PETZ
2Q23 EARNINGS RESULTS VIDECONFERENCE EDITED TRANSCRIPT
AUGUST 11th, 2023

Sergio Zimerman (CEO):

Good morning, everyone. Thank you very much for your time and for the possibility of once again, to be able to share with you the results of the second quarter of 2023 of Petz. Before going into the results of Petz, I would like to make a more of a macro commentary to contextualize the background of what was the second quarter for the company.

I want to remember you the last call from the first quarter, where we had several important science coming as signals of reversions of various tendencies, and in general, the first quarter was marked by indications that we would have a 2023 in retailing with signs of recovery and a year of recovery with important signs in the first half of the year.

I have said internally, and at the time, we said we had cautious optimism as our expression because indications are not certainties, indications are just a perspective. I have said that the first quarter was, what we can call a false positive. When you analyze the retailing in the second quarter overall, you see that the recovery that we so much expected for 2023 has still not happened. It didn't happen in the second quarter, and there are no indications of it happening in the third quarter as well. So, we have, therefore, as a backdrop, in retailing overall, a year, which is very complex and still in the recovery of the economy.

When you go to the Pet segment, here I'm going to remember you that there are three pillars, which are fundamental to understand the pet market: the humanization; the quantitative increase in the number of cats and dogs; and the third pillar is the available income. The three pillars, two of these pillars are very healthy.

The growth of the Petz population is strong and powerful, and the humanization of Petz is absolutely present. And for that, we can look around us and see what our families, how much the pet has become more and more, taking the protagonism inside of the families, inside of family nucleuses, which shows the resilience of the segment and the growth, which is projected for the segment, which is absolutely important, which also signifies that this perspective of available income not having yet happened and having a population increase and the growing humanization, the main perspectives, the biggest directives of the strategy that we're going to reinforce.

What we said in previous calls, you'll see that during the presentation, which are absolutely preserved. So, let's start making a remembrance that the recovery of what were the four pillars in the first half of the year, which we are putting together the message for the second quarter and the first half of the year.

The first of them is an initiative, absolutely successful initiative that we have done, which is the control of expenses and investments. Here, more than ever, we have sought to look at productivity, we have sought to utilize machine learning of the expansion to make stores that are more and more efficient, stores with more productive square meters, sales per square meter with more productive shelves, and having a mix between products and services in a way that carries all the learning that we had from recent times. The store format being balanced of experience with the spider web for omnichannel usage.

The difference between having all of these initiatives. And you're going to see here that in the third pillar, that we're going to mention this in the third pillar, where exactly a generation of operating cash and a consumption of investment cash at the best level in recent years.

Here, I want to make this highlight, which is very, very important. This first half of the year has been marked by a balance between what we generated in cash, operating cash, and what we consumed in investment cash. This has been better than the last couple of years in a significant advance.

The second pillar was that, which we announced since last year, that we'd focus on closing this gap between the profitability of the digital operation versus the physical operation. So, we made various initiatives to improve the profitability of the digital front, and I always signal that all of these initiatives would take into account a great deal of science. We've always done it to preserve our margins, but without any destruction of value.

In the third pillar, a consequence of the two previous pillars, together with the management of stocks, suppliers payment periods, which we correct some of them. The inauguration of the Hidrolândia store in Goiás, which was inaugurated at the end of last year, now is all up to full speed this year, already producing effects that we desired, the desired effects, especially in the generation of cash, avoiding the accumulation of fiscal credits in Sao Paulo, which was a recurring problem in previous years. So, it generated this message that, once again, I repeat, which is that the biggest positive highlight in the first half of the year was this focus, absolute focus, on generating cash in a more healthy way than in previous years.

And the fourth, and no less important pillar was the intensification of the capture of synergies. We all know here, we've always been transparent about this, that the process of integration was frustrating in relation to periods of time, but not in relation to their direction. We may have made some mistakes as far as the speed in which these integrations may have been done, but the fact is that we're doing it, as we announced at the beginning of the year, and this time we're on time. We are within our chronogram, we have directors focused on integration, we have processes that are happening, chronograms being fulfilled, and naturally, the consequences of this are happening naturally.

This quarter is marked by a quarter that is, where we have gotten close to the breakeven of the acquired companies. We're almost breaking even. We're almost coming out of that negative number from the acquired companies, heading towards 2024, already thinking about the profitability of these acquisitions. And above all, redesigning the structures, so that we can create the maximum value in these acquisitions.

Here, I would like to point out a highlight for a process that is already, absolutely concluded from the legal point of view, which is the integration of Zee.Now. It has all of its sales being done through Petz, and it's already being placed, set up to run within this year. The Petz stores will be expediting these Zee.Now products. With that, we've concluded a very important part of the Zee.Dog process, which corresponds to 50% of all the Zee.Dog volume, and also the other fronts of Zee.Dog are running along very well.

Here is a point that's important. As I said, we believe a great deal in the long-term. We believe in our model and in the fragmentation of the market, and in the low market share, which we still have. We see lots of space for us to develop all around Brazil, and this means that we have our guidance of the opening of stores that we mentioned at the time of the IPO, all the way back at the IPO, I want to contextualize, so it doesn't seem like this is, that we're constantly changing. We haven't changed any of this. At the IPO, we said that in the next few years, we would open between 30 or 40 stores per year. And we made an exception in 2022, opening 50 stores and we gave that guidance. We complied with the guidance of 50 stores, and this year, we talked about 30 or 40 stores and we are absolutely on track.

We are going to open 30 to 40 stores this year. We inaugurated in the second quarter 11 stores. So, we are absolutely normalized in the expansion plan. 52% of the stores are located outside of Sao Paulo, of the whole park of 231 stores, which is the biggest participation of stores outside of Sao Paulo. And definitively, outside of Sao Paulo being more than half of the Sao Paulo stores. And that is very important of being sensitized, when we talk about our levels of profitability.

54% of the stores, more than half of our stores are not yet mature. They're still at some point in the stage of maturing. Almost 50% are still in the first year of inauguration. And so, it's a company, which is very young and which brings all the consequences, whether it be in margin pressure, whether it be in a high level of depreciation, which creates a large difference between EBITDA and net profit. We don't have profit due to financial questions, but yes, due to depreciation, we've, we're in 23 states. We only lack four states. And shortly, we'll be in one more, and then we'll be only lacking 3 states.

