **+17.0 y/y**; Gross Margin of **40.1%** of PGR **(-0.4% y/y)**
- **Petix:** Consolidated figures since 3Q22
- **Petz Group Operating Expenses** R\$603.5 MM; **+17.6% y/y (-0.7 p.p. y/y)**
- **Petz Standalone Adjusted EBITDA:** R\$141.4 MM; **+14.1% y/y**; Adjusted EBITDA Margin of **8.3%** of TGR **(-0.3 p.p. y/y)**
- Mainly a reflection of the **reduction in inventory levels and greater tax efficiency** with the new DC in Goiás (less accumulation of credits)
- **Reinforcement of the cash position** with R\$400 MM of debenture issuance and long-term financing

¹ Excluding stores that were impacted by the opening of new Petz units in areas of influence and/or in the same city.

Solid growth in Petz Group Gross Revenue

Highlight for the performance of Petz Standalone Products and consolidation of Petix since 3Q22



R\$ 870 MM

Petz Standalone Gross Revenue (+16% y/y), with highlight on Products (+17% y/y), even in the face of a challenging macro scenario

5.7% SSS (8% normalized¹)

Reflection of the challenging macro scenario in retail and in Brazil, slowing down of inflation in the Pet segment, drop in Services revenues and accelerated expansion pace

R\$ 96 MM

Acquisitions Gross Revenue (Zee.Dog + Petix) with 71% YoY growth, mainly reflecting the consolidation of Petix from 3Q22

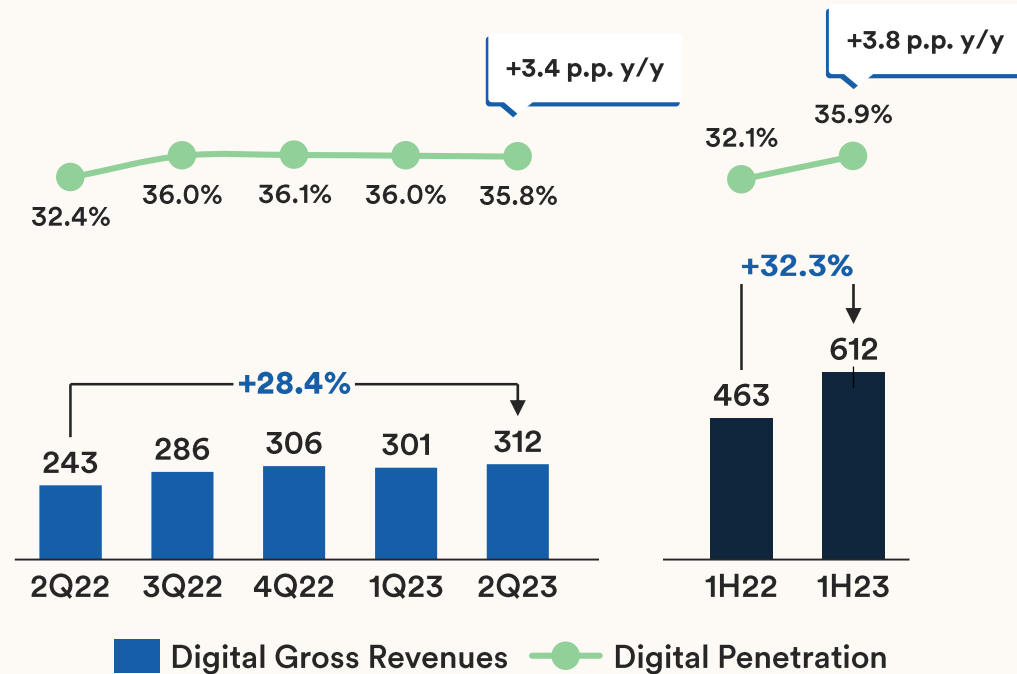
¹ Excluding stores that were impacted by the opening of new Petz units in areas of influence and/or in the same city.

Expressive growth of Petz Standalone Digital and high level of service

Growth of +28% y/y (on strong base +34% y/y in 2Q22)

Digital Gross Revenue and Digital Penetration

R\$ millions, % Petz Standalone Gross Revenue



Digital Penetration +3.4 p.p. y/y

and in line with the last 3 quarters, reflecting changes implemented in commercial conditions **to improve channel profitability**



Profitability initiatives

Eliminations: cumulative discount dynamics vs. Pick-up service charge



~2.6MM Omnichannel Customers

assets in the Petz base (+15% y/y), with average monthly spend of +60% vs. physical channel customer

