

Q1 2021 Earnings Call

Company Participants

- Diogo Ugayama Bassi, Chief Financial Officer, Secretary & Director-Investor Relations
- Sergio Zimerman, Chief Executive Officer & Director

Other Participants

- Bob Ford
- Helena Villares
- Joseph Giordano
- Ruben Campanelli Freitas

Presentation

Operator

Good morning, and thank you for waiting. Welcome to the teleconference of Pet Center Comercio SA, Petz, for the Discussion of the results of the reference -- in reference to the first trimesters quarter of '21.

Present with us today, Mr.Sergio Zimerman, Founder and CEO; Diogo Bassi, CFO, the Director of Investor Relations; and Matheus Nascimento, Senior Manager of Investor Relations and New Business.

Let me inform that this event is being recorded. And all the participants will be only hearing the teleconference during the presentation. After that, we will open the section of questions and answers when more instructions will be given to you. (Operator Instructions). Results are being simultaneously translated via Internet and our webcast and in the video conference network, which can be accessed by www.ri.petz.com. We'll see the respective presentation available for you to see later. And we will be available right after the meeting.

All participants in the residence and rest of you can ask your questions via website. So that after the end of the -- after the end of comments, you can send questions to our -- to the IR guys. Any declarations made during this teleconference, relative to the perspectives of business updates, projections, operational goals, and financial goals, constitute beliefs and premises of the management of company as well as other information available to Petz.

Promise -- projections of the future do not guarantee performance and involve promises and -- which may or may not happen; so, depend on circumstances may or may not happen. Investors and analysts should also understand that general conditions, sector

conditions and other operational factors could affect the future results of Petz and conduct -- can lead to material results that can differ materially from those presented here.

Now, I'd like to pass the microphone to Sergio Zimmerman, CEO, who will begin the presentation. Sergio, please go ahead.

Sergio Zimmerman

Hello. Thank you, all. Good morning to everyone. Everybody that's listening today, thank you for your time and for giving us the opportunity to talk a little bit about what's happening -- what happened during the first quarter of 2021, this beginning of the year.

Our message that I'm going to share with you here is divided into seven sections. In the first part, I'm going to give an update about the COVID-19 effects. Second, I'll talk about dependencies of the budget. The third part is physical expansion of stores and the fourth area, we'll talk about sales and revenues in general. In the fifth section, we'll focus on the digital platform; and in the sixth section, the Petz ecosystem remembering that this is part of our vision and to be well known worldwide as the best ecosystem in the Pet segment by 2025. And the seventh pillar, we'll talk about specifically about Adote Petz. And then I'll pass it over to Diogo Bassi to enter into the details and the numbers. And in the third part, I -- he and I will be available for your questions and answers that you may have.

So, the first part an update on the COVID-19 affects, the second wave, which hit us in the beginning of March in a very intense way in the 15th in the second quarter of March, but some relevant impacts on the operation among them. How just as in the first t the Grooming Centers, we're more -- more hardly -- we're hit more -- with more difficulty. And the courses in general due to the -- the rigid procedures that we have of safety and health. Any suspicion of contamination, the employee is removed from his -- to care for the health of the others; and so, evidently, this has pressure on costs.

So, we've had a reduction of in hours in some of our stores in different states of the country. We had the closing of stores on certain days of the week due to lockups, more rigid lockups in the second wave. And as a mitigator of all of this, once again, our platform -- digital platform is reacting very well, performing well showing once again how scalable it is and how profitable it is. We also within the impact on that operation, we had also several construction projects that were stopped or slowed down. This will slow down the delivery of these -- of these items, these projects. And as a mitigator, we have a backlog of stores and contracts, which is very solid.

Even with all of these delays, we're very confident in delivering our objective of above 30 stores this year. A third block, which is about the defects inflation, which had originated in the first wave has been confirmed now in the second wave bringing several effects inflationary effects, whether they be in products, or in construction costs, or in packaging, especially in the pack -- in the product area, we mitigated a little bit this effect by purchasing ahead of time anticipate purchases and guaranteeing better margins, more

healthy margins and a little bit more time to pass through these increases to our consumers.

In the second block, tenancy general entities of the Pet segment here we have a very clear maintenance of what we perceived over the last two or three quarters of 2020. It's a -- the humanization of pets continues high, the number of subscription continues strong. And the greater interaction of people with their animals with their pets making it the -- increasing the sale of products, which generate a relationship with their animals like snacks and toys, we see clearly the consolidation of this tendency as well as a clear creation of habits for consolidation of the online in the digital growing still very rigorously. And the best of all of this is a tendency to remember that we still have only 6% of participation in the market and still 50% of the market is still in the hands of small, mom and pops, which shows us the huge opportunity that we have ahead of us for growth.

