

Q3 2021 Earnings Call

Company Participants

- Aline Penna, Chief Financial Officer
- Sergio Zimerman, Director & Chief Executive Officer
- Unidentified Speaker

Other Participants

- Joseph Giordano
- Luiz Felipe
- Maria Clara Infantozzi

Presentation

Unidentified Speaker

Good morning and thank you for waiting. Welcome to the teleconference of Pet Center Comercio e Participacoes SA for the discussion of results referencing the Third Quarter of 2021. Together with us today are Sergio Zimerman, Founder and CEO; Aline Penna, CFO and Director of Investors Relations; and Matheus Nascimento, Senior Manager of New Business and Investor Relations. This event is being recorded and all participants will only be hearing the teleconference during this presentation. And after that, we will open up for questions and answer when we will explain and instructions will be given. If any of you need any help during the call during teleconference, please ask for help of an operator typing asterisks zero. This event is also being transmitted simultaneously via the internet via webcast by means of video conference. It can be accessed www.ri.petz.br. The respective presentation is available there. This event will be -- the recording will be available right after the close. All participating in the webcast can register in the website, any questions they might have for PETZ and we will ask them at the end of the presentation by the IR department.

Any declarations that may be made during this conference relative to business forecasts, operations, operational and financial results, our beliefs and projections of the administration of the company, as well as information currently available to PETZ. Considering these structures, these are not guarantees of future performance and they involve uncertainties and premises as they refer to future events and things that may or may not happen. Investors and analysts should understand that general conditions, market conditions and other operational factors may affect the result of future results of PETZ and may bring them to different results and those expressed in the near future considerations.

We would now like to pass the word to PETZ's Sergio Zimmerman, CEO of the company, who will initiate the presentation. Sergio, please go ahead.

Sergio Zimmerman {BIO 21681486 <GO>}

Good morning. Good morning to everyone. Thank you to all. Thank you all for your time.

Before going into the actual results, the third quarter results of '21, I would like to make a comment and speak a little bit about the moment in which we are living, and a little bit of the perspectives for the sector.

We, in all of this period of a year and so forth of -- it's a moment which we pass along our results to the market. Our market is still under pressure and still stressed. At these moments of stress in the economy, inflationary stresses, the dollar exchange rate, the interest rates, we have a history of -- interesting about the segment, the Pets segment. I normally say that the Pet segment, it is very resilient and important resilience. It's not that it's immune to these things, but it's clearly resilient in relation compared to other retail segments. Always remembering, the years of 2014 and 15, when Brazilian retailing fell sharply, fell more than the GDP and the Pet segment at that point in time was positive, and continues to be in every moment of difficulty in the economy.

So at this moment while we're presenting, we confirm this perception. First of all of this Pet segment and secondly our position in this segment. We see clearly that during these 19 years of history, systematically, we have performed better than the Pet segment overall and this is what we call double resilience, double protection against these moments of stress. So we have the protection of the segment in which we are inserted [ph] and in second place, our performance, which in 19 years uninterruptedly, has been above the Pet segment overall.

So, having made these initial considerations, just to give you a little context of this presentation of the third quarter that will corroborate this question of the resilience in adverse moments.

Starting now, expansion the third quarter marked an important fact which was the mark of a 150 stores in every region in Brazil. We're now present in all five geographic regions. Another important point was the advance of the Seres brand. Three new hospitals arriving in three units and nine states. So, here with relation to Seres we have done a consistent work, gradually -- of making it the biggest level of veterinary hospitals in many states of the Federation of the Brazilian country and the country of Brazil. So here we have a platform, the omni-channel platform continuing to surprise, continue to break records, one more record, one more quarterly record which we will present today about our omni-channel usage is consolidating this platform as a benchmark in the Brazilian market and even a benchmark in the world market in the pet segment and among all types of retailing, surely we are among the platforms, the omni-channel platform's most successful in the retail world.

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Here also reminding you that we continue to accelerate the construction of our ecosystem. We have announced the Cansei de Ser Gato and we announced the Zee Dog which is also under completion in this quarter, this half, and we also have more news in this area which we will shortly be announcing.

Another important point is the record of revenue. We have reached BRL2.3 billion in LTM. This is a growth of more than 50% year-on-year or approximately in terms of absolute value, this delta is BRL790 million. So, just in the delta of our growth is equal what would have been the come -- would be the third largest company in the sector. So, just a difference, is if we had built a third largest company in Brazil, in our sector.

Here also, in the aspect important structural aspect, is that even though we've had a relevant change in the physical channels and participation in the mix, product mix, thinking weighting more on food rather than non-food and all this inflationary scenario, we continue to be profitable in levels that are absolutely healthy. This is our principal proposal for the growth of the company. We want to grow consistently, however, we also have been very careful so that this growth does not destroy all the profitability built up over these last years.

