Q1 2022 Earnings Call

Company Participants

- Aline Penna, CFO & IRO
- Sergio Zimerman, Founder & CEO
- Unidentified Speaker, Unknown

Other Participants

- Danniela Eiger, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

(translated) Good morning and thank you for waiting. Welcome to the Teleconference of Pet Center Comércio S.A. teleconference, PETZ, for the discussion of the results in reference to the first quarter of 21. Present with us today is Mr. Sergio Zimerman, founder and CEO; Aline Penna, VP of Finances, Investor Relations and New Business; and Matheus Nascimento, Senior Manager of Investor Relations and New Business.

We'd like to inform you that this event is being recorded, and all participants will be only listening to the teleconference during the PETZ presentation. After that we will start a Q&A session. (Operator Instructions). This event is also being streamed online via webcast, and you can access it on www.ri.petz.com.vr where you will find available the presentation we'll be showing. This event will be available right after it is ended, and all participants can send questions via website to PETZ. They will be answered after the end of the conference by members of the investor relations team.

We would like to clarify that statements made in this meeting related to business forecasts, financial results and targets are mere projections based on the expectations of the management and based on information that PETZ has available. Any future remarks cannot be taken as a guarantee of certainty. They are premises because they refer to future events, so they depend on circumstances that may or may not occur.

Investors and analysts must understand that overall conditions of the industry and other operational factors can affect future results from PETZ and may not lead to results that may or may not differ from the projections here presented.

Now I would like to hand the floor to Mr. Sergio Zimerman, CEO of PETZ. He will start the presentation today. Mr. Zimerman, the floor is yours.

Sergio Zimerman {BIO 21681486 <GO>}

(translated) Thank you very much, and good morning to all of us watching. It’s a pleasure to share information with all of you and share the strategies of PETZ with all of you. Before we start the presentation I have a few words to say.

In other presentations I have been saying that PETZ is a company that has a double resiliency because, first, we are resilient in the segment we work on or the industry, and we have a second level of resilience of the Company inside the segment, and for another quarter we have confirmed this statement.

The pet segment truly has a better performance than the average of the retail, and PETZ as a company is performing better than our competitors. Another important highlight during this presentation is that we have very topics that are important. Growth is important. Profitability is important. Innovation, M&As. All these elements are important, but for us what guides us, we use balance.

We don't value just one of these characteristics and favor it, jeopardizing others. We try to balance growth, a strong growth that is, at the same time, sustainable, working with margins that can fill the growth and the M&A but in a controlled fashion, and innovation can also happen but everything in a pace that can be absorbed by our results. So this is the overall characteristic of how we have been leading PETZ in terms of management.

Now we’re going to start the presentation. I have some words to say about the first quarter, of course. We have had the opportunity of announcing the acquisition of Petix, which I would like to reinforce is a completely innovative and strategic model that Petix brings as a manufacturer of hygiene pets. They have a huge differentiated or in comparison to other players on the same segment. They have a strategic presence aboard, and that brings synergies with Zee.Dog, and especially there is a very strategic issue when it comes to the manufacturing of Zee.Dog-PETZ that today are imported from China, and we are now acquiring the correct machine so we can manufacture them in Brazil and we stop losing money on the sea because transportation costs are becoming more relevant as we all know.

And again, Petix we are waiting for the CID approval, and our expectation is in the coming weeks this matter will be completed solved by the CID and we can truly start reaping the benefit from this acquisition.

Zee.Dog was concluded in the end of December, so this was the first quarter in which we had Zee.Dog results being reported. And what I can say is that things are happening with a very positive line in alignment with what we believe and with what we have presented in the Zee.Dog investment thesis.

And I would like to say that the figure synergies will start showing its first effect in the second quarter with an expectation of this being concluded in the half of 2023. So we didn’t have an expectation for the first quarter to bring any resulting terms of the synergies with Zee.Dog.

So what Zee.Dog has brought in terms of pressure on the overall results is completely expected. It's everything according to plan, and I have been emphasizing that our priority is integrating or conducting the integration process in a qualitative fashion, doing it the proper way. We cannot destroy the reason why we have acquired all of the companies.

I'd like to remind you that we acquired these companies because they were doing something different from us and because we admired the founders of these companies. They are brilliant people who did an exceptional job within the value propositions that they brought to their businesses, and we want to preserve and bring scale to the mindset of these founders.

So basically we have two works in terms of integration. We have the work related to accounting, finance, and compliance. Let's say the more – the part of the business that's not so flexible. There's not much room for negotiation here. We are putting great efforts in making this integration happen the best possible way, and we have another part of the integration process, which are the differentiators.

And we are being as cautious as possible so as not to compromise the competitive advantages that these companies have created. And in that sense we have been very successful. We'll give you more details about how this process is being carried out.

We also had the first committee of the acquired companies, and it was a brainstorming environment. We are starting to see all the connections that exist among them. Regarding health or the health vertical, this is a focus for this year. We will continue to understand the laboratory business more and more, and we are planning the pilot for the health insurance plan.

And considering our expansion plan, news could not have been better. We are announcing a new record level with 42 new openings in the past 12 months. It's a new record for us, and it's a record of openings in the first quarter as well. We are about to turn 20-years, and we have never achieved that level in 20 years.