In the third block, I want to talk a little bit about our physical expansion. We opened five stores in the first quarter, which means that in the last 12 months, we had 31 -- we have 31 stores in the last 12 months. These -- and 31 stores means a -- the best 12 months in the history of the company and puts us at a level of execution, which we had promised since the beginning of IPO was just open above 30 stores per year. So, we're very confident that in 2021, we will meet that objective even though -- even take into consideration the problems caused by the pandemic.

We continue to understand that we'll be able to complete that -- to comply with that goal reach that target. We have 138 stores. We're in 16 states and we continue with the vision of by '25 being present in the in the 26 -- 27 states and federal district. So, also important to remember that in April -- we were very happy, because we got into the last region, which we were -- which is the northern region, where we were not present, we opened a store in polymers and Tocantins state; and then in April, in the middle of April, and with that the Petz brand and the Seres brands are present in the five -- in and all five geographical regions of the country.

Just remembering that in the question of expansion that as an example of what we said other times -- other periods, the expansion for physical stores is due to an investment in our project of omnichannel usage, because our physical stores has everything to do with the digital. The digital performs as is happening. It's because we've done expansion -- consistent expansion and our physical stores meaning the support of last mile delivery whether shift from store or store pickups. We also continue to prioritize the spreading out of our stores and opening less doors for identifying both strategies continue in use.

On the fourth section, talking about our revenues and sales in the quarter, I think it's important to mention that the services area in general has been very heavily affected by the pandemic especially in the Seres brand, the veterinary centers. We're very happy, because we've seen that we have a performance, which is quite consistent growing more than 50% Seres -- the Seres brand more than 50% indicating that we are in the right past and that as we open in the main capitals becoming always the reference hospital in each region. We did that in Porto Alegre in Salvador and Recife (inaudible). And so, we're always looking to put the best operation in the city. We know that the maturation curve is

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longer than in the physical stores. However, clearly every quarter, we perceive the advanced studies is being -- doing great consistently.

Here again, as the principal data of the first quarter, we reached 538 million in sales, gross sales in the first quarter indicating the growth of 53% in a product in one product 55% growth -- very solid growth rate. We also reached 156 million in revenue for digital revenue. So, it's a growth, which is not just strong in terms of percentage, but also it means a growth have more than three times what we've grown in the first, what we did in the first quarter of 2020. But also a number in absolute terms, which puts us in a situation and interesting situation as far as yeah from the point of view of sales revenue. Our same-store sales continue to be very strong, 34% of same store sales. And as I have already mentioned, the veterinary centers grew 52%.

Spoke -- speaking more specifically about the digital platform, we -- it's also worth mentioning that some states -- reaching data first. Penetration in the digital world 29% in against 56% in the last quarter of 2020, comparing that -- that was already a record, the average last year was 23% -- 23-point-something. So, even though it's a record, we beat the record again, with digital growth of -- at 29%.

So, we're arriving to getting -- we're -- almost one-third of our sales are through the digital channel. Remembering that one of the -- one of the months of this quarter, we went over 50%. So, our digital growth has been very, very impressive. Another thing that's interesting is the index of omnichannel usage. As we've mentioned, other opportunities, we are benchmark in our -- in this index of with very high numbers in this channel. However, we've been able to break our own record in the first quarter, we arrived at 85% of omnichannel use compared to 84% in the last quarter, the previous quarter, which means that for every BRL100 that we sell, only BRL15 come out of our DCs to our clients. And 85% of this \$100 goes from -- from one of our stores, one of our 738 stores, much more profitable sales.

Another important number, interesting number, which shows the very high bar for the consumption of services is say that 96% of all of our sales, which were -- from a store which you call shift from store happened in -- within one day many of them in one hour, but 96% were done within one day, which shows that for each quarter, we've improved our level starts with each quarter that passes. Another important, important data, which is very important for the number of downloads of our app, which have happened during the first quarter, we had a number of downloads that when you add it to the second -- when you add the second, third, and fourth players together, it still doesn't reach the number of downloads that we had in our -- during the first quarter. The second, third, and fourth players together don't reach our number.

So, it's doing very well with our app, remembering that it means that 60% of all of our revenue from the digital comes in through the app, which leaves us very comfortable in this -- in the sense of giving us the ability to how to -- how the users are downloading the app on their equipment. Another bit of information, which is a record for us 19% of all of our revenue in the month of March came through subscribers, subscription purchases either by making subscriptions or spots purchases on digital or in the stores or using our services. By 19% of all of our revenue came from our subscriber base and new record --

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beating the record of 15% in December. So, here's another mechanism that we are evolving in a very, very consistent way.