Following along, we have a, as I highlight here, a record in digital penetration; 31% in third quarter '21. Remember in the pre-pandemic it was 7%, during the pandemic it was 25% and we thought with the worst of the pandemic behind us that this 25 would pull back a little bit. What happened was the exact opposite. We advanced after the pandemic in our -- after the worst moment of the pandemic and now in the third quarter, we hit 31% participation in digital sales, of digital sales and overall sales and continuing with profitability.

Here, we also have a record in the level of omnichannel usage; 87%, of every BRL100 sold in our platform online, 87% are expedited through a store, whether it'd be shipped from store or store pickup, can collect. Here we've also had record revenue and profitability in the digital world. It's important to mention that since the moments of our IPO, we have said that the platform is scalable and profitable. And we have proven that quarter-after-quarter, presenting improvements in the level of services and also showing how profitable this initiative of omni-channel usage is. Always remembering, that we're in a constant process of evolution.

In the Third quarter, we have evolved the index of omnichannel usage. We include [ph] the reshipping from a store in a larger radius but what we had a few years ago. Now, we are doing above five kilometers and we started that implementation in the third quarter. When you buy, for example, in the interior of Guyana [ph] instead of leaving from the city in Sao Paulo, this can start leave from one of our Guyana stores and this will optimize the question of freight and improve our level of customer service.

Here also very important is that our level of stock-outs has leveled off at controllable levels. In spite of all of the problems with this supply and chain in China and so forth, we continue to have stock-outs, which are extremely healthy. And more than healthy stock-

outs, is the dispersion of this stock absolutely consistent in all regional geographic regions and states of Brazil.

We've been careful with this, with the indicators, operational indicators to be very well homogenized over all of our nationwide expansion.

Another important aspect is the interaction with the client. This experience, omni-channel experience so we've invested a great deal week-after-week, month-after-month in the sense offering a better experience and experience has more and more fluid between different segments, different channels and the different products and services. This has been the work of our, part of our systems. So the experience, the consumer experience can be more and more -- less problematic with more and more acceleration. So it's been an absolutely continuous process but it's worth pointing out here that in the present of the client journey, customer journey, we were able to rollout in the third quarter, an initiative of the my offers program which has been an absolute success.

Clients have received our offers with the great deal of enthusiasm. Since these offerings are customized, consumer-by-consumer customer-by-customer, absolutely in accordance with their profile, we can also talk about the digitalization of services, the question of the grooming, and the scheduling of the grooming which is working very well. It's always been rolled out to our entire network. The question of operational efficiency. We did digitalize this efficiency with several examples that we're going to show going forward.

The advance in the ecosystem what they noticed which we have very good news, which we see during this presentation, which I would share with you and all the part of data analysis generating insights and strategies that we can always be on the root of what the pet owners expect from our network. Of these 150 stores that we now have, we have had 35 new openings in the last 12 months. Currently, we have 153 stores, updating we had three more that have opened in the fourth quarter. So we already have 153 stores in 18 -- 150 is the end of the third quarter. At the end of the third quarter, we had 153 stores. And we have, in fact new stores being or inaugurated in the fourth quarter, but they're not in the presentation. So this in 18 different states and here for the first time, and the index of 40% of new stores outside of Sao Paulo, 42 centers are now outside of the Sao Paulo. 10 of these new stores of these -- 7 were outside of the state of Sao Paulo which shows our commitment with these sharing of the geographic spreading out of the company. We're totally committed to quarter-after-quarter, make a bit coming to this more and more national in scope.

Another important aspect is the evolution of the NPS, which continues hitting records in spite of this high level of growth which we're having. My offerings have been a huge contribution in the clients' perception, prices and service and the general perception of the company. Remembering here that in the third quarter, we opened two hospitals and one hospital in October, totaling three hospitals -- 13 hospitals in nine different states. Here sharing quickly, the case of Manaus which for us is emblematic of how important it is to be the first to arrive in a new city. How important it is to make this spreading this geographic spreading out. Manaus was the third best inauguration in the history of the company. From the first month of operation, it is the third best in the first month that we've ever had, more than 150 inaugurations.

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Remembering then when we went to Manaus, the level of service which up until then had depended on the existing platforms including ours to 10 to 15 days to make a delivery beyond the extremely high price of freight. Today, we're able to do this without any additional freight costs in one day -- for the one business day, this deliveries in one business day. The perception for the people of Manaus is extremely strong regarding to this change. Having given all of these situations which we're placing on the (inaudible) we're very satisfied to as we communicated a little bit earlier today to be sharing with the market a guidance for the opening of 2022.

We changed the guidance which we had, which was of the IPO [ph] of 30 to 40 stores and we are saying that next year, we will open 50 new stores in 2022. This revision is due to the context of the economy to encourage us to accelerate, encourage us to accelerate because the strategic importance of being the first to arrive in the new city, and the opportunities for commercial locations, which in very difficult moments of the economy are available, are moments that will never come back. So, we're absolutely committed with expansion and with the construction of pillars long-term pillars.