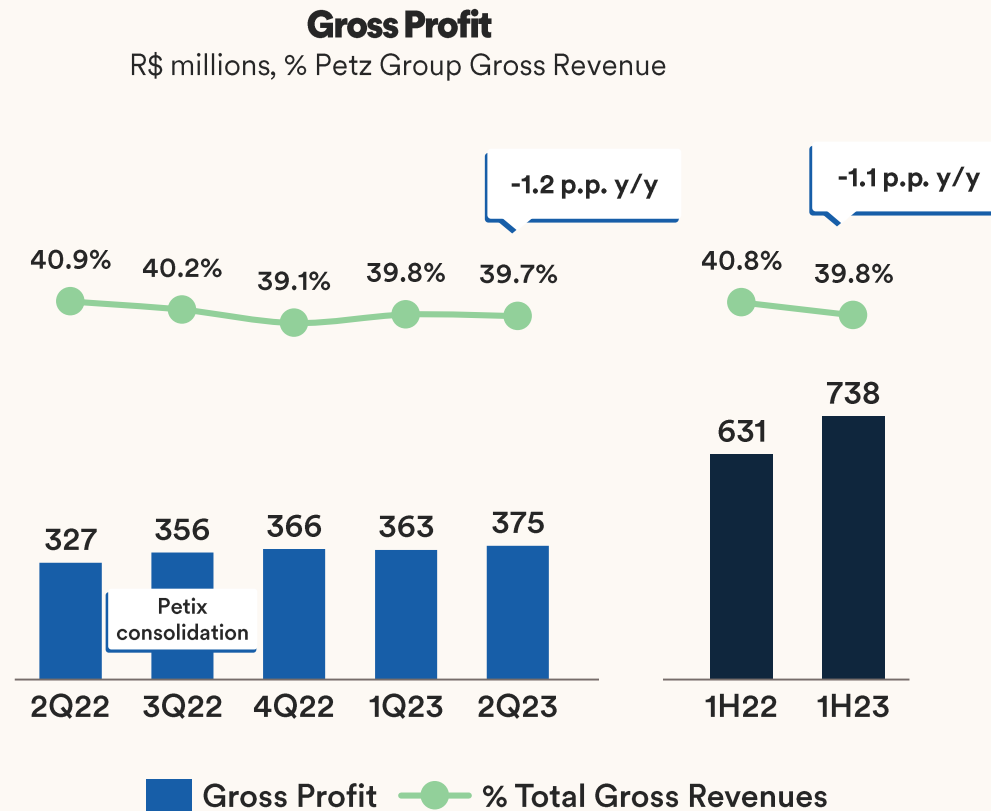


High level of service

95% of Ship from Store sales delivered within **1 business day**, with **87%** of all Digital orders

Petz Group Gross Margin slightly pressured...

... a reflection mainly of the Petz Standalone performance and the consolidation of Petix (structurally lower gross margin)



Petz Group Margin -1.2 p.p. y/y but flat q/q

mainly a reflection of the Petz Standalone performance and the consolidation of Petix



Petz Standalone Margin -0.8 p.p. y/y

reflection of the increase in Digital Penetration y/y, in addition to the greater investment in competitiveness in the channel and the Food effect in the mix



Petix Consolidation

Since 3Q22, with a business model (factory, B2B) that has a **gross margin of around 15%**



Pet internal inflation

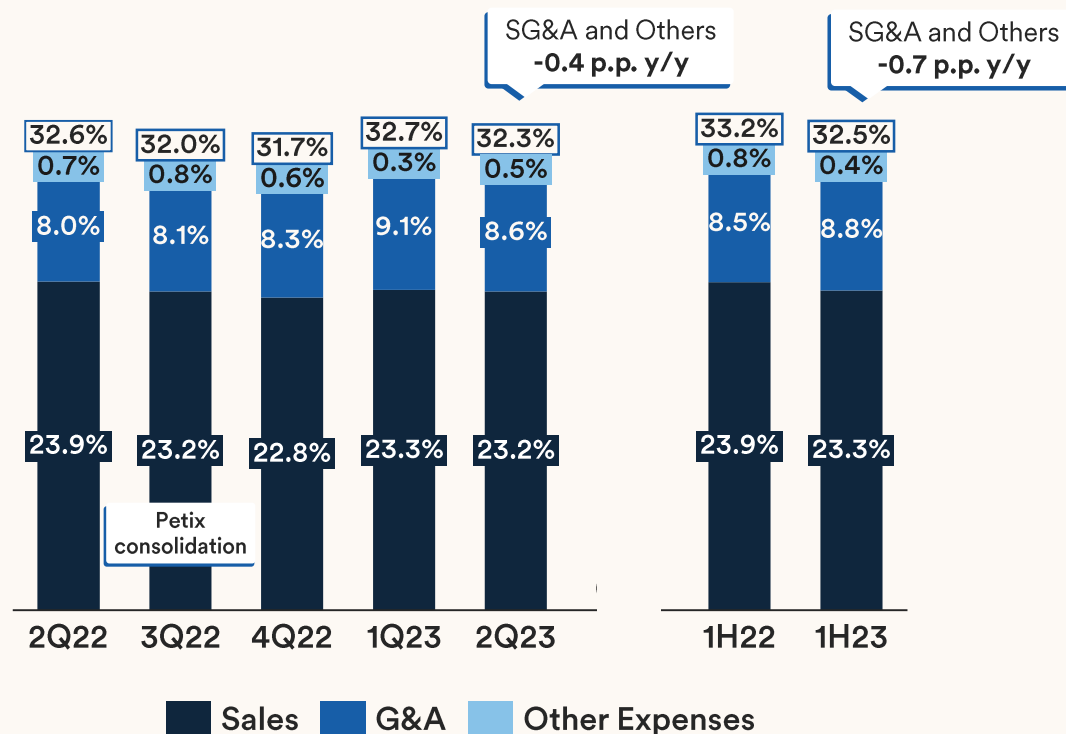
stable, but still at high levels, which reflects in lower disposable income for consumption of discretionary items