The feeling when we think about the first half overall is that we discussed internally here, the best word to use for the first half -- for us, was this feeling of having “mixed feelings” about the first half. Why? Because when you think about the initiatives that we've done to protect our profitability, the generation of cash, it was exceptional. Cash generation surprised us greatly. Remembering that, today, Petz has r$ 500 million cash on hand. So, we're absolutely comfortable. We're still net cash positive. We have no net debt. And this in a country, where real interest rates are still absolutely high, and even with the reduction of a half a point, the interest rates are still stratospheric, having net cash on hand is a privilege for very few, especially in the retail world.

So, this is a very big strength of Petz to also base all of our strategy of how we will go forward in the second half of the year.

One point of attention, and that's why we said this word “mixed feelings”, is that, especially in the second quarter, perhaps due to the market being weaker because of that false positive that I mentioned in the first quarter. Instead of seeing companies heading towards to protect their respective profitabilities, we saw more of a run towards to “make sales”.

And when this happens, naturally, there is pressure on margins because practically speaking, what I'm saying is that, we started to have more promotional activities within the segment, outside of the specific segment of the marketplaces in general, focusing on the pet segment to penetrate into this segment.

And here, it's good to say that we have always been very, very comfortable in relation to that, in the sense of knowing that, if at some point in time, this type of a thing happens in the market, we would have the responsibility as leaders and the comfort to have leadership in costs, to know that we have very much our bodies above water and that we will know perfectly well, how to protect our pet market share.

Having talked about what was the first half, now I'm going to talk about our second half of the year, and what we want to do during this second half, and update that our strategy is the same. Our pronouncements are the same, but I want to remember what was our pronouncement at the beginning of the year. We said that this year, we would protect our profitability with initiatives in margin and costs, in detriment to the more accelerated growth that we were looking at.

And I've always said and added this phrase, the following phrase: as long as this does not interfere in our market share. We never considered that we wanted to lose market share to protect profitability.

With the market weakening in the second quarter, associated with the fact that the level of competition is higher. In this half, we assumed a shift, which was announced at the beginning of the year. We're very comfortable with that, and we know that we're heading in the strategic direction that we planned since the beginning, which is that we have now arrived at the moment to protect our market share. The levels of growth are indicating levels of growth in line with the market / very close to the market, and we are not going to allowing actions to compromise the growth of our market share.

And so, our priority in the second half is to protect our market share, which means that profitability, which was the anchor of protection in the first half, will no longer be the anchor to protect us in the second half, and yes, market share in practice. What I mean to say is that we are absolutely ready to confront competition, heavier competition, that the market has been signaling at the end of the second quarter and at the beginning of this third quarter.

We're absolutely ready for this challenge. As I said, we have absolute conditions to do that. Our omnichannel model is very strong, and I've always said, that a client to change us for another competitor in the same segment or for a marketplace would have two reasons to do that, and everybody who's hearing me here, put yourself in the role of a consumer. Why would you change the company you're buying from? Two reasons.

The first, for the level of services. If a competitor appears, who offers a better level of service than your current offering, you consider changing. In this case, we're very, very well-positioned. We have a very high NPS. We're delivering in two hours in the principal cities of the country. One business day in almost everything, 90% through omnichannel usage. So, in this question, we're absolutely protected, and we have no concern as far as our level of service.

And the second reason that people would consider changing a platforms is, if the other competitor offers a good level of service but at a better price. And it's natural, the consumer is correct in thinking that way. And we have to be connected with this feeling of the consumer. And that's why, we see this shift to protecting market share. We will not allow ourselves to lose clients, who have a very important long-time value for us going forward due to circumstances of an increase in competition. There are always occasional changes, which do not generate the expected results. This many times happens in new levels, however, but we're absolutely ready to confront at the time that is necessary, all of the initiatives in the sense of penetrating this market through price by price.

It's a big trade-off here that we are consciously ready to do. We will protect our long-term in detriment to short-term pressure. It's a choice that we have to make, if we want to protect several million Reais (R$) of short-term profit or if we want to protect thousands or hundreds of millions of clients, who will have a life of consumption for many, many years together with us.

We know how difficult it is to conquer a client, and we're absolutely not disposed to let these clients go due to an occasional situation or to achieve a quarterly result. So, I want to take advantage to signal that in a very clear way to the market that we are making, once again, taking the option to protect and address our growth in the long-term to protect our future, which protects our relationship with our clients. For anyone who might be thinking about the next quarter, is it good? No, it is not good. Building quarterly results is not difficult, but building quarterly results by destroying the long term is a common occurrence. And that's not it. And we definitely won't consider going that route.

Quite the contrary, as I said, we think it is much healthier for us to have the discomfort of having margins pressured, results pressured in the third quarter, in the fourth quarter, but preserving a year of 2024 which, in our view, has many indications to be a great year for the economy and for our activity and for our company, which we see customers making changes for the reason I just mentioned.

So, for that reason, we have our private label brand. We will continue, it's an excellent news to share with you. It's the best moment, since the beginning of the pandemic. From the standpoint of costs in raw materials, we have in truth a very clear signalization of several manufacturers that there will be a lowering of raw materials in the first moment, the industries that have been pressured in their margins are taking advantage of this to recompose their own margins, which is natural that this happens, the recomposition of their margins, but we also foresee that at some moment, this could even lead to a deflationary effect in the Pet Food segment.

One more indication of what I'm saying is that the private label of dry food, which we have considered to come out with, since the beginning of the pandemic, and we were not finding space due to lack of interest suppliers in the question, due to all this question of raw material. Today, we have a number of interested suppliers, which is very interesting in producing the products that we want, and we will do that, and we hope to do that by the end of this year, we're all ready to enter this area of dry Pet food.

Here, an important fact, which is a big differential for us, is the Zee.Dog Kitchen. Zee.Dog Kitchens, even though they have the economic challenges, but as a product, more and more we are extremely happy with what's happening there. The reports of users of the Zee.Dog Kitchens, who are falling in love with the brand. And what does it mean that you fall in love with a food brand? It means that it's a revolution that this product is causing for the pet, which has become a child for that home.

Since the pet is a member of the family, and you give him a product, which the pet loves, and which reinvigorates him, and he's much happier, the pets are much happier. We've seen various reports. We've seen that we have a great product in our hands, and with sales that have a very big potential to grow.

Naturally, we have challenges in productions. We have challenges of costs to be able to do this, but the most important thing we have, which is the recognition, more than expected, of the consumer, it's not just a little bit of recognition.