The sixth section of my presentation is regarding the ecosystem, the pet ecosystem, as I mentioned at the beginning and I want to go ahead and repeat it being worldwide, being recognized worldwide as the best ecosystem since -- vision that we put -- placed in ourselves by three -- or by 2025. We've set this goal for ourselves and here we have in a very active way, we're looking at the entire market. We've never looked at so many opportunities, so many companies as we're looking at this moment, headed up by Diogo Bassi, who has already been 8 years with the company, has a long experience in investment banking and in private equity funds. He assumed this area starting in the first quarter and has given a great deal of velocity in the analysis of opportunities. And here I want to point out that we are looking at startups medium sized companies and we're looking larger companies as well.

We're looking at everything in the market, because we always want to have the opportunity when there is an announcement on the part of some competitor, there won't be a case of us being surprised by something that we haven't seen. So, it's very important for us to have this entire process of evaluation so that we can know what we're going to do, because the process of M&A is not just with reference to what you buy, but also with reference to what not to buy as eventually certain acquisitions wouldn't make sense strategically or financially. And in this sense, we have evolved greatly our analysis and their sort out to advance in discussions that make sense for us and with the comfort and tranquility of not going forward discussions that don't make sense for us.

In this sense, we've taken -- we had a -- care to understand that the ecosystems is still means a lot more than buying a company and plugging it into our technology; it's much more complex than that. And in fact, just buying it would be perhaps easier than opening a store. The prime reason to buy, the problem is the next day. How is this going to be integrated into our company, how does it make sense for our operation; and above all, how this will make sense for the pet owners, the tutors, how they can add a service that will also help them to be responsible for the supplying of this service to the tutors of the pets. This is our challenge and -- that's how we plan to be recognized as the best ecosystem -- things well done and at the correct rhythm without unnecessary stress, without the idea of just buying just to buy, but with a great deal of velocity in the analysis -- opportunities that the market presents, which is exactly what Diogo has tried to do.

Remembering that the ecosystems means a lot of thinks with the tutors, so they can buy other projects other products. In the same way that you -- he can hear -- have a very favorable -- create a synergy that's very strong. Not doing it well can mean the opposite effect. You can wind up, you put a service in a way that it doesn't make sense. Bring it to the consumer and experience, which is not good. And then instead of having created a synergy the consumer will -- can be upset with your brands and due to a service that you plugged in incorrectly, you lose the consumer and the sale of that sale of that product that's where we have to have a lot of care in following. We should -- we could have each one of us could have certainty that it's when we announced new services on the platform, it's because we're great convicted, we're convinced of the quality of the service that we're offering.

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Finally, the last pillar, ESG and here we want to talk -- given a out, a quick look at Adote Petz and pet adoption program. In this quarter, we reached the symbolic and expressive number of 50,000 pets adopted through this service. It's important -- it's a very important mark in the Brazilian market; however, with that, we continue to be the biggest adoption -- pet adoption platform in Brazil whether it be -- whether because we put this at the center of our strategy and physically at the center of our stores in a most -- and the best spot in the store is occupied by the pet adoption program. So, the adoptions of animals like dogs and cats. It's done -- is a very central part of our strategy and of our store set up. And we saw that in recent months, we were the digital platform -- digital adoptions platform to facilitate the life of anybody, who wants to adopt and that wants to do that through digital means instead of only physically. Here's also important to mention that in partnership with Editora MOL, which is the biggest social as publisher in the company has given us very good fruits.

In the first quarter, when the situation here was more than 440,000 books sold with this partnership, we have with them. Making a -- pointing out of the album of sticker album, this album generated by itself almost BRL500,000 of revenue for the NGOs that work with are adopted animals. Altogether BRL6 million were raised with these partnerships. Rounding that off is made -- we had a process of evolution of this BRL500,000 were raised and in the ESG area, the Seres brand gave its contributions during the second wave spending elective surgeries principally to give an example for the other veterinary hospitals in the idea of economizing oxygen and hospital equipment to prioritize the combat against COVID-19.

So, now we're going to -- we'll go to the -- we'll go back -- will come back at the time of questions and answers. I'll now pass it along to Diogo Bassi, our CFO.

Diogo Ugayama Bassi

Thank you, Sergio. Good day, everyone. It's very happy to be able to present our results in the -- especially in the scenario -- the middle of this pandemic still hits us in Brazil.

In the first quarter, we had very strong sales growth, more than 150%, this performance was consolidated principally by the expressive digital growth of the digital channel records and we can -- as mentioned, as Sergio mentioned, we had digital record records this quarter. Even with the digital growth, we had good store sales and we'll get into more details in a bit.