The short-term noise, beyond not meaning anything or any lowering of our expectations in this case has caused a revision, upward revision in our projections. It's looking at the coherence of the IPO. We were asked by many investors, why don't we accelerate our expansion? I said, because the expansion (technical difficulty) and the operation after the store's opening, that is, easy to open and hard to operate. So we learned this year and nonetheless we're still having breaking record after record we still opening stores in these locations and it also did not only not deteriorate however is actually at record levels which gives us the necessary comfort to announce this guidance for 2022 and with the certainty that we will maintain a consistency of the indicated operational indicators which are very good.

The NPS [ph] level, just for those of you -- to give you a better idea. It closed at a record at the end of this third quarter ended at 76, the highest ever, compared to 75 which was the number of the third quarter of 2020. And 71, which was the third quarter of '19. And just to give you a little bit more important information, we talked about dispersion region by region, this 76 is the average of Brazil, but the oscillation is between 72 and 77, which shows that we have a very, very low level of dispersion in the quality of operation in a different geographic regions into state-by-state this dispersion is very low.

Here the online platform, remembering how we have made significant advances in the online platform. We have the strong conviction that we are reaching the leadership of this online market. Due to more technical criteria, we can say that we are in a technical tie who was always the leader in the sector which is a fair player. However, we took away all of the difference from this pure online play, and in just two years, remembering that in 2019, we were one third of the size of the online digital sales leader. And in two years, we can say with all comfort that we're in a situation of technical tie with them in terms of digital sales.

So, with two years, we advanced and to consolidate our leadership in various aspects. We already have the leader in the mobile factoring. We have leaders in grooming center, we're leaders in veterinary service, in hospitals, multi-state hospitals, and only lacks to be leaders in the digital channel. As I said, with the percentage of, if we have an 87%, 31%

digital penetration 80% and 87%% of that is Omni-channel. We have grown our subscriber base by three times. We now have 230,000 subscribers, recurring purchases, and also reaching a new record of participation in the overall sales of the company.

This means that 23% of our revenue is coming from these subscribers. This number is also absolutely growing as well as the participation of the digital channels through our app. 65% of our digital sales today have been through our app. This increase of a 140% year-on-year, which shows that we're absolutely on the right track. And we have an app that the consumers like and offers a good fluid experience and that the subscription works in absolutely without bureaucracy as well as the eventual cancelling. With one touch you can cancel or suspend your subscription, which leaves the pet parents very comfortable as far as not being trapped into this app.

We've more than doubled the users, active number of users on the app. We're reaching almost 1 million users on the app and 200,000 users on the area of the digitization. Remembering the My Offerings program Minhas Ofertas, the scheduling through app for grooming services, app jobs, which is important for us to make our workers be absolutely and it's creating the digital and the self-checkout projects. So, several few things, quick things about our offerings.

There's been an increase the tripling of offerings to clients as activated offerings. These clients who use my offerings, they get -- they have a higher level of NPS because it's an experience which is being very well served in this experience. And they have rates of repurchasing, which is higher. They try new categories, the average ticket is higher, the cash margin is higher. So, this is a huge goal that we have this -- my offerings is something that's being extremely winning thing.

As I said, we're absolutely unsatisfied. We are always looking for to continue improving the assertiveness of the my offerings as well as the question of navigation and the experience of the pet parents in the my offerings program. The scheduling of grooming services, we rolled that out in July and for the entire network and we already have 15% of all of our scheduling and the newly meant launch program in some stores, it's already reached its 50% of their scheduling. So this is also another success in the digitalization of the company and digitalization of the company and more importantly, the people that use this scheduling service tend to be very positive feedback with the ability of being unsatisfied with -- they are very satisfied. This creates a very positive cycle because it supports our physical store and the reception, which becomes much more attentive to those who are physically present in the stores, trying to schedule something.

So we're going to always work with this in the sense of thinking about the integrated journey of this client, whether have been the physical store or with a cell phone in the palm of his hand -- talking about productivity, integration of our collaborators and everything that we're doing. It has become an essential tool for work. We are making great inclusions where more and more of the process for the collaborator, it is digitalized and in that sense, he has much more facility in store pickup or the routines, the operational routines of the store. Nonetheless, there are retailers who don't even have, haven't even started using the planogram and we're already in this step of being at this point developing so that the planogram will be totally digital for our workers.

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So, we're actually way out in front in the question of operational indicators. Still in relation to the user experience in our physical stores, self-checkout has been an absolute success. We already have here self-checkout in more than 30 stores.