Here, we're also saying that, naturally, in the first half, we protected our profitability in front of the competition, but also by controlling expenses in this half of the year. In the second half of the year, this will be intensified. If we protected our margins in two pillars, one pillar we're going to adjust, which is thecommercial competitiveness. We, as I said, we're going to offset these initiatives of marketplaces or other companies in our segment with pricing.

However, in expenses management, we're more attentive than ever in the management of data intelligence. As I said, all of our decisions are very much based on multiple indicators, so that we can do things correctly. So, this shift of protection of market share, we don't have to wait, we don't have to worry about we're going to lose clients, the consumers.

So this very shift here of market share protection, we don't need to wait to lose market share or we don't need to wait to start losing customers to say that we need to change something. When the indicators started to signal the way we were going, we made a course correction. Bearing in mind that this type of correction, and this is important for the analysts who are following up here, this is a transatlantic -- let's say, giant ship -- You can't just turn around quickly, you can change the rudder, but when you turn the rudder, it does not produce an effect on the next day, not in favor of or against. When you make a point of protecting the margin, you take some initiatives, the effect on revenue is not the next day. Revenues you can lose something over time, but profitability, as you increased, created a service fee, it comes faster. When it's the opposite process, it's exactly the same rationale on the contrary. The results of this will bring us -- we estimate, it will take us to two to six months to be totally concluded in this new direction, which we are heading.

Here, pointing out that in a few weeks, we'll be refreshing the brand. This refresh will bring a brand what is absolutely modernized, more compatible with the digital brand, with the omnichannel brand. Remembering that, when we made this brand, we only had physical stores. So, this refreshing of the brand will come together with this new moment of the company of becoming, of being a company, which today is 35%-37% of digital sales, of being an ecosystem.

The health plan in the oven, I've said this on other occasions, it's a complex theme, but at the same time, we're very motivated to know that there are several plans in the market, but there are no plans with what we're designing, what's in the oven, and what's being developed by our IT team. And that still within this year, we expect to place this pilot program in. So, it will be a big relief in the question of profitability of services.

It's if I was saying that we carry the costs of services on, but we do not yet have the benefit of the utilization of these services because we have an unused capacity in the veterinary area, which is quite high. So, with this plan, at the first moment, you will fill this unused capacity, which is generating costs. So, we're paying the bill, but we're not having the first line, the top line income attached to that. So, we're very excited about the perspective of coming along with the health plan, which will be democratic, and which will generate more attachment between our tutors and the company.

Very well. These are the principal messages for the second half of the year. Now, I'm going to pass it over to Aline, and I'll be back in a bit to answer your questions. Thank you very much.

Aline Penna (CFO):

Good morning. I'm going to pass a little bit the results, financial results, and several strategic projects.

Basically, as Sergio mentioned, the brand refreshing of the group in this process, which has begun approximately 1.5 years ago, it was headed by Petz Innovation Studios. It's a totally internal team. We have no agency creating this. It was created after the acquisition of Zee.Dog. The idea is to reimagine the ecosystem and the future of the Petz brand.

Petz, a 20-year-old company, and it's a traditional brand, a traditional retailer, which has a brand. What we want to do is that this brand will deliver an ecosystem, which also has a good traditional retailing and physical stores. But as Sergio said, it's a much more digital brand. It's not just a Super app, it's much more beaten already, and the brand refresh is going to be able to tangibilize it very soon. But among the pillars, we have a new purchasing experience, new colors, new logo, some new stores with new facades, new physical communication, whether in the physical or in the digital, in the packaging of our private label products.

Without mentioning that, we, for the first time, will be operating in a unique digital world, uniting our products with services. You can buy your product, mark your appointment for a training session, talk about grooming, mark veterinary questions, and eliminate these friction points between us and our clients.

Here are the four pillars of our Brand Refresh. So, we have initiatives in Digital, Products, Stores, and People. Here, I would highlight the benefits club, the Clubz, which is Petz's loyalty club, and it has a digital wallet. We will be launching it very soon, around mid-September or October. There are already some ongoing initiatives in beta version, so to speak, but there's still a lot more to come, and I'll discuss a bit more later on. In terms of products, the goal here is to differentiate ourselves completely from competitors, to have private label elements and items that no marketplace or specialized channel has, not to mention price accessibility. In fact, we have private label products for practically every price range, and I'll talk a bit more about that later.

Lastly, for stores, we will have a pilot in four units, three in September and one more in December. It will be quite interesting to actualize this new brand experience, and then we'll think about rolling this out over the next few years. The idea is not to do a complete turnaround, especially because we're at a point of looking at investments very critically. We've chosen four of our iconic stores that also needed some form of retrofitting to test this pilot.

There's also a lot of work on packaging that we're doing, which I think you'll be surprised by; the brand will become much more modern.

Regarding Clubz, it's the benefits club that we're rolling out over the third quarter. It operates in stores, on the website, in the app, and for services. And what's the goal? The goal is to increase frequency. I want the customer to visit the store more, I want them to use the app much more, and the more frequently they do that, the more they'll spend with us. And the more they spend with us, we believe we increase our share of their overall spending.

So, basically, it's a desire to increase more the cross-selling between products and services, and bring a journey, which is not new in the market, but in the Petz market, it is new, with much more cash back, with digital cards, with coupons, with challenges in a way, which is very individualized. So, we're able to do promotions, which are quite individualized for our clients. This year so far, we were looking at a free version of this club, but starting next year, we'll have paid benefits for those who are preferred.

Next, here in our brand is several products, which have joined in our stores in this semester, in this half, and it's already changing. This is part of the brand refreshing that we're doing. The design is new, the logo is different, the initial pets, and lots more is coming. And as it continues strengthening this ecosystem of private label, why is it important to have these private labels? These products are not found in the market, not in the marketplace, and not with our competitors. We also have a difference in margin, which is significant with the private labels, which comes between 5% and 8%, in terms of gross margin, compared to products that we buy from suppliers.

Next slide. Here it's interesting to mention, how much we have been able to, especially after these acquisitions, to increase our share in private labels. We increased by 24%. Our share market private label is already 24% in the categories, in which we already offer products. It's lower when we look overall because I still have lots of animal food in the mix.

So, our share of private label is 8%. But when I look at that, we have a penetration of 24% in that 8%. So, this 8% is a question about that in the chat. This 8% we want to come up to 15%. It's our current goal. How are we going to do that? As Sergio mentioned, investing more in dry food, dry pet food. We have the Zee.Dog Kitchens, but we don't have the dry dog food sales, which is the majority of sales in our stores and in the market. We have our offerings. Offering this to our clients.