The adjusted results had pressure on our margins, but it's important to point out that the header -- absolute growth. The net profit of the quarter was above the recent growth numbers. We can also pass through the top line growth for since, as Sergio mentioned, we opened six doors and we have 31 plan thereby in the last six -- last 12 months. And in this sense, we had 130 stores in operation in 15 states and 30 states plus the capital. Our veterinary centers were 116 units inside hospital -- veterinary centers (inaudible) our hospitals. We have 100 -- with growth of 68% -- growth in same-store sales of 33.9% same-store sales. The gross result was a BRL155 million, more than three times that the amount realized previously. And a record of 29% of our total revenue versus 13% in the

first quarter of last year. So, omnichannel also reached records with 84% of sales in the first quarter versus 78% in the last semester of '20.

On the next page, we're talking about the profitability went up above more than a 0.5% and 16% in digital. So, the adjusted EBITDA had BRL42 million, a margin of 7.5%. There was a -- margin of -- 1.2 -- but the expense of absolute growth of 63%. The margin was the principal function of the penetration of the digital, and our -- with sales. It's also important to mention here that our -- the life time value of the -- is at a very high level and we continue to invest in the capturing of new clients both with respective margin as well as experience. Also, we went from BRL11.5 million, fall off of to a margin to a net margin in relation to net to gross margins.

But principally in the base of comparison with last year in relation to the profit would have grown 69% -- growing well above the growth of our revenue. We compare this with the previous quarter that I've been saying very well -- during the presentation, we will not -- we no longer speak about IFRS 16, the -- with IFRS in 2016, we've looked at our portfolio stores in the quarter and several cities, who had a record of inaugurations and new states that we wouldn't -- in which we don't operate, which shows our capacity to grow. Even with the impact of the pandemic, we have -- opening new stores process and we're complete with the planned inaugurations for the year due to our robust contract -- backlog of contracted stores. We also mentioned the concentration of opening the stores that we see for the second semester -- second half of the year.

In relation to new stores, we have a part -- stores with 72% with less than 3 years in operation, which means that these stores are still would only reach that potential both in profitability and sales, still take time to do that. Our network, our chain, we have very satisfactory results. In this way, we evolve from 36% in the first quarter to 39% of the stores outside of Sao Paulo in the first quarter of this year. Also mentioned our backlog -- continues to prioritize store -- outside is Sao Paulo state differently than what we saw in the opening of stores in the period of 2020.

On the Page 16 -- Page 17 about sales in relation to BRL17 million was a growth of 52.8% presenting for the first quarter consecutively the results in relation to the previous year, the result was obtained and have digital area, we exclude 270%, also lined up with the good performance of store sales, our physical store sales as well. The evolution in sales is explained principally by the structural numbers of the pet sector. As Sergio mentioned, the expansion of physical stores. Also, and also the growth in our client base. And finally, going through to the final consumer due to the inflationary pressure that we continue to have. It's worth mentioning that this performance both in the whole group as well as in the stores happens in a scenario doing a new wave of the pandemic in Brazil, and in which -- to which we're sensitive. Even though our services are considered essential, we maintain - - we even closed temporarily certain locations in certain states. And also the aesthetics and the Grooming Centers, but all of these have now been -- are not recently reopening.

It's important to mention of the veterinary hospitals had 52% growth, due to the maturity of our hospitals clinical, clinical hospitals and also with more concern of the tutors in relation to their pets as we mentioned previously -- talk about the service. On the other hand, we are -- we have the Grooming Centers, which are closed or part of those were

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closed, because people shouldn't do that type of care outside of their homes in restrictive periods. But the function of -- is the sigma services and others showed growth of 7.1%. After three consecutive quarters of downward, now, we see a robust growth of 34% in the quarter.

In the next part by digital, digital visual sales our digital sales reached \$155 million in sales and an increase compared to the first quarter of 2020 and in 2021, a new record or participation in digital sales. This growth represents three times the previous period. The operation -- digital operation has been consecrated through our omnichannel platform, which offers a high level of service to our clients. About our digital channel, we have more than 1,000 SKUs available on our site. And we see that as the biggest offering in this segment, our site has the largest offering in this segment. The omnichannel was we should mention as a record of participation of 84% and digital sales.

We also want to highlight as Sergio mentioned giving the -- making a hit overall sale came compared to 15% due to our very careful control of cost. The digital highlight has been the app. Our app led in the first quarter it was better than the than the second third and fourth place apps together. This app has not participate in more than 60% of our digital sales with growth of 5x in relation to the previous year. In the site, we consider consolidate our position of leadership reaching the number -- record number of accesses. The recurring data reached 80% of the digital total, even in a scenario of great problems with the clients did not overcome -- did not frustrate the overall growth of the channel.

On Page 19, as far as profitability, our gross margin was 40% total gross -- growth of 54%, an improvement of 1.5% even with the participation of digital sales growing by 16%. This growth of margin shows a more concerned with sales with sales and services, and also somewhat higher levels of margin. We also anticipated purchases with industry -- inflationary and I've benefited our margins because we had anticipated, purchase them until and a larger participation of sales. These sectors more than compensated on the digital margin and the rest.

