

Y 2020 Earnings Call

Company Participants

- Diogo Ugayama Bassi, Chief Financial Officer and Investor Relations Officer
- Sergio Zimmerman, Chief Executive Officer

Other Participants

- Helena Villares, Analyst
- Olivia Petronilho, Analyst
- Robert Ford, Analyst
- Ruben Campanelli, Analyst

Presentation

Operator

Good morning. Thank you for waiting. Welcome to the teleconference of Pet Center's Participations Petz for discussion of the results referenced to the fourth quarter of 2020. Those present today with us are Sergio Zimmerman, Founder and CEO; Diogo Bassi CFO and Director of Investor Relations; and Matheus Nascimento, Senior Manager of Investor Relations and New Business. We inform you that this event is being recorded and that all the participants, we heard during the conversation with Petz. Afterwards, we will start a session of questions and answers when instructions will be given.

(Operator Instructions)

This event also is being transmitted simultaneously via Internet webcast and can be -- as a video conference and can be accessed by the address www.ri.pets.com.br where you will find the respective presentation. A replay of this event is also available after its ending. We remind that all the participants at the webcast can be registered via website for questions for Petz maybe answered at the end of the conference by the RI area of Petz. Before beginning, I would like to clear up that eventual declarations that may have been made during this teleconference relative to perspectives of future business of Petz, projections, operational goals and financial goals constitute the beliefs of the best of the company, based on the information currently available to Petz. Considerations of the future are no guarantee of the behavior and involve risks, uncertainty in premises as they refer to future events and are therefore dependent on circumstances that may or may not occur.

Investors and analysts should understand that general conditions of the sector and other factors -- operational factors may affect the results -- the future results of the Petz and

may lead to other results. We would like to now pass over Sergio Zimerman, CEO of Petz, who will do the presentation. Please go ahead.

Sergio Zimerman

Good morning to everyone. It's a great pleasure to be with you again to speak about our results in the fourth quarter of 2020 and also the consolidation of the year's results of a very different year which was 2020.

I would like to tell you that the vision that we have written at the beginning of 2020 right after we -- Warburg Pincus in 2013, we had a vision, which was to be the biggest and best pet shop in Latin America and be among the biggest -- five big in 2020. We did this exactly at the beginning of 2014, what happened between 2014 and 2015. We changed our brand to Petz and we started a more important international -- national expansion program. We also set up the Adopt-a-Pet, the pet adoption program. In 2015, We started the work of the omni-channel platform and here we showed as a central part of our -- where we're not just near physical stores neither an online play, but we're a true omni-channel. Starting in 2015 we started that work and in 2018, we started the pilot program for the omni-channel rollout and in 2019, we finished the rollout of that program.

At the end of 2018 and 2019, we created the Seres brand to begin our Vet segment. At the beginning of last year, we had our opening on the B3 with our IPO.

The results of all of these brands was that the vision that we created back at the beginning of 2014 when we said since that time that we should reach leadership in 2020 was reached. In 2020 we did BRL1.7 billion in sales, which puts us in the position of leadership in this sector in Brazil and this represents growth of almost 47% compared to 2019. It was the biggest growth in share in the market. The delta of sales we added more than BRL540 million in sales just in 2020. The network opened 28 new stores, a record for expansion in physical stores and we ended the year with 133 stores being present in 16 states plus the Federal District. In 2020, we entered into three new states. Petz reached leadership in sales and also national presence, the network with the biggest presence in different states and also the chain offering hospital services with the biggest presence and numbers. Today we have 10 hospitals in eight different states.

Very well, we reached our vision and now is the moment to increase. That's what we did and then we released today, officially, our new vision. If our previous vision was quite -- quite bold -- quite challenging, a big challenge for us in 2014, we said we would achieve leadership in Latin America, it's no different now. We are now releasing a new vision, quite inspiring, very motivating but also very bold, very -- so that all of us can dedicate ourselves to this task, which is to be worldwide -- known worldwide as the best ecosystem in the pets world by 2015 -- by 2025.

As an example of our previous vision, we put a date and what we want to achieve. And that's why it's clearly -- we want to be different in the best ecosystem, the best most trustworthy, integrated and always supported by the well-being and health of our pets.

This is what is the base of our vision of our ecosystem and I want to add that we have pillars -- strategic pillars to reach this vision.

The five pillars upon which I will be mentioning as well as -- is the expansion of our stores and our Seres brand, our digital platform, our customer experience, pet solution, the exclusive Petz with the Petz brand private label and people and culture and ESG.

Beginning with the first pillar, the expansion of our store portfolio on our Seres brand, we see that when we talk about expanding the number of stores, we are not a physical chain and we're not a pure online play, we are an omni-channel play.

Therefore, when we invest in stores, it means that we're investing in an omni-channel presence because truly the more stores we have, the more we increase our penetration in digital sales as well.