Efficiency of the Petz Group Operating Expenses...

... reflection of the initiatives in Selling and Other Expenses

SG&A and Other Expenses

% Petz Group Gross Revenue



SG&A and Others
-0.4 p.p. y/y

SG&A and Others
-0.7 p.p. y/y

Petix consolidation



+17% y/y

Petz Group Operating Expenses, representing a level of 32% on Gross Revenue (-0.4 p.p. y/y)



+14% y/y

of Selling Expenses, a result of efficiency in the variable Digital expenses (marketing and last mile) and consumption (electricity and supplies)



+27% y/y

of G&A Expenses, reflecting the strengthening of the Services and HR teams and the increase in DC expenses (inauguration of the Goiás DC in 2Q22)



-26% y/y

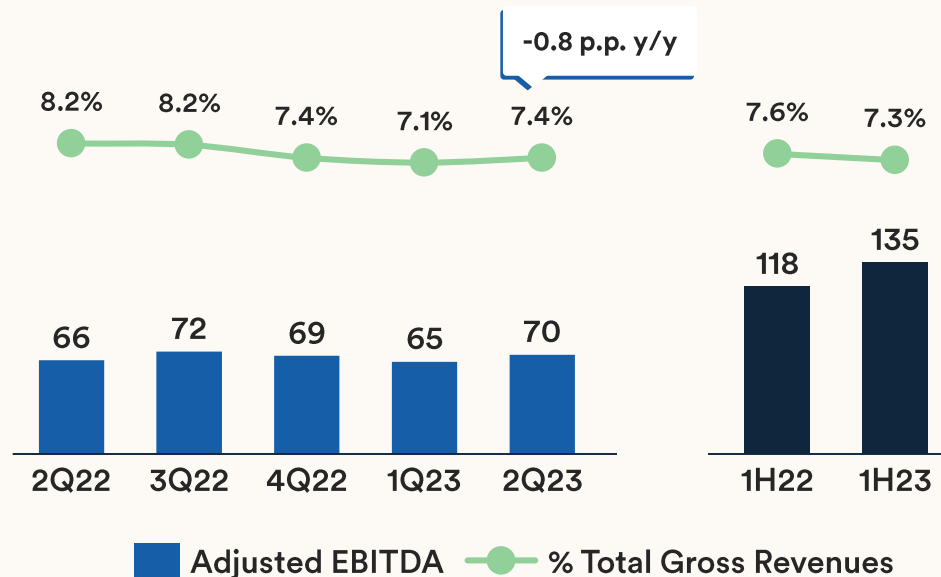
of Other Operating Expenses (pre-op of new stores), reflecting greater efficiency with the new units, despite the faster pace of openings in 2Q23 vs. 2Q22

Petz Group Adjusted EBITDA Margin with y/y pressure

Expense efficiencies were not enough to offset pressure on gross margin

Adjusted EBITDA

R\$ million, % Petz Group Gross Revenue



4-wall EBITDA (Stores)

% Petz Standalone Gross Revenue

Cohorts	# Stores	4-wall EBITDA (2Q23 LTM)
Until 2018	80	18.7%
2019	26	18.5%
2020	28	17.3%
2021	37	15.3%
2022*	50	9.6%
2023	14	8.8%



7.4%

of Petz Group Adjusted EBITDA Margin (-0.8 p.p. y/y and +0.3 p.p. q/q)

8.2%

Petz Standalone Adjusted EBITDA Margin (-1.0 p.p. y/y), reflecting pressure on gross margin, store maturation, greater Digital share and increase in G&A expenses y/y