As far as EBITDA, adjusted was BRL49 million, which represented a straining of margins compared to -- but with absolute numbers that were very, very expressive. The margin was affected principally due to the digital sales and the number of digital sales. And we see it -- but we see that's very healthy and we continue to invest. Margin were pressured by 1.8%, especially with freight costs and we're reinforcing our -- as we reinforce our -- digital, we also had better -- lower expenses with transport and with packaging, which have a larger consumption in digital areas, but we're also impacted by local inflation.

Our general expenses and administrative expenses due to the higher operational leverage in the dilution of fixed costs that we've seen over recent years. As we have seen, this delusion more -- is more than compensated in the stores and which had an impact as a question of costs and very expressive occasions by -- caused by the COVID-19, the second wave of COVID-19 and was also compensates the corporate investments, which we made in technology, Seres, and the ecosystem pet solutions.

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Finally, in relation to our investments, which comes the BRL46 million in the semester in the quarter, an increase over the previous quarter. The majority affect our stores -- 33% in line with the number of stores. As Sergio also mentioned, the investments in new stores also represents digital investment since 85% are shipped from stores, our digital sales -- shipment store, whether it be -- shipment store. So, our technology and -- digital -- our digital technology Investments for to improve user experience analytics, subscription use of the -- via the app and other set of products, however -- which is up to increase product in due to our leverage, we continue with a stable level of leverage in a relation of debt to adjusted EBITDA.

And now give -- pass it over to Sergio for his final thoughts and then your questions-and-answers.

Sergio Zimerman

Very well. So, concluding the presentation, as we have put it in all of our presentation, we had a first quarter, very, very, very good. The questions are growth, with the challenges that the digital places when we have an increase, an abrupt increase in the participation of the digital sales. When compared to the first quarter of last year we grew by a factor of three, three times of the sales naturally with a level of pressure on the results, but consider -- widely considered reasonable since when you refer to gross margins, we were able to maintain our gross margins, our product margins. And as far as expenses, we had an increase principally due and I will repeat here as Diogo mentioned due to the increase of cost of client acquisition, more investment in client acquisitions and our inflation in general, especially in relation to digital, such as packaging material for instance.

So, now we're at your service, at your disposal for any questions. Please feel free. Thank you very much for joining us. Thank you for your time.

Questions And Answers

Operator

(Question And Answer)

Ladies and gentlemen, we'll now begin the section of questions and answers. (Operator Instructions). Our first question is coming from Joseph Giordano from JP Morgan.

Q - Joseph Giordano {BIO 17751061 <GO>}

Good morning to everyone. Good morning, Sergio, Diogo. Thank you for answering my question. I have two questions. The first one, I wanted to get your opinion about the evolution of the strategy of the pet solution ecosystem and understand what do you think in terms of the potential M&As that might support that. And then it goes to my second question, have you seen the environment for M&As that are a bit larger? And how involved you are in this aspect as you mentioned of the -- that deal was taking charge of this new initiative?

A - Sergio Zimerman

Thank you, Joseph, for your question. Here, we had said in a previous moment, but it's also important -- always important to mention that we still see this in three blocks principal blocks one. An M&A strategy, which is more transformational more much larger volume, which we basically we're talking about three companies and we're talking about M&As that are more tactical, which can be -- with the entrance in to (inaudible) regions or to accelerate the consolidation in a region, in which we're not present, which would be small chains of five, six, seven stores, which can make sense.

And the third would be in a much wider quantity everything that adds to our ecosystems. We've been very active in the sense of looking at these three -- these three possibilities trying to establish a dialogue with other companies when possible. Who want to converse with us, want to talk. This has been headed up by Diogo in a very, very interesting way, very competent way. We've conducted the process to -- as I said impact arriving at the conclusion, why what we what we don't want, which is also very important certain situation in which we've entered into discussions. Why? Because when we see an announcement in the market, we have the comfort of knowing that it's a company that we've analyzed.

If we consider the possibility and we do not see interest either from the standpoint of a strategical or in the idea of pricing or the -- or as a part of our portfolio. So, which should result in this is that the expectation is within this year and within the next few months that tried to make announcements in the sense that of complementing our ecosystem. If we have this challenge thereby 2025 to be the most complete ecosystem, we naturally are not going to want to start doing this only in '23 or '24, these acquisitions. We have to think about this right away.

It's exactly on this that we're focused, so we're very optimistic. I think we see in our environment -- with a lot of spotlights of investors -- of interested investors in these companies. And we see assets, which are very interesting and we see other assets, which are perhaps surfing a little bit on the wave of the sector being in evidence, but not necessarily having the necessary content to justify that we do an offer in the -- in this prices that are being requested. So, we're very optimistic about this vertical, but I'm going to pass this over to Diogo now, who can complete my answer.