And here we have several brands that are very important -- several guideposts that are very important that we reached. As I mentioned, the record in the number of stores, 28 new stores in last year. Only in the last quarter with 13 stores. In the last quarter, it was a record in opening of stores and we are into three new states and we have totalized a 130 new stores in -- also we opened three new hospitals, 10 hospitals in eight different states and we now total 114 veterinary centers -- Seres veterinary centers, means hospitals, clinics and consult -- and offices. Our agenda for 2021, we want the acceleration of the pace of store openings and we plan to expand at least to 30 stores. We hope that a number above 30 attending a new record. We will continue to open in new states in regions in which we are not currently located as well as expanding the number of Seres hospitals in our chain, as our objective -- very clear objectives for 2021.

And the second pillar, which talks about our digital platform. Here we have news that is very inspiring, very interesting news. The digital platform of Petz was the platform which most gained market share in 2020. It was one (inaudible) 10.08 most, we gained market share and in a very clear way and very crystal clear way, we sold approximately BRL400 million in digital sales compared to BRL100 million in 2019, almost 400%, a little bit less than -- we did less than BRL100 million in '19, so it was more than four times above our '19 sales, an additional sales of BRL300 million in digital sales this year. Our market share considering only digital sales according to Euromonitor was 27% growth meant that we had more than doubled our participation to what we had in 2019. On the other side, when we look at the digital platform internally, we closed the year with 23% of total sales being coming from digital sales and in the last semester, it was a record 80% of omni-channel sales compared to the last quarter with the growth of the pandemic and even so we continued to grow our participation in digital sales. Another very important data -- information, the Petz app, more than 50% of our digital sales happen through our app. This is data as you know, which is extremely important due to the costs -- the lower costs that the app means in the acquisition of clients. As far as subscribers, we grew more than five times year-on-year in our base of clients representing in December, 15% of our total sales in December came through subscribers. If we compare that to '19, the third quarter of 2020, which was 10% just in December, we had a growth of 50% in the participation of subscribers.

FINAL

As far as our 2021 agenda, we will continue to invest strongly in user experience and data analytics. As you can see, our offers are not just customized but now personalized so that the profile of purchasers of each consumer -- of each customer, we have the data intelligence making absolute personalized offerings for each client. We also continue to invest in the digitalization of products and also services. Both the Seres as well as the esthetics services in our roadmap for digitalization, several things that are happening during the year. We have several initiatives in the area of logistics to begin the efficient -- to improve the proficiency of all we've done.

There is permanent -- it's a permanent state for us to be -- to offer better services at the lowest cost. The third pillar refers to customer experience and the pet solution ecosystem. The principal realization of 2020, the first is that we -- a motive of great personal pride and great happiness since the foundation in 2002, we've always been a company absolutely oriented to the client. Oriented towards operating according to the head -- the mentality of our customer and satisfying him in what he wants.

And we gained the triple crown very important to us due to the -- because it represents the values of the consumer. So we gained the maximum sale in physical -- in the physical store, in the digital store and we're also five-time champions in the digital store and the CEO price among all the segments represented and also the CEO most connected with the consumer, a motive of great honor and happiness for me and pride for me. We also added the new installation of the Petz, the space that is absolutely appropriate so that we can attend better and better to our consumers. We also, in the pet solution area, the mapping of understanding all the startups that operate in this segment -- in the service segment, understanding that we have the mentality of the founders so that we can complement our ecosystem through micro-acquisitions so that by 2025, we will have the recognition in the pet solution, is very important for us and every week, we have a meeting with the higher upper-level leadership to discuss all the possibilities that we have to advance in that ecosystem. With an agenda for 2021, we have the integration of these new solutions into the ecosystem and integration across segments, continuous improvements across different channels and segments and services, always offering new tools to ensure a better level of service and agility with greater efficiency, whether it'd be on the digital platform or in the physical stores.

The fourth pillar is the exclusive products and private labels. Here it's very important to mention that -- so it's important that the Petz brand represents an important lever of profitability due to the work that we've done, it's a project which has worked very well, very carefully we're going into -- we're going category by category and we've had several launches in 2020 in snacks, hygienic mats, products with high levels of recurrence. We have 300 SKUs in 25 different categories which makes us very satisfied, very happy and all the categories in which we operate, where the Petz is either leader or vice-leader in the category. And here I call the strength -- potential strength of the Petz brand, even when it goes into a category, we have the presence of global brands, we still managed to have a share -- a very expressive share, special thanks to all those pet tutors who have recognized the Petz brand as a brand with a high-cost benefit. All of this resulted in the third quarter -- in the fourth quarter, the participation of the Petz brand grew in relation to the fourth -- doubled in relation to the fourth quarter of '19 which shows that we're on the right route and we're heading down that route going -- moving forward. We also have

FINAL

another important area, which is the Long Tail sales in the digital area. More than 15,000 SKUs available on the site which shows that we are leaders in the number of SKUs -- available SKUs and that will continue adding new items, hundreds of items every month. It's a very simple concept. The challenge that was given to the -- is the following. What do we expect -- that every consumer, every pet owner understands it's meaning, if they want to buy a product in the Petz site, this is a challenge done with very simple words, but which has a very, very powerful message. We want to be more and more have collaboration with the clients and show that the site is the most complete side in the market and therefore the Long Tail has the power of an ecosystem which is extremely relevant so that the client does not leave our platform.