Remembering that up until now we're the only operator in the pet segment in Brazil, perhaps in the world because I don't know, I don't remember of having seen any other retailers around the world that use self-checkout in the pet segment. So we're innovative. We have this function to the clients and has been absolutely successful, more than 30 stores already installed and those stores where it's installed, it represents more than 40% of the coupons. So it's a very, very important aspect, gain in productivity on holidays and Sundays where you have a lower level of team, have the compensation of having the self-checkout diminishing greatly the question of lines in this moment of higher stress. So we continue to be strong, ready to roll-out the self-checkout especially in the more individual stores.

And then the ESG, here only good news. We are very strong in our ESG focus, especially looking at the Pets. We have improved the question of the digital experience. Noticing all of the integration of information so that we can do this through the digital platform, all of the adoptions which are available on the networks that can be directed to a certain store to do an adoption to a pet which makes more sense and a higher level of adherence to what they're looking for. It's as if the client was able to visit all of the stores simultaneously at the same time to know where he should go physically to be able to do a more assertive adoption of a new pet. Here, in part of this is also, we also passed the number of 55,000 pets having been adopted. Together with Editora MOL, the biggest specialized sticker editor in the company in the world.

Success-after-success. We did the sticker album Animals of the World. We sold 330,000 of these albums. To give you an idea, I went to check out the most sold books in Brazil. The best seller sold the same time, 90,000 copies. So the best-selling book sells 90,000 and we sold 330,000 albums. We raised more than BRL280,000 just with that project for our partner NGOs. Should be issue 3, the third 160,000 have been sold with 90,000 already sold in the first month and a partnership with the (inaudible) in two years of project we have reached more than BRL1 million raised to be donated to these NGO partners. And now in a scenario, which is extremely positive and all of the operational indicators, the perception of the clients and now to the financial results I'm going to pass it over to Aline Penna, our CFO.

And after that, I'll come back to add to the presentation. Aline, go ahead.

Aline Penna

Good morning, everyone. Looking at the financial results, the growth of our gross revenue went up by 42.5%. We also mentioned it as compared to the third quarter of '19 where we already had a very strong in 2020, but compared to 2019 grew 150% [ph] of our revenue. In the digital sales very high level of growth, 73% compared to '20 and 753% versus the third quarter of '19, and we spoke a great deal about digital in our mix. Last year, in the same quarter, it was approximately 25% and went to 31% right now.

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The omnichannel uses went from being practically half and half, half store pick up and half take and collect, they have collect and have the store delivery also close to 40% gross profit. The EBITDA, adjusted EBITDA which put in line with this beginner, the small positive in relation to gross revenue and almost 100% of growth compared to '19 and the net profit overcame the growth of EBITDA in that period.

On the next slide, we talk a little bit little bit, the expansion of our store network. In this quarter, we opened 10 stores and two hospitals. Of these stores, we opened seven in regions in which we were not currently located which shows our strategy of spreading out over the whole country. As Sergio mentioned, our new guidance, the idea is to continue densifying and spreading much more spreading than densifying, and our stores are still very new. So, we have more than 50 stores, two mature new stores in maturation. It means that we have more and more stores outside of the Rio Sao Paulo axis. So, become truly a national network.

In the next Slide, we think again the growth of gross revenue the base of comparison compared to the third quarter, 51% growth and the same store sales very healthy of 21.8% in the same period in the quarter. So it's also important to point out the growth of Seres, the veterinary centers, which was 35% even considering the strong base of revenue in the previous quarter.

The grooming grew up by 40% but here's important we had a weaker base because of COVID and we haven't yet seen a full recovery, a 100% recovery in the stores because some parents are still preferring to offer their grooming services at home. This tends to improve towards the end of the year.

Talking about the digital platform, as I mentioned, we reached 31% of revenue which is our record of digital revenue, almost \$200 million in digital revenue and continue being leaders in the number of downloads, whether it be on Google or the App Store and not only downloads but also visits to our site. So leading the A and B companies who are our peers in the Brazilian segment.

And we talked about the profitable and scalable platform and despite the growth of profitability of revenue we had some slight pressure on our gross margin for two reason. One, principles at digital, when we put digital going from 25% to 31%. These margins are slightly lower in the digital channel. So we talked about 6% to 7% difference in the margins on digital sales and in this quarter and specifically we sold a little bit more food. So, the food category was 63%. This also generates a small pressure on gross margins more than compensated by operational leverage in terms of EBITDA. We had a for strong reduction of SG&A cost. And it was the first and last five quarters, we've been able to diminish our selling expenses.

A very important point, we spent more due to the readjustment at levels of rental adjustments and a little bit more in freight because more-and-more we are spreading out. So, we went up having more costs for delivery all over Brazil, but the operational margin much more compensated for this increased expenses and growth in EBITDA over 10%, which is a improvement compared to the third quarter of '20.