-R\$1.3 MM

of Acquisitions EBITDA, an improvement vs. -R\$3MM in 2Q22 and -R\$5MM in 1Q23, reflecting the performance of Petix and capturing synergies from the integration with Petz

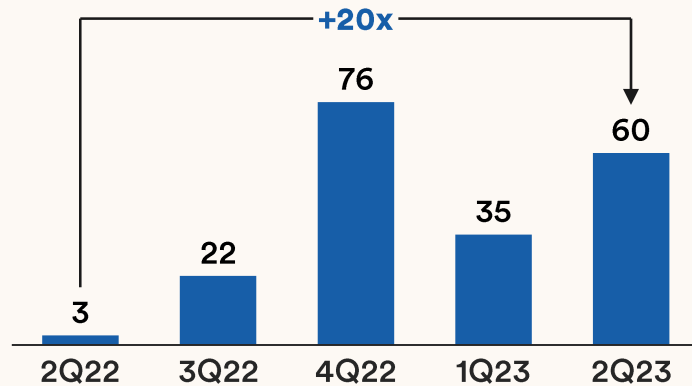
* 2022 Cohort: excluding the 18 stores opened in 4Q22 (7 of which in December alone), 4-wall EBITDA ex-IFRS 16 would have been 11.1%.

Robust cash position, solid competitive advantage

Strong operating cash generation in 2Q23 and R\$200 MM cash reinforcement with debentures issuance

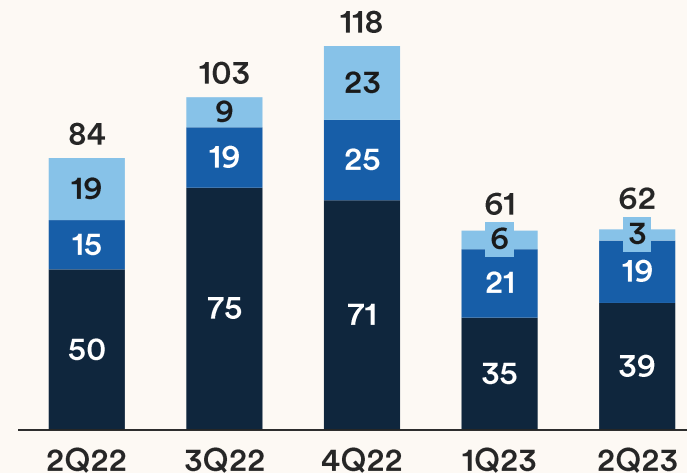
Operating Cash Flow

R\$ million



Capex

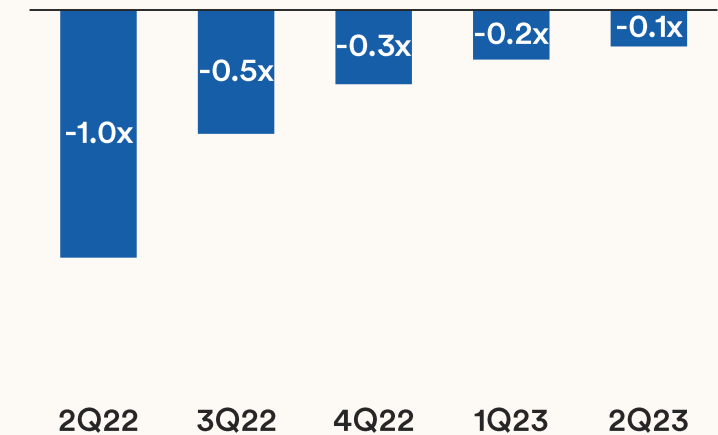
R\$ million



- New Stores and Hospitals
- Technology and Digital
- Renovation, Maintenance and Others¹

Leverage (IAS 17)

Net Debt/Adjusted EBITDA 12M



- **R\$60 MM** of operating cash generation
- **Reduction in inventory levels and more tax efficiency** with the Goiás DC (less accumulation of credits)

- **-26% y/y** in Investments, reflecting Renovations, Maintenance and Others (**-82% y/y**), given that in 2Q22 we had major renovations and non-recurring items related to logistics (opening of the DC, improvements to existing DCs) and acquired companies
- Investment in Technology and Digital (**+27% y/y**) reflect innovation, UX and IT infrastructure

- **R\$25 MM** of Adjusted Net Income (-25% y/y), reflecting the increase in D&A, lower financial result in 2Q23 and the still negative effects from acquisitions
- **R\$39 MM** of net cash in 2Q23

¹ Includes CAPEX consolidation of acquired companies (Zee.Dog and Petix).

4 Q&A





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ITAG B3

IGCT B3

IGC-NM B3

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SMLL B3

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