As far as the agenda for 2021, we have a pipeline absolutely consistent our new launches under the Petz brand, new products, and as I mentioned the addition of hundreds of SKUs every month in our digital platform. And finally, the fifth pillar, which is people, culture and ESG. Here a few realizations during 2020 which were important. We're very proud that we -- we made the commitment having campaigns to not cause any unemployment, had the opportunity to be, perhaps the first, one of the first interviews to affirm that we have -- we're not trying to do any trimming -- we didn't know if we will be able to be open up, but we made the announcement that we were not going to fire any employees, we were considered essential service. What we wanted at that time was we knew that our workers, our employees would have their health plans and we need their health plans and we didn't think we added to their health plan and this employment.

So the first measure was to make our employees tranquil that nobody would lose their job, at the same time, we left our suppliers happy, especially smaller suppliers that at that time instead of asking for a lengthening of payments as others did, we preferred to offer anticipation of payments to give them comfort into the entire chain of supply. It was also important to mention that during the pandemic, we created 1,300 new jobs, which means a growth of 35% year-on-year in our employee -- in our number of employees. Another very important theme is that women, who have always made all the difference for our company and continue to make a difference, more than 40% of our leadership positions - including the Board of Directors are occupied by women.

Our pet adoption program, Adote Petz reached 45,000 cats and dogs adopted since its creation, the biggest platform of donation of cats and dogs in Brazil. We are also very proud to inform that we have raised more than BRL2 million, we donated more than BRL2 million in money and products to NGOs who protect animals. Here, it's one of our purposes that all of this growth in our market, our services, the ecosystem will not happen separated from growth of so many cats and dogs which are abandoned that we see here in Brazil.

So, we're very happy in being able to offer homes for thousands and thousands of cats and dogs every year and we're going to continue doing that. We're going to continue having arranging new partners for the adoption program and together with products and spaces in the principal spaces in our stores for adoption. We feel that it makes all kinds of sense for us and we also address a cause of the needy animals -- cats and dogs that are there. We also offered BRL1 million for COVID both through this Sao Paulo as well as other regions. We also setup a adoption program -- a platform called Adote Petz, it's a program

which has -- is already showing its first results placing the first hundreds of donations already through the Internet.

As far as our 2021 agenda, our culture of excellence to intensify our training, we are growing very, very fast and we need to be able to have the capacity to train and prepare our labor force. So, we've done that through the Omni Pets, which is our university training center both in operational as well as give courses to our professionals in esthetics for bath and grooming as well as in the veterinary area.

We are also rolling out an increase in the utilization of renewable energy in our stores. We started a pilot program in 2020 and in 2021 we should rollout all of that. I'll be back for questions and answers, but first of all, I want to pass it over to Diogo Bassi, our CFO, who is going to talk about our financial results.

Diogo Ugayama Bassi

Thank you. Sergio. Good day. Good morning. It's a great satisfaction to talk about the fourth quarter and 2020 year. We had a strong growth in sales in relation to the robust growth already shown in 2020. The growth was by the -- growth of the digital channel which created -- which reached a new level of sales and our social development in the last quarter of the year. It's also worth mentioning that digital sales has been an important entry for our clients being responsible for almost 50% of the 1 million new clients that we found this year -- that we were arranged [ph] this year. Our gross margins showed great growth in relation to last year, fiscal credits that we had in relation to last year and by a substantial penetration of the digital sales which even though it has very superior profitability to the physical channel.

With the level of repurchases on the digital channel, we also have accelerated our investments for the acquisition of clients. Even though this represents a slight pressure on results at the current moment, we can also mention that in the fourth quarter in spite of the digital we had a very strong Black Friday with discounts, it was also very important for the acquisition of new clients. In this way, we were benefitted in the fiscal year as a reflection of higher participation of digital, even so we had absolute and relevant growth. So, we'll go to the highlights. We inaugurated 13 stores in the quarter showing our expansion program capacity and we have 133 stores in 15 states plus the Federal District. We inaugurated 28 stores over the year. We have opened three hospitals giving, more 24-hour stores in 15 states. We have the biggest complex veterinary centers in Brazil. In total, we have a network of 114 veterinary centers spread over Brazil. Our gross revenue, we reached BRL525 million with a strong growth of 58.9% year-on-year. Growth in same-store sales were expressive of 36.8%, our gross revenue was BRL1.7 billion, a growth of 46.6% year-on-year with 540 sale -- mainly in sales to the company. With that we reached a market share of 6% in the pets market, a very -- consolidating the sector. The digital area, we had gross revenues of BRL136 million in the quarter, more than four times higher than in the same period last year and a growth of 26% of total sales, we did almost BRL400 million, a growth of 341% year-on-year representing 23% of our total sales. Also, our market share, we almost doubled our market share reaching 27% of the digital market in pets, the highest in this channel.