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On the next slide, we talk a little bit about our investments. And as I mentioned, a great deal of our investments are concentrated in new stores, 10 stores and two hospitals. Around 11 million investment in technology, systems et cetera to offer everything be for the client and here in-house. So we just want to combine it inside the company.

Talking about the leverage. We're in very comfortable levels, even though we are working and financing to talk about a little bit about the new guidance of stores to see what are the best (inaudible) next months.

I got another one further update -- about an update about our ecosystem. Taking back, the consider got to for content [ph] reduction of content, we have excellent promoters. They were very faithful audience and beyond that, they make the designer exclusive products, which have been very, very successful and we're going to bring on a next Slide, on Slide 20 some of the new updates that we have in just few months of operation together with them.

It's been growing at an accelerated rhythm. We have interactions very close to all the areas of the company. They have received several awards and highlights. Spotify has one of the best podcasts related to the animal theme, the pets theme. The calendar is something that is very interesting because even though it's something analogical by today's standards, it still generates -- the clients goes to the store to get that calendar because they're afraid it will run out. And then what we see is that we've made a tremendous action in our Rua Augusta store in Sao Paulo on the last weekend. They've received four hour lines so that the cat owners would we be able to find these things for their pets.

We had several shelves of CSG products which sold very quickly, sold out very quickly. The replacement of the shelves had to happen three times as much as normally in the category during the day. And in fact, we received a huge flow from other states, fans of CDSG who came to buy their products and pick up their badge, which is issued for free. And so about Zee.Dog, which bring a little bit of an update on the integration of Zee.Dog. We're planning an integration. We're looking at all the fronts of financial back office all the way up to the supply logistics and sales, including international sales and we have several pillars which we like to bring in to you.

We have a front a distribution front which is the app of Zee.Dog. We have a very strong synergy in the leveraging of the commercial situations with pets. We bring this to Zee.Now. It's the biggest financial synergy that we gained in this business. We have opportunities to use our pets stores to leverage the deliveries of Zee.Dog. So there are several hubs which we can multiply this by our number of stores 153 stores. And this all question of expanding the assortment of products which Zee Now offers today is still a little bit limited and can be an infinity of products, which PETZ already offers to its clients. Compared to Zee.Dog, we bring an assortment of Zee.Dog products to the PETZ stores. We have it complete, whether it'd be in the PETZ universe. We have the potential that we have not yet put as a certainty, the certainty investors have not put into their account, which is the natural food through Zee.Dog kitchen, which may be launched in February, which could be something very, very positive.

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We know several international players who already operate in this segment who have valuations of millions of dollars. But of course, we're going to test it and keep you all informed about the movements in this front and it is a real power move as they said because they believe in it. And finally for the PETZ products themselves, we already have our private label. We want to leverage the expertise and sourcing and importation. And to have the synergies financial synergies and very differential products from the Petz brands.

On the next Slide, talk a little about the Zee.Dog Temple. It was released by Zee.Dog on this last weekend. It was a very busy weekend for our company for acquired companies. It's an 800 square meter flat a unique experience and according to the words, you can only feel what it is by going there Zee.Dog.

On the next slide we have, how this launch was. More than 3,000 came to the store in seven hours of an event. It was a two-hour line to get into the store. Hundreds of dogs were present. We also had the public of -- public of them. Both for Zee.Dog as well as can say we are a huge community effect and we're very, very pleased with that.

And finally, I'm going to pass it back over to Sergio to talk about our new acquisition. We just announced that a strategic partnership with (inaudible).

With this spoiler. Let me even up the surprise. Okay. So now I'll back over to Sergio.

Sergio Zimerman {BIO 21681486 <GO>}

Thank you, Aline. Aline, gave you this update about concepts together [ph] and as well as Zee.Dog. During all this time, we have said specifically at the beginning of this year, that we are updating our vision to be recognized worldwide as the best pet ecosystem by 2025. And as I -- we are constantly monitoring the possibilities of M&A which makes sense for the construction of this ecosystem, especially substantially focus not only on an ecosystem that is to offer a point of technology and whose focus is technology and when you have a marketplace of services, which only works to sell integrated services, but has no connection with the quality of the services offered, or either with the responsibility for the services offered. So, in this sense, I'm very, very, very proud. I'm very pleased to present what we concluded -- just this morning we completed this operation and we advanced it just to the market, which is strategic partnership with Alexandre

Rossi and the purchase of Cao Cidadao citizen dog [ph] a company founded by him, which without any doubt an absolute reference in the pets market. We -- the coincidence Monday on the 8th of November he won the prize award of being the main influence in the pet segment and most important influence in the pet segment. He is the author of the intelligent training a bestseller which is many years ago. And absolute reference in the theme of training. He has participation in parking LTV programs. He's very well known is very well known. He became very well known doing on a program called Dr.Pets on record TV station. He was a reference in the Sunday spectacular one of the highest levels of audience within that TV program.