As Sergio mentioned, the fall-off in food opened space for our suppliers to be able to negotiate attractive conditions for them to have their own margins, and we're able to have something along the lines that we want to close in that gap between having our private label and what we're able to buy from suppliers.

So, the biggest highlight that I want to bring here are hygienic carpets. Petix entered into our results, dog pads, and 78% of all of the dog pads that we sell are already ours, our brands'. This is 21 percentage points above the same period of last year and how we're going to do this? By creating new SKUs, creating a price level, which is more intelligent, looking at how we sell in the B2C, which is inside of the Petz store, compared to how Petix has sold in the B2B channel.

So, we have adjusted this and this has been reflected in a very big increase in the sale of Petix products in the pet stores, but it's not just dog pads, collars and harnesses are also increased to 54%, which we started recently. We're already at 16% with wet dog food.

What we see on this slide, on the right-hand side of the slide, this re-architecture of brands. And today, we have brands in these different pricing points. What's very good is, I'm able to have, in base of R$100. If I have a Spike collar, it's R$60. If I have the Petz collar, which is positioned in better, it's in the level of R$100. And the collar of Zee.Dog is R$140-R$160. So, I'm able to increase my addressable market and the number of clients that I attend through private labels. We're very, very comfortable with this, and this will be one of our principal competitive differentials.

Next, here is a status, an update on how we're doing with the Zee.Dog integration. As we already mentioned, we produced a lot of negative results from the acquired companies. We reduced that loss, but we've had a lot of work, which has not yet appeared in these numbers, which is the reintegration of the system in accounting, fiscal, payroll, etcetera. All the back office stuff, several changes in terms of management, reports, efficiencies in several business areas, in which there were duplications. But looking at the core business, we also have advanced greatly. How? You see, now we have a structure, which is very integrated with the digital structure of Petz. Many promotions which are done together, very much architected between these two channels.

In the upcoming fourth quarter, we have the Petz stores functioning as hubs for Zee.Now. So, expanding the addressable market for Zee.Now. And here I point out that in the global and in Europe, we had a falloff in sales in this quarter. The international market, as well as here in Brazil, still confronts several challenges with inflation. And what I've done here is, adjusted the structure of these locations, putting in a little bit the direct sales and starting to work with distributors, so that we can -- looking at this Zee.Dog, diminishing the losses that we've seen of Zee.Dog, over these next months.

And as Sergio mentioned, Zee.Dog Kitchen is something we're very proud of, and we're looking at -- the manufacturing have reached breakeven. And how new packaging, new ways of making this product even more attractive and increase the market, the addressable market.

Another thing that's important to mention here about Zee.Dog is the question of franchisees. We've advanced. And states in which it's not yet, which is the case of Sao Paulo and Rio de Janeiro.

Here, Sergio spoke about the healthcare plan. What we bring here is data, giving a spoiler of when this is going to be launched. But when we look at the North American market penetration, it's at 2.5%. It's a very low market penetration. But when I compare it to the Brazilian market, it is eight times larger. So, here we only have 0.3% of the pet population, dogs and cats that have health insurance, are only 350,000 pets. When I look at our network of loyal recurring customers, we have 2,600,000 clients. So the idea here is not to look at the pet insured by the competitor. The idea here is to take our customers and actually convert them to our health plan. And as Sergio mentioned, our plan will be different. It has a strong focus on prevention. It's not just for emergencies, although it covers emergencies as well. But we want to reduce emergencies through prevention.

We will use our own network, Seres, which is a network of excellence, and we already have the cost in-house without the associated revenue. That's what I would say is our greatest strength: the acquisition cost. Our CAC, which is what we refer to as the Pet Acquisition Cost, will be much lower here because this customer already buys from us, is already our subscriber. We can reach them because 96% of our purchases are identified.

So, we've had a series of hirings -- It comes from human health and understand health care plans and it's going to help us to regulate this market. And we have very few rules, but we believe in the professionalization and formalization of this market in the future. So, we have lots of people supporting us and helping us with the best calculations. So, we should be launching this pilot in Sao Paulo, at the end of this year, beginning of next year, and seeing what's happening right now.

We're structuring all of this, which make this viable, so that we have no friction between a client and the health care plan.

So, I'm going to go very quickly. Several investors have asked about the journey of sustainability. We've made a great deal of advances in this first half. We have greenhouse gas advances, the questions of CDP, and we will be elaborating our report, our sustainability report, very soon. It will be our first report, our first sustainability report.

Our pillars, which we put here, are generation of value for society, sustainable operation, and responsible businesses. And this is all focused on that, which is our principal objective as a company, which is the health and well-being of animals.

And so, here are a few examples of elements that we worked with in the first half. I'm going to mention two things, which we talked a lot about in sustainability, but this will have to come with financial sustainability as well. So, several things that are important to mention here. Some packaging, which we see in our e-commerce. In some stores, there are at least 10 stores that are operating in this way. We no longer place the plastic envelopes around the bags of dog food and we just put a sticker on it, which generates an economy of packaging, not creating more plastic for the environment, and also don't have the cost of this package.

So, it's going very well. It should increase very soon the number of deliveries in stores, which will deliver this without these plastic covers. Another initiative which we're very proud of. We have more than 20 stores in which we have adjusted all of the automation of the air conditioning. 15% of the cost of air conditioning is being reduced by this automation. Obviously, we have other initiatives related to a Pet adoption program, the “Adote Petz”, which is our big program of sustainability so far.

One that's very important for you to know, a partnership with the RedDogs Institute. They have several animals which they train, and totally for free, to be utilized for emotional support dogs for animals, especially for children in the autistic spectrum. And so, they're being responsible for all the medical care for these dogs to guarantee their health and the prevention of disease.

Looking at the financial results, I'm going to go very quickly. It's important to say that in the quarter, we grew 18% the total revenue, consolidated revenue. When we look at Petz Standalone, it's a little bit below that. Products growing more 17.2%. We had a closing, which was very, very important, of units. A temporary closing of service units, whether it be grooming or whether it be clinics. So, we had a fall-off in services because I had these units in my base of comparisons. By removing that, I removed some growth.

In gross margin, when we look at the consolidated numbers, we had pressure of 120 bps. And here I have the effect of Petz, Standalone Petz of 80 bps, and this becomes 120, when I consolidate, and that's the gross margin of Petix, which is traditionally lower because we're talking about an industry, instead of a retailer. It has a margin of about 15%, while our margins are closer to 40%.