FINAL

We reached almost 84% in omnichannel sales and almost 80% for the year, a benchmark in the world -- in Brazil and the world as far as our gross margin was 50%, a fall off of 2% both represents growth of 50% year-on-year. This retraction is basically due to the fiscal credits, an increase of digital sales and over the year, our gross margin was 49% even with an increase -- substantial increase in the digital sales in 2020.

As far as our EBITDA, our adjusted reached BRL47 million in the fourth quarter, a margin of 19% in relation to the previous year helped principally by the 2019 credit which pressured our margin as well as expenses. However, the EBITDA grew even so by almost 20% over the year, BRL160 million in EBITDA, margin of 9.4%, a growth of 39.7% year-on-year.

Finally, our net income BRL27 million, growth of 65.1% year-on-year with a net margin of 5.2% results of credits in operation and fiscal credits for the year was BRL74 million, a growth of 98.3% and a net margin of 4.3%. It's important to point out that we focus in our -- compared to the previous year, but I'd say, we believe that a better route represents our -- we will not talk about the IFRS 16 numbers. In '16, we talk about our store portfolio as was mentioned we inaugurated three stores in the semester giving us 29 for the year in line -- exactly in line with what we had planned for 2020 in relation to our stores, we have a lot of new stores with 53% of the network with less than three years in average, these stores have not yet reached their potential sales and are still in mature -- in maturation. We continue to look at the -- having very strong results in new regions and returns in our current regions. So we increase the participation outside of Sao Paulo to 50% -- to 39% in the fourth quarter of '20, sales outside of the Sao Paulo region.

Our sales, we reached BRL525 million in the quarter, reaching as I mentioned, with an acceleration of 61% compared to the third quarter, our results due to the strong growth in digital, which grew by 313% as well as the sale in our physical stores which accelerated due to less restrictive social distancing rules in fourth quarter both in the digital sales as well as in physical channels on our client base, the number of tutors -- the number of pet tutors and finally in the number -- in the amount of care and hygiene for pets. The veterinary area, which grew 38% and by the better care the tutors have given to their pets, looking at the parts of services and products. In the esthetic area, which was closed temporarily starting in March in 2020 due to local decrease and we're totally open only since August and now we're looking at a possible new closing with a new cycle of the pandemic but we grew back slowly with sales representing 70% of the pre-pandemic numbers and 70% in September, the principal part of this growth of this behavior was the people leaving, on the other hand, the shopping centers which were impacted due to temporary closings of the shopping centers, which had an impact on the flow of people to our stores and the shopping center stores did better than they did in the pre-pandemic level in the third and fourth quarters. With that, our growth in same-store sales was very strong, reaching an accumulated of the year -- a total growth of 36.6% same-store sales having increase of 26%. 18, here we have our digital sales which reached an increase of 10% in the fourth quarter of '19 to '20, a new record participation in digital sales. The growth was 340%, the semester was helped by Black Friday, which did not help our net revenue but helped us to get new clients, as Sergio mentioned, the app already represents more than 50% of our digital sales and we finished the year with a base of clients five times than that what we had in the previous year and these subscribers

reached 15% of our total sales in December, an acceleration versus 10% reached in the third quarter of 2020.

The subscription program we've added benefits such as discounts in physical stores and also the utilization of our services advantages that only verticalized platform can offer in an integrated and convenient way to our clients.

In 2020 we are almost BRL400 million of EBITDA, more than BRL300 million in sales and we grew by 342%. We're the biggest player, the most gained market share in digital and almost doubled our participation in online sales.

Finally, beyond our omnichannel platform, we lead consistently both directing -- access our sites as well as the apps in Google Play and Apple store. Our apps offered very high numbers, not only in this segment -- in the pet segment both compared to purchasing apps in general.

On the next page, talking about profitability, our gross margin was 40% of the gross margin and 50% a reduction of 2.4%, the reduction as mentioned was basically explained by the fact that the tax credit we released in the fourth quarter of '19 at the beginning a penetration of 16% reinforcing that with -- digital brings a lot of new clients and repurchasing and lifetime value, we have reinforced our investment in the acquisition of new clients even though this represents pressure on the margins at the moment. In the accumulated numbers for the year, we had a growth of 46% a margin which is due to the bigger penetration in the food category, which has a constant margin 49% in the second, third and fourth quarters of 2020 and bigger penetration of products versus services since products have margins that are slightly higher than services and EBITDA in the quarter due to better sales. Our expenses sales were impacted by the penetration of digital which has expenses with the freight and acquisition of clients and the maturation of new stores, which cost additional costs while they are not due to the strong performance in sales. We also had -- it's also important to mention that we had this leverage even with expenses and initiatives, such as Seres and the services and also expansions related to the new stage -- new steps in our company. The adjusted EBITDA was almost BRL47 million, a record which gives us a margin of 9% of gross revenue in relation to the year -- previous year impacted by the digital sales but it's even so we had relevant growth of almost 20% was 160.7 an increase of 40% of gross margin also impacted by the same motives showing a growth of 39.7% for the year.