A - Diogo Ugayama Bassi

Thank you, Sergio. We also -- with the company over time, we've already done business to over time, but in a certain -- generally in a way that's not so organized. And so, what we've done now is to structure -- in fact this area under -- with a dedicated team under my leadership to look at the rhythm depends evidently on the negotiations that can be made. And how this will combine with us, whether it makes sense with the strategies. So, we're looking at everything and we see a very see a very, very big opportunity. We're looking at the business that especially in the pet solutions ecosystem that can bring recurrence and loyalty and we're looking at businesses that bring complementary competences such as self-service content, education, technology, which makes sense for our ecosystem.

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And we have a vision to -- for the -- to help young business to become the biggest pet platform in Brazil with the 139 stores. And also heavy growth since '17 with digital and Seres and pets and all these other integration. So, we have this platform, the use of this platform that capturing the synergies and we have these bring differential, different products that are differential in their use. So, to maintain them in a structure in which they continue with capacity for the creation and innovation. Sergio says very well. If we have to find somebody and it has a competency that we don't have, our job is to stay out of his way and let him drive. So, when we acquire these type of talents, we bring them on board and we try to make them grow.

Q - Joseph Giordano {BIO 17751061 <GO>}

Very well. Thank you very much.

Operator

Next question comes from Bob Ford from the Bank of America.

Q - Bob Ford {BIO 15127836 <GO>}

Thank you. Good morning. Congratulations on your quarter. I have a couple of small question. First, as the clients go back to work, will there be a bigger necessity to more quickly and we talked about the improvements in your tools of CRM and some of the innovations, which led to a higher level of involvement. And finally, in relation to Seres, is there a role for telemedicine? And how do you see the -- how do you see the capacity of leveraging this going forward?

A - Sergio Zimmerman

Good morning. Thanks a lot for your questions. Your first question, can you please repeat -- repeat your first question?

Q - Bob Ford {BIO 15127836 <GO>}

Of course, Sergio; I'm sorry. As the clients are returning to a more normal life, back to work and so forth, do you perceive a higher level of need for convenience for a more complete and faster service for the clients?

A - Sergio Zimmerman

Great. Okay. And relating to your first topic, this return to normality, evidently, we're still in a scenario, which is still a long way off from the pre-pandemic scenario in terms of the word normality, because work is starting -- is still happening greatly in a very different way with a very high level of home office participation and possibly -- even with the mass vaccination, work will not go back to its previous style of pre-pandemic use. However, in any event, since we have levels of service, which are already quite high, a good part of our deliveries happens in two hours and 96% happens within one business day. Perhaps we don't feel pressure unless a pressure to become faster and better than that, because we understand that we've already reached a very high level of velocity. We always require improvements of ourselves to be constantly to offer new things to improve our process

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to help the tutors to be faster and more simple. But it's more of our own cause rather than a demand from the public.

As far as CRM, we have developed over time and especially now in the first quarter, our mechanism of customized offerings, which have shown it to be very assertive with substantial growth and adhesions on the part of our consumers. And in all -- involving in these offers that are absolutely personalized that have been made. At the same time, we are completing a project with Bain & Company in this -- in the direction of integrating as the best possible way our loyalty program, our CRM, and our subscription program. So, over the next periods, we will be placing this so that in the middle of '22 have -- but this whole system absolutely integrated. We have a very intense agenda of integration between the physical and digital structures and is customized offerings.

As far as your third question, the question of telemedicine, it's important to mention, there's a regulatory aspect differently from human health. The veterinary health does not permit telemedicine. The orientation seller by telephone, we've had some difficulty in though we are being able to do it, but the regulator -- the regulatory -- CMV still understands that a more conservative look at the idea of the telemedicine for animals, veterinary telemedicine.

How do we plan to grow Seres to be robust and to be absolutely significant by the intake -- by vertical integration. So, we want to have laboratories, diagnostic laboratories, we want to spread out our hospitals in the principal capitals and in a -- as a natural consequence of this create a health plan, which has -- vertical so that we can capture the highest possible quantity of users in -- democratizing access to veterinary care. So, we're very helped, very confident that we're doing -- what we're doing, we're building the infrastructure to be able to release a new health plan in which the consumer can pay. Which can pay for one thing that will be just a method of payment and not a form of service.

We've always rejected the plans, the health plans, current health plans, because they implicitly pressure the clinics that -- supply services to not give the same type of service to the health plan participants as to the other clients, so we're going to invest more in that. Anything I didn't mention? Is there anything else?