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Currently, he participates in (inaudible) TV global with recurring participation, speaking about dog training, remembering that he and (inaudible) together have more than 6 million followers. Absolutely a reference in relations to the social networks.

We have done events, spot events within our stores. The stores become absolutely loaded with people. People want his autograph, want a photograph with him, wanting to meet and wanting to meet because they are absolutely celebrities in the pets world. So here looking a little bit more detail about what was done.

We acquired first of all, the Cao Cidadao company. We are acquiring 100% of the stock of this company. It's the biggest franchisee in Latin America as far as training, home training with more than 70 trainers, more than 5,000 classes given per month, more than 100,000 families have been attended since the beginning of the platform.

So here we are addressing one of the complimentary services to our ecosystem which is the attention with training. And we are very happy to have acquired by far the best platform that exists for training within Brazil. Naturally, with all of these possibilities that this opens for scalability of this system. We have as partners Alexandre Rossi and Emerson Duran today. We also have among the social networks almost 500,000 participants. His partnership strengthens our ecosystem. With several perspectives, talk about training the production of content of Alexandre Rossi and absolute reference in the well-being of animals as well as the question of his qualified audience that he has.

So, when we have -- look here, at the question of our ecosystem, as a whole. We see that the Cao Cidadao brand will help to consolidate our presence in the digital world. It helps a lot in the services area. It helps in the content area, helps with the adoption area. Alexandre Rossi has will develop a methodology to help the adoptee and adopted animal to have the best possible fit as well as the question of small businesses and franchises.

This partnership with Alexandre Rossi means that he will help to do the authorization of all of our services that we acquire such as dog walkers, dog sitters, hotel care, day care. So we have here a series of situations in which we said were missing and starting from this contract with Alexandre Rossi we have him to help us to do the registration of all these services, the company all these services so that we can not only sell the services but above all be responsible for the services offered. The principal themes of the transaction was that it was an acquisition of 100%. Alexandre Rossi and his brands have exclusivity with PETZ for the dissemination of their products and services and a very important Alexandre Rossi due to the name that he has a fame, is quite utilized by the industries and for the retailers in general.

So up until today, he has been doing presentations for the competitors and starting with the agreements signed this morning Alexandre Rossi, will spend at least the next seven years to become absolutely exclusive in relation to his retail operations. So we have closed with the best reference in the pets world, with reference to training. We had he has all the credibility and the necessary credentials to do the use of our other services. The registration and approval of new services. He will be our ambassador to help to dense to organize these services.

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A point that I want to mention here again, it's not just a matter of services as some competitors mentioned. Here we are very -- we're going to put in the next quarter services very gradually, but we're going to tell to the owners of these pets you can count on our services. We guarantee that statistically is the chances of you having a promise lower. But if you have any problems, you can take it easy it easy because PETZ will solve it. We're not going to put this in the hands of a third party. We're not going to leave the pet parents without help. They will know exactly with who they're dealing. This is a fundamental difference that you as an investor understand the difference between what our ecosystem is versus the ecosystem of the competitors.

This point is absolutely central to our understanding. Our strategic understanding of what we're doing and it's for that reason that once again we take a little longer to do it. We're not -- we don't think we have to be the first to do things. But we have to do things right. First of all, surrounding ourselves with the best in the market Zee.Dog, Alexandre Rossi we're not talking about a team, we're talking about a national team. We're taking the best people in the market in each individual area of activity and this to set up an ecosystem is an ecosystem which is born with the right directions. And with a mind set, to correct mindset in the sense of thinking of it that there are, is a pet owner who's going to hire this service and use our services and above all he needs to be absolutely prioritized and respected. And respect for us is this relationship of the day of the hiring until with the services that are being offered.

So it's a strategic partnership Alexandre Rossi has online courses of dog training and starting today, we start to become the exclusive salesperson of those skills representative of those courses, online courses. It's also a very important because they have the possibility of utilizing all modern tools or technological tools that the online use permits so that we can take this message training to many-many more people.

And a lot of incentive in the transactions. This is done with a full stock which generates an incentive for Alexandre over the next seven years will be involved in the construction of this ecosystem as well as -- earnout absolutely tied for that we reach our 2025 vision. What can I tell you is that this higher is crowns, our strategy of echo system entering into an area which was still undone and with this acquisition today becomes very well covered and with a great deal of precision, but also with a greater responsibility, we will be rolling this out over the next quarter's the services. Alexandre is comfortable with them, about the use of these services and the calculation of service which we offer. So, for all of your attention, I thank you very much and your time, and I'm available for any questions you might have. As well Aline and Mathias available to answer any questions you might have? Thank you very much.

Questions And Answers

Operator

(Question And Answer)

Ladies and gentleman, we will now begin the question-and-answer session. (Operator Instructions) Our first question comes from Luiz Felipe from BTG Pactual.