Here. I'd like to mention that we've had the inauguration exactly in line with what we had planned and sales and EBITDA were above that which what we had projected. On the last page talking about our investments and debt, we have 60% due to new stores and a record inaugurations. We also inaugurated three hospitals, we also have increased an 87% our investments in technology and digital, growth of 90% considering as data analytics and user experience and its descriptions and app development and digitalization of services, which helped us gain productivity for the company as a whole.

Finally, with the reforms and maintenance and the rollout of the Seres brand, it was concluded for all the units that we planned. As far as leverage, it's very low at only 0.1X,

FINAL

Bloomberg Transcript

and EBITDA which leaves us very close -- very comfortable for expansion.

And with that, we open for questions and answers.

Questions And Answers

Operator

Ladies and gentlemen, we will now do the question-and-answer session. (Operator Instructions) The first question comes from Petronilho from J.P. Morgan.

Q - Olivia Petronilho {BIO 19090195 <GO>}

Hi, everybody. Good morning. Thank you. I have three questions. First, I think you commented a lot during the IPO process to have [ph] higher average than the physical stores. I want to understand that, during the pandemic, there was any change in the behavior of your clients? The second question is we have two factors, a program of loyalty for each which brings some pressure on your margins? And three, your margin this year with your private label and if you're going to continue to invest in this loyalty program too? And the third question, give us a little more -- I mean, talk about the start-ups and M&A questions, could you give us a little more clarity on that?

A - Sergio Zimmerman

Olivia, good morning. Thank you for your questions. First of all, as far as your first topic, the digital client profile, we see within the omni-channel approach, we see various movements are happening. We have a client who is -- he only purchasing on digital and is stimulated to go to the physical store. We have the client in the physical store who has never purchased on digital from that certain category and is stimulated to go to start purchasing digitally. And you also have a client who has already had the custom of purchasing digitally, and that client is always researching the best options for purchasing, in general, looking to take advantage of sales and promotions with a low level of loyalty.

So we have diverse segments in the digital world. We see is that the pandemic has brought a universe of capturing of clients, especially those who were not able to purchase from this category in the digital sales, and understanding that it was not their best moment to visit a physical store and they had to make experience to receive at home. When they made that experiment, they liked it. So it's always important to mention that we had the expectation that when the physical stores reopened, we would lose some digital sales. And in fact, we expect it would happen in the third quarter, but it's not what happened. In fact, the physical stores reopened and their sales in the stores came back very strongly, but the digital sales did not diminish. And as I mentioned, in the third quarter or in the fourth quarter numbers, the digital sales has come to stay, representing a consumer who tried it out, liked it, and whether he wants to go back to the physical store or not, it's a very diverse profile.

As far as the second question -- as far as gross margins, naturally, there are different factors that pressure the gross margin. And we tried to always balance these things out.

FINAL

However, perhaps the most important with the -- that we see now is that our concept is cash margin. We work a lot with cash margin. We're very careful to understand in fragmented markets such as the pets market, where according to Euromonitor, there we only have 6% of share, our priority is gain share, and we do not pay our expenses with a percentage of our gross margins. We pay with cash -- cash margin. So what we're very focused is if we have something to do, an action to take, whether it be a loyalty program or conditional, anything that generates cash margin, even though with pressuring in percentage terms, we should look after cash margin to incentive our gain of share. So this is how we look at the gross margins.

And the third question which you said about M&A. We have looked at companies with several different categories, but we're very focused on -- as surfaces added to our ecosystem. So we maintain conversations with companies and we expect shortly, to be able to announce our first additions to our ecosystem. We've just announced our vision, which is very ambitious that by 2025, we will be recognized worldwide as the best ecosystem. And to be able to do that, we're going to have -- those five years, we've got the work hard because five years goes by very quickly. I hope I've answered your questions.

Q - Olivia Petronilho {BIO 19090195 <GO>}

Very good. [ph] How is it going in the first quarter so far? Can you give us a little more vision of that? How far it's going in the first quarter?

A - Diogo Ugayama Bassi

If I can add -- Olivia, as Sergio mentioned, with the pandemic, you have a change of habits of consumption habits in the digital world. But it's important to mention that our service level is very high. Our ship from a store -- express ship from a store in just a few hours and regular shipping in one day. We also have a consumer who is not only digital but it's also looking for a high level of service -- fast service as in our case. In our case, approximately 50% of our clients in the last year used our ecosystem -- our digital system and they use either digital centers [ph] or beauty centers, or aesthetics grooming centers, especially the channel love at pets. [ph] So at a very high number of using digital channels.