Q - Bob Ford {BIO 15127836 <GO>}

Just one more thing, Sergio, if you could talk about the necessities of the markets with your health installations. Can you attend the market or do you think you would need to incorporate independent suppliers?

A - Sergio Zimmerman

Very well. In the analyses that we've done so far, we have already seen that Seres, the Seres brand makes a lot of sense when it's connected to our best stores. We see that the that Seres as a -- standalone has challenges of profitability that we wish -- plan to enter. We see that it makes a lot more sense for these hospitals to be connected to our stores because of the cross-selling effect that they generate. So, all of our strategy of advances

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in the Seres brand is related to the expansion of our physical stores. So, we don't have a horizon of seeing -- operating series as standalone operation.

Q - Bob Ford {BIO 15127836 <GO>}

Very complete. Thank you very much. And again, congratulations for your results.

A - Diogo Ugayama Bassi

If I could just add one thing, you -- Sergio mentioned about convenience, so even though in the second wave of COVID, people have been more at home, but we see in our businesses that in the digital channel, the area that grows most is when we look at the digital that express delivery -- the digital has been one in 7%. So, this shows that the express delivery and we've operated very well. And then our level of services has brought more loyalty from our customers. We look at the express mode -- 50% of the sales already ready to be go right on in. Sergio talked about one day or few hours, but actually more than 50% depending, which were very -- is very pleasantly the clients. Sergio mentioned my offers -- the personalized offers on the app, which has been more complicated. We're noticing the tendencies of being assertive with our clients find base and the work of Bain & Company, which is an area of cross selling and so forth. We also have used these tools the most sophisticated tools in the market. We works Chewy, DocuSign, iFood and so we used all of these things, more and more. And what we have -- which is very sophisticated not just for Brazil, but also outside of Brazil, certain things that we see that we do ourselves in terms of calls.

As far as telemedicine in are, as you mentioned in our presentation, we have a tele orientation in the last quarter, which we started and it's free for our subscribers. And we see also that in the telecommunication area as soon as relevant, either because the veterinarian or because more information to the clients and strengthen the Seres brand. So, there's an interesting cross selling. And we look at this situation very carefully, the idea of telemedicine, but we have to see what the regulators will allow. As far as Seres, it's important to mention that we have -- our Seres have tomography, radiography and so forth and so we have all the technology in -- necessary demands and your initiative of having a 116 veterinary centers that we have a number of them are clinics and with basic services, consultations with specialists, simple surgery such as castration, but for the more complex operations, we use our hospitals.

Q - Bob Ford {BIO 15127836 <GO>}

Great complete. Thank you very much.

Operator

Our next question comes from Helena Villares from Bank Itau.

Q - Helena Villares {BIO 21333811 <GO>}

Good morning. Thank you for taking my question. Second is relating to -- related to the competitive environment. You've had some question the investors always wanted to know updates on that. If you see any difference in the -- important for us to know and also in the

sense the environment -- in the competitive environment, the question of online sales for you guys, which is performed very well. Beyond this modality of services, what are the things that you think have been some -- have called the most impressive about the app and in general pets.

A - Sergio Zimerman

Thank you, Helena. Good morning. Thank you for the question. As far as the competitive environment; naturally, we are -- the segment is -- continues to be -- with the players moving very well -- making changes. And up until the current moment, we understand that the environment the ecosystem is very normal and very acceptable, very reasonable, which is what we see happening. We see a movement of the association with private equity, which (inaudible) did in a very positive way. We understand that this helps with the profile civilization and a governance of their -- of the company a higher level of competition. And so, we'll look at that with a great deal of happiness. We're very happy to see that movement and we see that our -- and then I go into the second part of the question.

Our online growth is in fact -- has in fact been at a velocity, which is extremely interesting. And I attribute that to the conjunction of having taking a while to come out, but when it came out, it came out very well done. In fact, we want to repeat exactly the same thing with our record system. The market things that we're taking to a long, but it's a characteristic. We've done this in the omnichannel use we took time, but when we released it, grew very grow quickly, because it was very well structured. Ecosystem for us will be the same thing. We're going to take our time, but when it comes out, we will go quickly.

So, going back to the digital world is a conjunction of our stores working 100% on the omnichannel and omnichannel way, a level of services, which is very high and in terms of price at capacity to offset any movement in a more aggressive movement that the competition may make. When you combine that, the tutor also sees clearly that he's going to always buy it with the -- for the best price and with the level of services that is technically -- he doesn't need any service higher than that. You can imagine -- if you can receive it in two hours, being five kilometers from any of our stores, this is a level of service, which is quite high, already quite high.