Q - Luiz Felipe {BIO 19933939 <GO>}

Good morning. Can you please comment on the re-pass through of crisis in your supply chain?

A - Sergio Zimmerman {BIO 21681486 <GO>}

I didn't - could you repeat the question, please? I didn't hear it.

Q - Luiz Felipe {BIO 19933939 <GO>}

Sure. Please could you comment on the space for pass-through of inflationary increases in relation to your supply chain?

A - Sergio Zimmerman {BIO 21681486 <GO>}

Thank you for the question Luiz. The question of the pass-through prices, we've seen inflationary pressures, but at the same time, we have also passed this through to the prices of our products in a very objective way which is to see that is that the gross margins, which have demonstrated a very, very low oscillation and not forgetting this situation has to do with a change of the channels from online which is more, a bigger part especially in the third quarter, food was also very representative. And as such nothing to do with the fact that we are not passing through inflationary increases.

What happens is that naturally the consumer when he receives this inflationary pressure, he has to prioritize to give the food to his dog and not lower the quality of the food. But at the same time, maybe he might give if he gave 10 to maybe to go 7 give 3 close. It gives them one to compensate his tickets so that the entire inflationary increase does not hit him yet. In this sense, it's very important that structurally. We have the equilibrium in our margins. The margins of food, which are basically balanced with the non-food margins has been essential, so that the overall margin does not suffer when the mix changes as we have seen in the third quarter.

As far as the chain of supply, supply chain questions we have had indicators of stock outs prior to the initiation of this process of we had levels of aside 7%. When we reach the state of the art in pre-pandemic level we reached 2% stock up, which was the lowest level in our history with the pandemic and the problems of supply and raw material which started to appear we went as high as 5% of the stock up and currently we have a few several months now we've been able to stabilize that and we're now had a roughly 3% stock up, while this data to give me the context that what was the effect in a very objective way about the problems with our supply chain. 2% was the pre-pandemic versus the state-of-the-art, the best moment with the pandemic. For several months, it was 5%.

We're improving our logistics, which is a very important indicator, but it's not the best we've ever had which was 2%. An important thing more than that three is to say that this indicator is extremely homogeneous overall five geographic region and the 18 states in

which we are currently operating. This indicator which we follow weekly the quality of our portfolio.

A - Aline Penna

If I could add one thing about this first point. We're not immune to the oscillations of quotations in the market, but we are quite resilient. We say 80% of our product mix is food, hygiene, and pharmacy, which also helps great deal in answering Luiz's -- first part of Luiz's question.

Operator

Our next question comes from Maria Clara from Itau.

Q - Maria Clara Infantozzi {BIO 20433688 <GO>}

Thank you all very much for taking my questions. Congratulation for the results and for the management. The entrant new in segments of laboratories, veteran laboratories and the in other payment means, this has become a reality. Can you talk more in detail about these initiatives? I'm sorry. The audio is a little bit rough, but can you give the answer?

A - Sergio Zimerman {BIO 21681486 <GO>}

Thank you, Maria Clara for your question. Let's start here in the (inaudible) brand. At this moment, we have a consultancy working on that. We are addressing the question of how we're going to go into the laboratory, the veterinary lab, if we're going through cities through acquisitions. However, we understand that we saw look really good several targets to make the best decisions. So we only have the certainty that we're going to go into this area, why? Because we're in verticalized through our hospitals and our clinics and offices, veterinary offices, and the laboratory world when we did a benchmarking trip to the greatest and the laboratory part was extremely essential in this question of operating veterinary services. That's why we're focusing much more on that.

With that this constitute the basis so that we can look at this and how we will release our health care plan. The health care plan is highly connected to what I just said about the acquisition of CDSG and Cansei de Ser, it's much more of the same strategic planning. We don't want to make a health care plan, such as several that exist in the market, which remind us of - all they remember is to charge the premium every month, but they do not have a strong commitment that this pet owner will be attended the same way as if he was paying in cash from his own pocket. We don't agree with that. We think that health care plans to be good, has to be a good plan. It's the one that you pay every month and on the day when you are needed, you are attended exactly the same way as if you were utilizing or being engineering in money use your health care plan for benefits it takes more work. It's not just to go out selling health care plans.

We want to have all the responsibilities, all the caution to launch excellent options to democratize the access of pet owners to a veterinary care of high-quality. We believe that with this, we believe in that this route opening the hospitals in several states, the question

of the pillar of the laboratories, we'll make it possible for us to have by far the best health care plan for pets in South America.

If I could add also when we think about verticalized (inaudible) the entry of Irlau in our in our board, which reinforces this component strategy which is within the construction of an ecosystem for our group. Irlau Machado has added a tremendous credit to our board, in fact the consultancy who is doing the study was an indication of Irlau who has this is advisors and we're very happy - very happy with the development of this consultancy to deliver what we need to know to make these decisions.