As far as the margins, it's important to mention that looking at our the fourth quarter specifically, which was 2.5%, but taking out the effect of the fiscal credit and their participation of digital, which has a healthy margin, but it's smaller than the physical that explains it. These points. -- these two points explain the difference in margins. When we look at '21, we continue with digital growing, but it's not going to have a jump of 15 or 20 - 15% to 16% like we had last year.

A - Sergio Zimmerman

Beyond that, we also have a strong pipeline of private label products which adds not only loyalty but also margin through our business. So we expect an evolution this year.

Also adding -- if I could just add, Olivia, in 2021, we started the year very well, as Diogo mentioned. Now, with no doubt, with everything that's happening right now in Brazil that

FINAL

these questions or restrictions that are coming back, it's going to hit us on certain points which as history has shown us previously, we're very resilient in this scenario. But it doesn't mean that we can't be reached. We were hit on certain points, shopping centers, for instance. If the store is inside of a shopping center, nothing we can do if the shopping centers closes. But it's in the parking lot of the shopping center. It's still hit strongly due to the lack of flow in the shopping center. Another aspect is the esthetic centers. And the majority of cases are grooming centers are not operating, so that will also be impacted this -- in the grooming center.

On the other hand, what we see in this first quarter, which I think is good news -- interesting news, and many people worried about this. The government help showed that as we estimated it has little or no relevance in relation to our sales. Even with the end of the government is help. We had so (inaudible) correlation in no region and in those type of stores that we have. Therefore when it was implemented as from the initial store -- in the initial moment, it doesn't change our position of sales, our gross revenue. That's information which it is very important that we're able to see what we're seeing in this first quarter -- based on what we see in this first quarter.

Operator

Thank you. Next question is from Robert Ford from Bank of America.

Q - Robert Ford {BIO 1499021 <GO>}

Thank you. And congratulations on your results. Sergio, what's different in the lifetime value that causing you to invest in this? And how is your harvest of clients? Your new clients -- how are they behaving?

A - Sergio Zimmerman

Good morning. I didn't understand the second question. The first one is lifetime value? That if you can speak a little bit?

Q - Robert Ford {BIO 1499021 <GO>}

Your current -- your new clients, how are they behaving when compared as you mature?

A - Sergio Zimmerman

I can't answer you numerically, but I can answer you conceptually. What we have seen over time is -- clearly, is that having me the -- a new harvest -- a new group of clients and a new cohort of clients, increasing their permanence and their recurrence. And this basically, has generated an increment in the lifetime value of the clients, which is motivated the decisions that we've made in terms of investment. We've seen very clearly that when we involve the client as a subscriber that this increases very much his participation in the portfolio of clients that we have. Here it becomes a much more a prison of [ph] our ecosystem and generates a certain type of concept. But as I explained earlier, it also generates a huge cash margin gain. We divide this in the different five pillars. And what we see is principally that in the first three pillars in which those were less involved, less three

fits when we did digital initiatives, the creation of a value that we have with this client has been enormous. The lift in sales and margin that we have is very significant.

And now I'm going to let Diogo add what he would like to add to this equation.

A - Diogo Ugayama Bassi

Very well. Bob, as far as lifetime value is concerned, we have two principal points when we look at the contribution margin, gross margins and expenses with freight. In gross margin, whether it'd be through the higher participation omni-channel platform, which gives us higher sales and also -- or when we look at the isolated as the digital in terms of margin, and looking at freight again which has a very important participation in omni-channel, you have an increase in contribution margin.

And looking at the retention, as Sergio mentioned, we looked at our cohorts, we see that successfully year-after-year, the 2015, '16, '17, '18 and '20, year-after-year, the curve of the following year is higher than the curve of the previous year. It's a phenomenon that we've seen in the older clients from '16 and '17 is that the cohorts -- most recent cohort during this -- are also higher than the initial cohorts. So what we've been able to do is to have more than we had at the beginning of their journey with us. They've contributed more to accelerate our investments in marketing.

Q - Robert Ford {BIO 1499021 <GO>}

Very good. It was clear. Thank you.

Operator

A question is from Helena Villares of Itau.

Q - Helena Villares {BIO 21333811 <GO>}

Hi, everybody. Thank you for taking my question. What we're seeing here is a little bit -- the questions of (inaudible) how do you -- you don't have a crystal ball, and to look at your results at every moment in a market that's changing as fast as this one, if you can give us an update of how much you think it would make -- how much sense it would make to penetrate in the digital area and in the service area? The principal services, two points that we would like to understand a little bit better.

And also on the same line, during the presentation, a little bit more detail about the private label. How that compensates the pressure on the digital sales? And the program about subscriptions, what are the points they've already delivered? If you could talk about each one? And also what are the next steps when we talk about moving into the food area for private label?

A - Sergio Zimmerman

Helena, thank you very much for your question. Let's go -- here we go. First of all, in relation to -- you're correct. We do not have a crystal ball to know if the consumer would

rather buy it through the digital or through the physical stores. How if he wants to pick it up at the store or have it delivered at the home. But at the beginning of our presentation today, I made the following affirmation. There are physical stores. There our pure online in place. And there is omni-channel companies.