In terms of EBITDA, as Sergio also mentioned, we have been doing very well. In the question of expenses, we have decreased sales expenses. Our G&A is under control. But obviously, it's not enough to compensate the pressure on gross margins. So, we're consolidated with 80 bps of pressure. When we look at quarter-on-quarter, we're able to have a gross margin, EBITDA margin, 30 basis points above what we delivered in the first quarter.

We're looking at another point which is important, is the EBITDA of acquisitions. The first time, since we did acquisition of companies, this is the lowest level of losses that we've had with the acquired companies, and we'll be speaking about that more going forward. And we have an improvement, and it should continue during this coming quarters.

So, one of these highlights is R$60 million, instead of R$3 million in the same period of the previous year. Very much efficiency in capital, working capital and suppliers. We reduced the cash cycle of the company by 11 days in just one year.

Here's the data for the first half. The first, it's easier to see the photo with less distortion, quarter-by-quarter distortion. So, you've had growth of 20%. Without any doubt, it's a growth above what we see in the market. The gross profit, we grew by 17%. And the adjusted EBITDA 14.3%.

So, we look at pressure on gross margins. In the semester, we have 110 bps, and in EBITDA, 40 bps. And a generation of operating cash, very positive when we look at the half. Remembering that in financial terms, during this half of the year, we captured approximately R$400 million in debentures.

So, not to make this too long, we've had more growth in this semester of 20% in line with what we had mentioned at the beginning of the year, but it's a point that I wanted to call your attention to is same-store-sales, which is a little bit more complex, compared to the first quarter of this year. The normalized version where we exclude stores, which were open very close to other stores and we had some normalization due to digital. This number is approximately 8%. It's a number that we use here for internal management and it's been a reflection of the more challenging environment for retailing. It's been improved, but it's still there and the fast growth in the expansion. We opened 45 stores in the last 12 months, and this has had an impact on same-store-sales.

In terms of digital, the message of this slide is a stabilization. We have three quarters, where we have stabilized our digital penetration, which is a reflection of the initiatives that we've done in profitability, which means that the digital has not had this uncontrolled growth due to the stress on profitability. And the highlight for '23 are two initiatives due to profitability. The first is we were charging a pickup service charge. We implemented it in the first quarter, and we stopped it in the second quarter in this line of improving our competitiveness. And at the same time, we've added a tool, which does not permit the discount on the discount.

So, basically, previously, we had a discount on a product. And then, if you were a subscriber, if you had a 20% discount on a certain product, and more 10% for being a subscriber, it no longer works that way. On the available discounts, it's the biggest available discount, which helped our profitability to be improved in the digital sales together with the service fee, which we've been charging for several months, since December of last year.

We continue to be very happy with our omnichannel base of clients. We had growth of 15% y/y, and the omnichannel client spends about 60% more than the client in the physical stores alone does.

Gross margins, we've already talked about that. So, when I look at the group, we have a bigger pressure, due to the consolidation of Petix, if you look at the standalone, these 80 bps have come from a combination of digital penetration and the pentration of food in the product mix which is higher. It's taking longer than expected for the discretionary purchases in our mix and the competitive effort in digital sales, which has been more intensified in June, especially when we removed some tools of profitability to become more competitive.

Expenses, we've been able to do a very strong job in expenses, even though revenue has grown 18%, operation expenses have grown only 17% and the sales one just 14%. We've had a dilution of expenses. And where has this come from? We've been more and more efficient in performance, delivery of last mile energy consumption and several initiatives and supplies. So, we've been able to do a lot, and the idea is to continue in the second half of the year on the contrary to become more competitive for the final clients to be able to secure more our expenses and this continues.

And here I would say, on the contrary of this reduction of expenses, we also have several factors. One, we have one more distribution centre in Hidrolandia in Goias, which generates a little more personnel, more transport expenses, because I'm having transport that's farther than from Sao Paulo, and several reinforcements that we've done in our corporate structure, whether it be HR, services and so forth, preparing the base for the launch of the health care plan.

Here, finally, I just wanted to mention that in this graph here, the 4- wall, which we have adjusted in the last four quarters. You'll see there's a maintenance of the same standard level of the maturity of the stores and the profitability per year of store openings. Very similar to the previous quarters. There's no concern in this area.

And if I could highlight one point at the bottom, the question of the negative EBITDA of the acquisitions. We have a mix of Zee.Now and Zee.Dog Kitchen stronger, which means that the EBITDA margin is a little bit more pressured because these are businesses, which are still immature and in maturation. In the case of Petix, we see an improvement in margins during the semester because it still suffered with stocks that were a little bit too high due to a higher price of cellulose, but these numbers are very positive for the second half of the year.

And finally, my last slide here, the cash position. The financial highlight in this quarter. In this half, we're talking about R$60 million compared to R$3 million, a great deal of efficiency in stocks. When we look at the number of days of stock on hand, we've been able to reduce it by 18 days y/y, which makes a difference in suppliers, a much lower level in the number of suppliers. I'm not having to make concessions to get suppliers to get better improvements in stock efficiency. And another point that's extremely positive, which is that I no longer accumulate the credits, when I sell from Sao Paulo to outside of Sao Paulo. And I would accumulate a lot of credits.

We have a R$100 million on the balance that we want to monetize this year, but the truth is that, when the DC idistributes to the stores, we no longer have this accumulation of tax credits. So, we're very happy with that.

As Sergio said, it's the first time that in the Standalone, everything that we generate, we pay in investments. Of course, we've been very criterious in our investments. We reduced greatly in the line of reforms and maintenance and others. We had R$19 million last year. We lowered it to R$3 million this year because we've no longer a series of -- we have no more new distribution centres, we have no more maintenance on the CDs, the DCs that we already had. We no longer have the purchase of Petix machinery. So, these one-off expenses are no longer part of our reality. Beyond the fact that we have been more careful in the opening of stores, the size of stores, the CAPEX per square metre. All of this shows efficiency, a greater efficiency.

And finally, in terms of leverage, in May, we raised more than R$200 million in debentures. We were at 1.65% + CDI. For five years, we considered it very attractive. We're very well capitalized. In March, we raisedR$200 million via 4131. We still haven't touched this money. It's 100% applied because the operation has been able to pay its way during this half.

And so, passing, look at our net profit, the net profit has fallen because we have a dynamic of depreciation, which does not favor. We opened a lot of stores. Means our depreciation has grown above the rate in which we have grown. So, this has impacted our profit. Basically, it's that.

So, we're now going to go for the Q&A.

Sergio, I'm going to start with a question from Luiz Guanais.