Operator

Our next question comes from Joseph Giordano from JP Morgan.

Q - Joseph Giordano {BIO 20154008 <GO>}

Good morning, everyone. Sergio, Aline and Matheus, thank you for taking my questions. Just to talk a little bit more about the acceleration of expansion. Yeah, we're going to open 50 stores. How do you think going forward about this growth? It will based on absolute number of stores or is an internal goal in terms of area expansion? And the next question is, how have you seen the return on these new stores seems that the expansion is going much better than you expected, when you look at the numbers, it could be shown that these new stores has been much higher than we imagined. So the question is if we should think a little bit perhaps about a sale at a higher level of sales or what would be a mature store? And second and then finally, I want to explore a little bit the structure of capital going forward. Looking at the CapEx of the company, because on one side, we have this acceleration going on, we understand there's a stock and it doesn't require much gas, but there's more aggressive expansion. How should we look at this investments going forward?

A - Sergio Zimerman {BIO 21681486 <GO>}

Thank you Joseph. Thank you for your questions. Okay, let's go. The guidance that we're giving for 2022 where we have comfort to the inauguration of 50 stores next year. In fact, it's correct. When we add these new stores are performing better than expected and this has happened within our projections. This is very strongly associated with a question of acceleration of payments. What's happening is a retroactive feeding of this, when go to cities that are absolutely new, we're talking about Tocantins, Manaus, Natal, Aracaju all of the cities new -- the cities that we enter, we already are known because of our digital platform in our social networks, because the store already grows, already opens with as news in the city and it feeds retroactively our digital sales. When you'd see if that should be incorporated into our model have to improve the sales levels it shouldn't be added to that model and explain why. Why I think that I would not use this premise because it could distort the model.

When we make our projections, we consider the influence of the primary, secondary, tertiary areas of a certain store. When we had our first store in that city, we have the benefit of being reaching more than those three primary, secondary, and tertiary areas we're advancing for changes which are very superior about more densely occupied city.

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By our own expansion or the participation of our competitors, so it's not only healthy that we discuss these premises. We need to evaluate first of all stores in cities where we already have the competition versus our own expansion. So, even though there is this benefit in states within these new cities, this benefit is not necessarily perpetual. It doesn't mean that we're going to add more stores in these cities to consolidate this leadership. So as such, a kind of results of that stores tends to be a little bit different in the medium term. That's why it's important for you to use the average of all stores.

As far as the other point, which is the necessity for working capital, in fact, we are exactly at this point in time, evaluating the best alternatives for financing of this working capital. We have an increase in capital -- working capital due to M&A, the acceleration of expansion, more investments in technology, and we're evaluating what are the best alternatives and what makes the most sense for the investor, if it's taken on debt or making a follow on (Technical Difficulty) we're looking at this and making the best decision to be able to finance this expansion which has been undertaken.

Q - Joseph Giordano {BIO 20154008 <GO>}

Thank you, Sergio.

A - Aline Penna

I wanted to remind you that the CapEx is -- the average CapEx of our tens is about BRL5 million per store. So it's an increment and the maximum will be something like BRL50 million for these 10 stores.

Operator

(Operator Instructions) Okay, so we close now the questions and answers. I'd like to pass the microphone back to Sergio for his final considerations. Sergio, please go ahead.

A - Sergio Zimmerman {BIO 21681486 <GO>}

Thank you. Thank you, Aline, Matheus and Marcos, everyone. And I want to thank publicly the entire team who did not save any efforts to be able to become to announce the Cansei de Ser Gato and (inaudible). And this partnership with Alexandri, the acquisition of Cansei de Ser Gato, is a project very going back away time to resolve the admiration that I have for Alexandri, we're very, very happy to be able to have placed Alexandri in this company, along with Rodrigo, Thadeu, Felipe of Zee Dog and Amanda Stephanie of Costa Souza, we are really truly focused on bringing people, exceptional people to this service.

When here -- when we put this have being known worldwide as the best ecosystem in the pet segment in 2025, we were not kidding, it wasn't just - we weren't just thinking we were thinking we were thinking big, but make not thinking outside our what we could do, but we understood how viable it was. If you look at a dream like this, you only bring it about by surrounding yourself with the best. And we're very, very happy to be able to have announced when we talk about the construction of our ecosystem. Expecting that, we can only continue giving good news to the market and I will close here in the same as

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we started off the segment, pet segment. When the market is good and the market is everything going well, it's good. But it doesn't stand out from other segments. However, when the market is stressed especially by in the retail area then you'll understand why the pet segment is different than the other segments of retailing, very different. This is extremely positive with the thesis of resilience of this market offers.

Thank you very much for all of your time and then excellent Tuesday afternoon to all of you. A big kiss to everyone.

Operator

The video conference of Petz is now closed. We thank you for your participation and have a good day.

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