Since 2015, we made the decision that we would not be either a physical store or an online play that will be an omni-channel network chain. And we take this to the final -- to the last consequences. It means that for us, it's not a matter of business. It's not -- talking about the physical or digital line, for us, it's all very mixed. It's very much blended these two questions. Just to give you an example. When we open a store, what is -- is that a physical investment? Yes, it could be, understood that way. However, we don't understand it that way. We understand that it's an investment in omni-channel platform because our digital sales -- our expressive digital sales with this omni-channel use only happens because of our physical stores. So we see this absolutely integrated. The most important in relation to the investor is to understand that we have -- they made a jump from 8% or 9% in '19, 23% on average in 2020, practically, without changing anything in our margins or EBITDA. With all of these jump in -- spectacular jump in the participation of the digital and the Company, we have almost seen no pressure on margins. This shows how verticalized we have been able to become through our management of channels.

As far as the penetration of services, we have the challenge of labor costs, both in aesthetics, grooming as well as in the veterinary area, but we're still very we -- believe very strongly that it's difficult to penetrate, but when we penetrate, it is very difficult to lose that client. It's a key for loyalty, that's very, very strong. It's a long-term investment and we continue to invest in it. With the comfort of knowing that in the next few years, this will be an important competitive differential day-in and day-out more important.

As far as the private label, as we mentioned earlier, there are 300 SKUs in diverse categories, always positioning as a leader or vice leader in each category. We are having a better agreement. The private label reduces -- it gives us an additional 10% of margin than the products in the same category. It gives us better dimension of how they favor pressure favorably as we penetrate with private label. As far as we have a very strong program for private label, we have not specified which product we will trend as a matter of commercial strategy in relation to our competitors, but surely, every category -- every important category and recurring category, we will try to establish a presence.

If now, Bassi -- Diogo, would you like to add anything?

A - Diogo Ugayama Bassi

In relation to digital without talking about guidance, what I can say is that we reached 26% of penetration in the fourth quarter, which is very close to what we expected going forward. So we're going to revise our projections because we're already very close to what we expected in the long-term.

In relation to complementary services, as Sergio mentioned, since we began to inaugurate the veterinary services as our business, the focus has already been at the end of '18 with the first hospital -- Seres hospital, and then the opening in other cities in Sao

Paulo, then in Brasilia, [ph] Bahia, et cetera, et cetera. It's also important that the maturation of our hospital is longer than the stores' maturation. We have an inauguration of a hospital in the pipeline, but this effect will be felt more in the long-term due to their longer curve of maturity.

It takes longer to bring a client, so as Sergio mentioned, it's an important instrument of loyalty -- generating loyalty. It's important for its participation, but also in the cross-selling remembering that the client who uses -- who only purchases products versus the client and grooming, it increases great leader frequency and you spend twice as much in products and three times as much in total spend.

Q - Helena Villares {BIO 21333811 <GO>}

Very clear. Thank you very much.

Operator

Next question is from Ruben Campanelli of Santander.

Q - Ruben Campanelli {BIO 20636571 <GO>}

I wanted to hear a little bit more about your strategy for the next five years. The principal pillars have -- will be able to change any -- some of the KPIs? How the strategy will evolve and increase the percentage for Seres clients and those who participate in the program of adoption? I ask that because your strategy over the last five years is very clear to increase sales. But with the question of the ecosystem now, what do you see in your ecosystem and other parts of the world that needs to appear in your ecosystem here?

A - Sergio Zimmerman

Good morning, Ruben, thank you for the question. When we talk about a better ecosystem, let me define, first of all, what I mean by that when I talk about ecosystem. We want to have a solution before you have a pet. When you think about having a pet, you've already -- you should already access our platform to know if you should purchase or adopt the pet. What are the advantages of purchasing and adopting. If you're going to buy it, what should you think about? What care should you give to choose the race, the breed, the profile of the animal that you want to have. If you are going to adopt, what care do you need to give to that pet, and what type of care in the adoption?

Very well. This is a beginning of a conception of having a pet, and this is until you say goodbye to that pet when he ends his lifecycle, we should also take care of all the -- of the solutions. So kind of a memorial you want to have for the -- to say goodbye to your pet, and invested all along the pet's lifetime since the first steps for the part of obtaining a puppy and through his old age.

You as a tutor, you have different interactions. You need to take them to the vet. You need to give him a vaccine, give him -- bathe him, play with him, train him. Sometimes you need to travel, live in a hotel, you don't have time to take them to the grooming place. So

there are different micro activities related to your pet. So what is to be the best ecosystem to be recognized as the best ecosystem?

It's very objective to supply every solution for interaction that you have with your pet. This is our objective. (inaudible) you have to train him. You go to the platform and you have a solution for training (inaudible) hotel and you have a solution. You want somebody to go to your home to pick up your pet. You go to the pets and you have that. And these are the initiatives that we see in the market.