Luiz Guanais (BTG Pactual):

Good morning. Luiz Guanais of BTG. Can you please talk about the evolution of working capital in the last quarter? And what we expect in the next quarters, considering the expansion plans of Petz? If you can talk about the competitive environment and pricing, please do. Thank you.

Sergio Zimerman (CEO):

Aline, go ahead and answer the financial part of the question.

Aline Penna (CFO):

The question of working capital is an improvement, which should be maintained in this financial cycle that improved greatly in the consolidated year-on-year, so that just in stocks, it was 18 days. So, this in a certain way will answer that we should be the total focus of the company. And in fact, it's our goals, our short-term goals.

So, as a goal of the company, the short-term goals of the company, we no longer have revenue EBITDA, same-store-sales. We also have cash generation and CAPEX. So, I think that's very interesting. So, we're very much aligned in this matter.

Sergio Zimerman (CEO):

Guanais, good morning. Thank you for the question.

I think that as you focused a great deal on our competitiveness and with reason, you made your report, which was very interesting, comparing the platforms and the direct competitors, and it's basically that. As we said in the results call just a little bit ago, we are absolutely ready to protect our market share, which means that we will protect our clients, our relationship with our clients.

The dynamic for the future of this is complex to be evaluated because it wouldn't be fair to place any type of a -- the temporary aspect or the dynamic or the intensity of this because the premise is strategic, the premise is qualitative. The premise I'm talking about, we're going to protect our relationship with our client, no matter what. If you're a direct competitor in our segment or if you are outside of our segment, which would be a marketplace, for example, and want to penetrate in the pet market, we have the responsibility of leadership, we have the responsibility with hundreds of millions of clients, thousands of clients, who trust our brand and expect a commercial posture if the market is more competitive.

And as we had said, we took this option of protecting our years-long relationship with our consumers in detriment for some short-term pressure on our results. And as a result, we are very comfortable for that.

As I said, R$500 million in cash, a company which has positive cash, and we still have no net debt. Very well positioned in the omnichannel world with a background. From our standpoint, from the management standpoint, it would be a mistake to have the short-sightedness to look at the third or fourth quarter results, and forget that we have 2024, 2025, 2026…

So, answering you objectively, it would be in the intensity and in the time that the market demands. We're not going to, as has always been our philosophy, we're not going to attack the market, but we're also going to protect and give a guarantee to our consumers that they will not find any option in other person, in other places due to price or due to quality of service or speed of delivery. If we're going to lose clients, it's going to be due to incompetence of our service or because we handled the client badly. We we would be punished for that. Anybody would be punished for that in our competence. So, this internally due to prices or due to level of service, we will not lose clients due to this.

Aline Penna (CFO):

The next question is from Victor Rogatis from Itaú BBA

Victor Rogatis (Itaú BBA):

In the second half, the penetration of digital will be more comparable to the second half of last year. The same is true with Petix. Due to these initiatives of profitability in digital, it would be plausible to maintain a maintenance of gross margins compared to what you saw in the second half of last year?

Sergio Zimerman (CEO):

Hi, Victor. Thank you for the question.

Exactly for the reason which I just mentioned, I think that when we had a call in the first half of last year, we talked about protecting profitability. Now, we're having a call where the shift is being, we're going to protect our market share, whatever that might mean, in terms of profitability.

So, it's not reasonable that we put here any expectation of an anchor between the protection of profitability, which means that we're protecting our market share. This will depend exactly on this commercial dynamic, which is an open dynamic. The biggest marketplaces are participating, and it's there with our direct competitors participating also. It's going to be whatever it is, we're certain that if we direct it in this way, we are preserving the long-term vision of the company, which for us, is the most important thing.

Aline Penna (CFO):

The next question form is also from Victor

Victor Rogatis (Itaú BBA):

Regarding the exemption of the import tax rate for values up to $50, do you see this as a significant risk regarding accessory sales?

Sergio Zimerman (CEO):

Thank you for the question, Victor. This is something that I've been personally involved in meetings with Minister Haddad. Let me just give you a little more context here. This is not a risk for the sale of accessories, it's a risk measure for Brazil. It's a measure that has no parallel in the history of the world because you have countries, which do protectionism and you have the countries whom do a more liberal approach, and you have what Brazil did, which was the deprotectionism to those who generate jobs.

It's something that does, not because of the accessory, but for the retailers as a whole and for the national industry as a whole. It's so crazy. For us, it's a matter of time and we hope that shortly it will be corrected. This at the limit, if you want, and I'm going to answer you objectively. Petz as an accessory, yes. Is there a risk? Yes. Are we worried? No. Because if this stays this way, we're going to do what's going to be very bad for Brazil, but for the company, it's good.

We have an office in China. We buy a bunch of stuff in China. Instead of importing and paying 100% to nationalize these things and sell it here, I'll just leave our warehouse open in China. Open up a warehouse and do the cross-border from China to here, paying 17% of ICMS and no more taxes. We're going to sell it cheaper to the consumer and only pay 17% for everything up, until US$50

It's so senseless, this measure for Brazil, that we're not even taking the initiative to do this. We're going to wait at least until the end of the year to see that this will probably be corrected, which is the expectation that we have through our relationship with the Ministry of Finance, not because we want to have any type of tax, we just want equality, instead of increasing the taxes, which gives no benefit to local companies and to be able to sell it with a US$50 of exemption, but we have to see that it's going to generate a problem for Brazil, it will be a loss for the Brazilian economy.

Aline Penna (CFO):

The third question, and I think we have already answered in a certain way.

Victor Rogatis (Itaú BBA):

How have you perceived the competitive environment? Not only from vertical players but also from marketplaces. Regarding the private label, which represented 8% of total product revenue, what are your long-term expectations for this penetration?

Sergio Zimerman (CEO):

In a quick way, as Aline mentioned. Today, I'm talking about 15% of our participation in the market for the next few years. And the competition, I mentioned it quite a bit. For us, the competition, if it comes from the biggest competitors that we have, the biggest in the segment, or if it comes from the big marketplaces, it doesn't really make too much difference because we don't think of whether the competitor is a marketplace or if the competitor is a specialized direct channel.

We think about this with the head of the consumer. He's doing his purchase. If this marketplace is relevant for the consumer, if it's relevant or irrelevant for the consumer, that's the competitor that we're going to have to offset. It's obvious that there's space for everybody. There's space for everybody to grow, but whether it be the specialized channels or the others. The way to grow has to be a different route because anybody that is going to grow in this market, just on price is going to have to see that this is a strategy, which will not be interesting because simply, it will not be able to be differentiated by just price.