So, we believe that we still -- or just at the beginning of this journey, we see lots of room to growth -- grow in the digital area and we've even better, we've done this without -- without hurting our physical stores. They continue going to the stores. And it makes all the sense, the geographical expansion that we've made. So, fundamentally, in the competitive environment intents, but also within a little normal of players, who've obviously once capture a bigger share, bigger piece of the pie. And so in general, we're going well. If we think a bigger overview in all of this, we see -- what will happen is a vision that we see since the beginning of the IPO that on this timeline the small pet shops are lose -- will continue to lose share remembering that still more than 50% of the market is on the hands of small pet shops.

The second country, which is England, this is 25% in England. So, our vision over the next 10 years is that there will be a very strong fall over the small players in this market and this will be done in relation to the good movements, which we and our competitors have done. The thing that we always want to be ready to do, is to be the player with the most conditions to capture this share that the small guys will have over the years.

A - Diogo Ugayama Bassi

And Helena, if you allow me to compliment his answer, the competition as Sergio mentioned at acceptable levels, we saw an anticipation with certain promotions that have been done discounts and free freight so forth. And we decided since we have a structure of cause it's very, very advantage, advantageous even with these scenario --

(Technical Difficulty)

Q - Ruben Campanelli Freitas {BIO 20636571 <GO>}

-- houses being invested in relation to the market. Okay, thank you very much.

A - Sergio Zimerman

Ruben, thank you for your question. As far as the 15%, which go out from our distribution center, you have a mix of situations will happen. The fact of the long tail sales. You also have the shipping to regions that do not have a store within 5 kilometers, which -- as we have pointed out in our operation as we do. These are the two principal cases, in these shipping in the direct shipping from the CD, from this DCs, we've worked on the second part coming a long tail, but also in a geographic region, the more spread out we are, the better this process get, beyond which we also will see opportunities for eventually increase this 5 kilometer area in which we have this fast delivery.

Looking at the long tail strategy, we've done it in a consistent way -- growth in a number of SKUs. We are the player with the highest number of SKUs in the market and we continue with our strategy of increasing our number of SKUs. Basically, it's a in a very simple way, what is behind this strategy?

The strategy of the site incoming known in the following way by the consumer. If you don't find it in pets, you won't find it anywhere, because Petz has everything, everything that you've got to have for your pet. So, this is the direction of our strategy. We want to be at the site, the most complete site by far in relation to what exists in market, both for consumers, as well as our collaborators, our employees have confidence enough confidence that when the consumer goes to look for a product in one of our stores and doesn't find that product, so that everybody has this -- knows that you can go into that site, if you don't find it in the site, you won't find it anywhere. And that's why we -- and that's the direction we're working during the next periods to consolidate this concept.

As far as the question of inflation, there is an effort on the part of industries to try to hold for as long as possible -- repassing the pass through of price increases in raw materials, but obviously, we get out of moment when they eventually it has to be re-passed -- passed though. And we've tried to do that. We hold it as far as we -- or as long as we can.

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And then we make a pass through and then on our part, we also try to hold as close as long as possible, so when we get to the level of not being able to replace our projects, we have to have to re-pass the prices. This has also a dimension. Our number is not IGPM PCA, it's a medium number of the index of around 40% per year of inflation in our products. Following this inflation index, which we see not cooling off of this number. We think that this may still happen for a while this inflation that it will continue to have this pressure on our raw material -- on the raw materials that industry uses. What do we say tendencies for the gross margins in the next semesters, I'm going to let the Diogo answer that one, because he as CFO get you -- will get into the details.

A - Diogo Ugayama Bassi

Thank you very much. As far as inflation, so level of crisis to book to seek this arbitrage with prices, knowing that digital is for the most perfective. Most perfect competition between the, first stores and then the digital. So, it was waiting for things to change. Especially products on the a curve, you have the impact, a bigger impact of this lack of connection of the disconnect between the two.

Looking at the scenario inflation and they act in the current scenario, penetration of digital. We imagine that this can have an evolution, we're working on a larger scenario, of this, an opportunity that would be offset and compensate and revision of third quarter was 7. And now, we're talking about something might go to 12. It's very difficult to work around these numbers. The IPC for the -- came out just now and -- but -- and we hope for a more stable scenario and they hope for an advance in that area.

Operator

(Operator Instructions). We now close this section of questions and it -- questions and answers. I'd like to pass it back to Sergio for his final words. Sergio, you can continue.

A - Sergio Zimmerman

Well, I just want to thank you all for having listen to us during this conference. Thank Ruben, and Helena Villares and Joseph for your questions, which always gives an excellent opportunity to clear up several points. And to say that we are very confident, we continue very confident that we'll have another big year in the history of Petz and always doing something that we have done best since the day of our founding in 17th of August of 2002. Always with that, our mentality thinking about -- things that make sense for the consumer. This is our essence, it's our soul, and that's how we continue going on.

A good day to all of you and a good week, and thank you all very much.

Operator

Thank you.

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