And here, I can give you -- you see that it's worth it. This is not a question of technology. It was technology, it would be very easy, I mean we would have done. But to integrate in a marketplace on net services, hanging on a market is very simple in terms of technology. The question is not just technology. It's far from that. It's much more important for us, which is the question of value.

When a client it's going to travel and look for a hotel, and because of the pet platform and lives at an X, Y or Z hotel, if he has any problem in his experience with that hotel, he didn't hire a hotel because XPTO. [ph] He hired a hotel because it's called Pets, an independent of being a -- mark me saying that they're not responsible. It's not how we want to operate our system. We want to respond to any need that he has in his interaction or consumption, whether it'd be a baby dog sitter in a hotel, a daycare, anything that we need to answer, and this is all become much complex. We need to invest in metrics, which assure the quality of these first providers. So what we should see in our proposal at the moment is to make this system so that it will be absolutely trustworthy from the standpoint of the tutor. So that he can feel absolutely at ease to hire somebody, whether it'd be a third-party and know that pets, will handle or guard all of the interest of that person. This is our basic principle.

As far as the KPIs that you mentioned, as we are advancing, we are creating the type of relationship that we should have with each 100,000 clients, how many should use our services of training, our chains of hotel, et cetera, et cetera.

A - Diogo Ugayama Bassi

But these are correlations -- future correlations which we will create. At the moment, we're just concerned about creating a consistent ecosystem, less KPIs and more qualitatively.

Before going to the KPIs, as Sergio mentioned, being known worldwide and being an ecosystem which is complete, trustworthy and integrated, so that the tutor feels comfortable in each point with what is being offered. He also feels -- he doesn't feel that is -- he has this contact. That's a very important care with care and well-being. These are our basic principles.

When you look at the KPIs, it's a little bit -- as we mentioned in the presentation, I'm going to talk very quickly. I'm talking about the Seres brand stores. A number of hospitals, a number of clinics, and how many states and that's the KPIs that we look at when I talk

about geographic locations, more and more outside of Sao Paulo, and when we're sort of outside of Sao Paulo.

In the digital platform, the percentage of penetration in digital sales and the cross-selling for the client who goes through digital and considers those [ph] segments, we see that we have a program -- a subscription program, which is very beneficial for grooming and what's the percentage used veterinary and grooming. And as we add more initiatives, see these future services. Also, the ecosystem has the job -- obtain more data from the client and be more assertive in its offerings for the client. And also have a part in the analytics of doing more and more offerings or the purchase with a lifetime value.

The pet solution, as we look in NPA Score, the like and dislike and (inaudible) and see what we're adding through our ecosystem. And so that the ecosystem, so the investment can be with a -- in a partnership basis, whether it'd be products, digital, grooming, veterinary service, what we've added. So it's exclusive to the pets brand, the number of SKUs, the number of private-label brands and the endless aisle. [ph]

We still retain talent. Look at the question of retention of talent, both -- especially in the store. Retailing has the -- as a segment, still the number of people that are -- as it evolves in our chain, district -- regional managers and district managers and so forth. Another important is to look at the managers to take care of all of the stores, not just those that are to perpetuate our -- the culture of excellence. The number of adoptions, financial resources donated to NGOs, and also looking at the increase in the adoption of clean energy -- renewable energy in our stores.

Q - Ruben Campanelli {BIO 20636571 <GO>}

Very clear. Thank you.

Operator

(Operator Instructions) We'll now close at this time this session -- the question-and-answer session. And I would like to pass it over to Sergio for the final considerations.

A - Sergio Zimmerman

I want to thank you for your attention. (inaudible) participated in this transmission and results. Looking at the questions which were done, which always give us an opportunity to look at the points that were touched upon. Also, remembering in a more humorous vein, the question of people want to know what the -- why are we resilient? And I remember that one of the questions about our resilience is the fact that the dogs and cats don't know how to read therefore they don't read newspapers. They don't know the rate of the dollar. They don't know questions of inflation. They don't know about the decisions of the Supreme Court. So the dogs and cats continue with their lives. They continue eating. They know what -- they're having their needs of care, as always. And this creates a very important level of stability in our market. So we know that for 2021 is a challenging year. We at a very critical moment of the pandemic. We are very sorry about that.

And as I mentioned earlier, we are not immune to all -- everything that's happened. We have several challenges -- operational challenges to be able to continue over the next weeks due to the peak of the pandemic. However, on the other hand, as I explained, we - this has -- our business has a very high level of resilience, which makes us comfortable to understand that the market will continue even with questions such as policies and challenges, which have agitated the market in recent days.

We thank you, all very much, and have a great week. Thank you very much.

Operator

At this moment, (Technical Difficulty) question-and-answer session. The teleconference of Pet's is now ending. Thank you for your participation. Have a good day. And thank you for using Chorus Call.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

FINAL

Bloomberg Transcript