That's how we look at this leadership. It doesn't permit that anybody "oh, I can sell cheaper". As we said, for 20 years I've been saying, the best strategy to lose market is to sell cheaper, as long as you work it out with your competitor and that the competitor who sees you selling cheaper and doesn't also lower his price. Anybody that has the innocence thinking that the others will allow you to sell cheaper, we will not allow that. So, anybody who wants to sell more cheaply in this segment to the consumer, knows that they're going to find Petz, which is the leader in this segment, and which will protect our clients in the sense of maintaining our relationship that we have in maintaining these clients in-house.

Aline Penna (CFO):

Remembering also that the price is not the only equation. There are other elements of this equation, which we will come out winning. For example, delivery, faster deliveries. We have 95% of the cities, where we're able to deliver in two hours. So, at the end of the day, it's a combination of price, delivery, cost of delivery, service taxes, service fees, and so forth. And so, we look at this and position ourselves.

There's a question here from Ruben from Santander, which is a little bit along the lines of what we're saying.

Ruben Couto (Santander):

Sergio, the priorities for the second half are quite clear – a focus on capturing market share. Hearing your comments, I understand that these efforts are aimed at directly competing with the main direct competitors and platforms. Could you talk a bit more about the remaining 50% of the market, which theoretically remains with small pet shops? Is this group, as a whole, managing to maintain their market share, or are they losing share in this increasing competition?

Sergio Zimerman (CEO):

Ruben, very good question. Thank you for your question. With no doubt, this group of the 50% is a group that we believe to be a "donor", who ends up donating share in the past. When we look at in the future, any tightening of competition, as we see at the end of the second half, and the beginning of the third quarter, we see very, very strong competition.

Any competition, any growth in competition, where you see a donation of share, it will come from that 50%. It's natural that, that would be the case. When the sea is calmer, there's a slower migration. If the scenario of commercial competition is stronger, anybody who has less scale, less financial strength to stand a commercial dispute is going to lose share. It's part of the process. It's a natural part of the process.

Aline Penna (CFO):

Question from Joao Soares from Citi.

João Soares (Citi):

I'd like to hear more about the dynamics of the physical stores. Are you gaining market share in the physical world, looking at both value and volume? In this same context, how has the price and volume evolved and how is it evolving?

Sergio Zimerman (CEO):

Joao, thank you for your question. In fact, we have a dynamic of growth. And I would say, in the market overall, where growth has been more driven by sales, digital sales, then by physical sales. But in this context, we are very much aligned. It's just that our way of looking at things and our metrics, which is what matters, is the metric of everything.

To the point that we no longer consider that the investment in a physical store is an investment in the physical because the way of looking at this is very, very integrated. If market share of the physical stores diminishes, it's because it's very fluid. That client who purchased through an app, uses the physical structure to pick it up or receive it at home.

For us, what should concern us is anything in the company, in the Pet segment, is a company which just does not utilize the digital question because the consumer is becoming a more and more mixed consumer. He wants to buy in the app, he wants to buy it at the store, he wants to pick it up at the store, receive it at home. We're very well evolved, since the beginning of the pandemic.

Aline Penna (CFO):

Next question is from Felipe Cassimiro from Bradesco BBI.

Felipe Cassimiro (Bradesco BBI):

First, I wanted to understand your message about competition, especially in relation to commercial margins. Is the idea to be more aggressive in prices? What type of initiatives are you thinking about? Are we able to quantify the impact that we should see on your gross margins?

Sergio Zimerman (CEO):

Felipe Thank you for your question.

Let me tell you, no doubt, we will feel an impact on our gross margins. We have no way yet to quantify that. It's not like we're going to be more aggressive in the sense that we're going to do something, which in these 21 years we've never had to do and there is no need to do it, which is to be aggressive with the market.

What we see is that in the first half of the year, we were protecting our profitability and we allowed ourselves in the first half of the year to become a little bit less competitive, giving space for others to act with promotions or better commercial conditions, which could be superior to ours. And we knew that the market as a whole had pressure on margins. So, we expected to lead this movement in a more conscious consumption.

The market did not cooperate. "We're going to look at price. We're going to want to gain share." No problem. As I said, since the IPO, and I've always repeated. If at some moment, the marketplaces or the competitors in the specialized channel imagine that the way to gain market is price. Forget about it because they're not going to gain the market through price, because price we're going to protect. We're going to protect it, no matter what was necessary to do.

What's the impact this would have on margins and also on your results? The impact which is necessary to protect our market share, since this is a variable that comes from others, from the platform of marketplaces or the direct competitors. Whatever they do, we're ready, we're here and we're ready to, at the side of our consumers, to preserve this relationship.

Aline Penna (CFO):

The next question from Felipe is as follows.

Felipe Cassimiro (Bradesco BBI):

as far as the increase of competitors leveraging your strategic suppliers, but it seems that your stocks have gone to a very low level, compared to the historical levels. How is your relationship with the principal pet food suppliers in general?

Sergio Zimerman (CEO):

It's very, very good. It's exceptional, our relationship. The suppliers are partners. They're not worried about our sell-in or sell-out. So, everybody understands very well this management of stocks that we've been doing. In practice, this means that we have pressured a little bit our purchases because they have more logistics of inventories, but the sell-out, the sell-in was not affected. It was one or another case of a supplier who perhaps, in our evaluation has made an option to turning their backs a little bit on the more structured platforms and more wide-ranging, such as ours, and the direct competitors, which in our conception, due to everything that we've done in the last 21 years, is a very big strategic error, which they're making. However, we've always believed that we have ways to correct that. Things can always be corrected.

Aline Penna (CFO):

We have several questions here about the health care plan, which I think we've already answered most of them during the presentation. Without many spoilers, we are setting up the plan, so that we're able to have a pilot, first of all, in Sao Paulo. And this pilot project will happen at the start of the end of this year, hopefully. And what we have no limitation is the concept of the plan is already set up. What we have more limitation is in the integration with our systems. So, all the actuarial part, this has already been designed and we're doing this process, both of the acquisition of a store plan, as well as in the digital world, and putting this to happen through systems.

So, at this time, the idea is to not share this commercial strategy or type of plans, et cetera. Perhaps in the next quarter, we'll be able to do that.

Another question that hasn't been repeated here from the other analysts is from Nicolas Larrain of JP Morgan.

Nicolas Larrain (JP Morgan):

Regarding Zee.Dog Kitchen. What is lacking to get to a breakeven EBITDA? Is it just a question of more volume?

Sergio Zimerman (CEO):

Hi Nicolas, thank you for the question. Not necessarily. Here, I believe we need to be honest and say that we don't have manufacturing expertise. We are looking to acquire that, seeking manufacturing options, because our expertise lies in retail and brand management. And in that aspect, things are going very well.

However, in the manufacturing, we will need to perhaps have an opportunity to -- which are not yet clear. Clearly seen by us, but which are addressed. So, we should have in the next months a clearer. In theory, you always have to use the term volume, which is the solution. However, it's not the only thing. We have to look at the type of packaging, which has a very important part of the price of the product. We have a study in packaging, which is to be more intelligent in the sense of costs and not hurt the experience of the sale. We need to understand the size of the package, so that we can have better costs. So, there are various ways to look at this beyond volume. And we're looking at this with the hiring of a consultancy to look at all of these questions.

Aline Penna (CFO):

We also have a question here from Vinícus Pretto from Bank of America

Vinícius Pretto (Bank of America):

In this new scenario of protecting market share, how should we think about the level of margin for Petz "Standalone" for the year? How much are you willing to invest in margin for the business activity leverage you've highlighted?

Sergio Zimerman (CEO):

Vinicius, thank you for your question.

The incoherence of the previous answers. We're in a moment of making a decision, a quantitative decision. It's not a qualitative decision. It's not a numeric decision. The question of protecting profitability addressed this question that we were protecting our margins and they had a number to protect.

Here, we're protecting a relationship with the consumer, we're protecting, giving them the comfort, so that the consumer knows that he doesn't have to change Petz for a marketplace platform or for a direct competitor due to price. And that's what we have to look at the long-term consideration, how much does that cost, what's the impact of this on margins, whatever is necessary to protect this.

And so, answering. It's not really a good answer because what I'm saying here is the level that market will determine. What you do? The initiative, the stimulus to not sell cheaply is to gain a sale. If you're selling cheaply and you're being offset, what changes? You're not able to sell more cheaply. It would be due to the vertical of marketplaces or direct competitors, that price is a good way forward. But if we think they have to do it, due to all of the structure that the company has and all of these 21 years, and the respect that the consumer for Petz. I did the whole IPO saying this and I continue saying this, the company is not a company, which lives thinking about quarter-by-quarter. Petz is a company, which is constructing value in the long-term. And for investors that want to see this as a long-term thing, the decision that we're making right now is a decision to preserve long-term value for our consumers. Could it be bad in the short term? It could be. If it could be unpleasant? Yes, it could be. But in the long-term, I'm certain that the investors who are here with us are going to see that we have made a decision, and the correct decision of constructing much more value in the long-term. The gain that we have is commensurate. You protect the margin in the third quarter, fourth quarter, at the cost of losing dozens of thousands of clients in the long-term.

Aline Penna (CFO):

I think we have lost Sergio.

So, I'm going to add to his answer. A question as far as expenses, we have controlled a great deal of our expenses. Our expenses are much more in our hand than this question of the competitive questions of the market. So, we presented a lot of things in the second quarter, and the idea is that in the third and fourth quarter, we're going to be even more obsessive in each one of the expense lines of the company.

I'm not sure if Sergio is going to get back on with this, but in any event, we have already answered most of these questions we've already answered. Vinicius, I'm going to answer your second question.

Vinícius Pretto (Bank of America):

And if we're talking about something that will be more focused on the online aspect, which seems to be where this increased competition is coming from?

Aline Penna (CFO):

As far as the competitiveness, if it's focused online. Yes, initiatives of greatest competitiveness will be more directed towards the digital, but of course, they have ramifications on the physical store.

Sometimes, we have a client that's in the physical store, but he has the app in his hand, he's looking at the price of the competitors. So, we have the policy of beating that price. We'll match that price. So, we have a more aggressive question, but this bumps up against the physical stores as well.

And finally, most of these questions have already been covered. Let's see, if there's any.

There's a question from Dani from XP.

Danniela Eiger (XP Investimentos):

When do you intend to achieve a positive EBITDA for the acquired companies, and how should we think about the evolution of the consolidated margin?

Aline Penna (CFO):

As far as the EBITDA of the acquired companies, we commented in, we made a series of structural adjustments. We're dealing with some of these structural in these international units as well. So, that we are working with a fixed expense that is lower. The more we don't have the international sales happening as was foreseen. We see this, having seen this, plus the improvement of the Zee.Now margins and Zee.Dog Kitchen. We have a reduction, a significant reduction in the negative contribution of Zee.Dog in the second half.

And so, we still have some, but this should be reduced at least by half during the second half of this year. Petix continues in a positive direction. It's a company with a positive EBITDA. It has a very small operation in the U.S., which will reach breakeven by the end of this year or beginning of next year. When we look at what we had in the way of negative contribution from the acquired companies last year, which was something of R$12 million or R$L13 million. This year, we will have a significant reduction, although it might not be an EBITDA breakeven for the acquired entities, so to speak.

I don't know if Sergio has been able to come back in, but basically, all of your questions have been answered, and the other questions are very similar to those, which have already been answered.

There's one here from Andrew from Morgan Stanley

Andrew Ruben (Morgan Stanley):

Could you please detail more around the plan to optimize the store format, mentioned among your 2H priorities? Is this for new stores only, or are there remodels to consider? Thank you!

Aline Penna (CFO):

I would say here, there's nothing terribly specific in relation to what we've already done. We already have opened all of our stores, absolutely without services this year. So, the great majority of our new stores, if not all, have come without the clinics and without grooming, and this should continue in the second half of the year, with the exception of one store, which might be the first in a capital city or something that won't offer a complete experience.

And with that, we've been able to optimize the CAPEX per square meter of these stores. We've made the stores a little bit tighter. We've made the shelves higher. The corridor is a little bit narrower. So, that we don't lose the capacity of sales of these stores, but have spent a great deal less in CAPEX per store. What we see differently is in the number of Zee.Dog franchises, which are small stores. Those of you who know us here in Sao Paulo, we opened one in Ibirapuera, shopping last week. These are small stores, 30, 35 square meters, and we're going to evolve these with the passage of time. We're going to understand what are the cities where we want to have franchises, compared to those where we'd like to operate in a B2B, but we understand this might be an expansion of the Zee.Dog brand in this learning of how it is to operate a franchise, which is still something new for us.

So, I think we've addressed all of the questions here. I want to thank you all in the name of Petz Investor Relations and Sergio for the call.

Thank you all, and have a good afternoon.