We opened 10 new stores only in the first quarter. And it's also worth highlighting the complexity of this expansion plan considering the geographic characteristics of the plan. 42 openings is a good number on itself, but it's an even better results when we consider that we opened 42 new stores in 16 different states, so we have a very solid national expansion ability, and we are present in 19 different states today.

And what is a great vector for our expansion plan is that the NPS levels continue to be at very high stat [ph] (technical difficulty)

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And what is a great vector for our expansion plan is that the NPS levels continue to be at very high standards with very low differences between regions which again makes us comfortable to know that we are on the right track when it comes to our expansion plan.

Reminder about the one-stop shop proposal. This month I would like to highlight our Petz blog. I think that very few company blogs in Brazil can have this privilege. We have more than seven million monthly visits on our blog. And this is a remarkable number when it comes to organic traffic. And we are integrating more how we can generate this traffic that is based on a lot of technical knowledge especially from the Sirius [ph] team they have a very clear understanding, they are able to bring solutions to questions that pet owners might have.

And even Google is now recognizes that our blog is the best alternative for any questions that are posed on Google by pet owners.

So our content part of the business is doing very well as well.

Just an update on inflation. I know that this is a topic that affects everyone in Brazil. I would even say that it affects the whole world but what we can say is that the pressure coming from inflation rate is a reality and there has been a slight deceleration with some evidences of stabilization but still at very high levels.

So we have some stability but we are still at very high levels. We hope to see some decrease in these numbers in the coming months. These numbers are still very significant, we still have an issue of the impact on the supply chain. We barely solved COVID issue now we have the war issue and other issues in China. And of course that all these element contribute to higher inflation pressure.

But we have made the correct mover when we did the follow-on in the end of 2021 because that put us in a very important competitive position. Because it allows us to support our expansion plan with the resources that came from the follow-on. And at the same time, we have the financial strength to deal with any issue that might arise from inflation rate.

Issues with price increases or if we have to take more stock, if we have any issues in the supply chain to prevent us from suffering from more problems with supply. So having more capital in a moment like this makes a huge difference. So I would like to reinforce that the follow-on that we did in the end of last year was a very positive strategic movement that generated a lot of value for the company.

And there are some very interesting factors regarding the mitigation of these affects. And first I would like to make clear and you can see that in our margins we are - have been able to pass on price increases so the pressure the suppliers are bringing is being transferred. And through our program called MyOffers, we are improving the perception that customer have on price. Because prices are increasing but we can improve the price perception by giving customized offers to consumers that use our app.

So our NPS regarding price perception is at the best historically levels ever even with the high inflation rate. And that shows that we have been able to work with this difficult scenario.

When it comes to expenses we have been able to become more efficient especially in the digital channel that also helps mitigate affects from the inflation. And when it comes to CapEx, we are obsessed with productivity, we are obsessed with knowing how far we can go with the same CapEx without bringing problem to the experience or to sales. So we have a very strong effort happening inside the Company so we can optimize the expansion that we have been carrying on with our stores.

Just to give you an update on the schedule, I talk to that the three priorities for this year would be integration, our expansion plan and the expansion of the offer of services that we have.

So now a quick update on integration. And I would like to highlight PIS, which is Pet Innovation Studio or P-I-S, this is the only hub house or bread house - sorry - in the pet segment in the world. We don't see that in any other retailer in the world, and we can say that this is the first real effect coming from the Zee.Dog acquisition.

It’s a very strong integration from our PETZ team with the Zee.Dog team working in a single platform and thinking about the Company as a single Company today. And we have different targets for this, and these targets are helping us differentiate ourselves. We are no longer common retailer. We are a retailer that offer not only exclusive products but especially we are a retailer that offer products that have a differentiator of products that you cannot find anywhere else, not even in terms of brand or in terms of design.

So this mindset of engaging consumers and differentiating ourselves so we become a community around this brand, which is the spirit that Zee.Dog has created, this effect is being expanded now to the management of all our brands, and we are very happy to see how fast this is actually becoming a reality, and we're very happy to see how this is evolving in a faster pace, even faster than we had anticipated before.

This is one example of the use of this platform and when we launch a new product. When we launch a new product, we have integrated communication effort, thinking about the different channels that we have, physical and digital. Social media have 100% proprietary content, and we are very worried about the visual communication that we use, product [ph] image only.

So we are truly differentiating ourselves from the rest of the market, and that reinforces that our challenge is not to be common retailer even if we use omnichannel as an efficiency factor, but we understand that this is not a differentiator that will last forever. Omnichannel is a differentiator that we have now. So we invest a lot on our ecosystem. We invest a lot on content, on design and innovation, and the ecosystem, of course, that we are building.

Highlighting our brand positioning, like I said, before many times we would offer the best value for your money with our PETZ brands. There was no concern about bringing innovation, and that was what was changed with the mindset of Zee.Dog. And just to give you an update, the LTM for the PETZ brand has reached R$ 18 million, and it represents around 40% of growth year-over-year, which is a very relative growth for the brand. And here I'm talking only about the PETZ brand.

Another interesting piece of data is that for the 25 categories where we are present with more than 300 SKUs, the share of the PETZ brand products in these categories are a little bit above 12%. So consumers are really adhering to these new brands.

Talking about our expansion plan now, like I said, in the beginning 42 new openings in the last 12 months. I would like to highlight out of the 10 openings we did in the first quarter - a record level - seven of them were located outside of the state of San Palo.

Recently I was reviewing these numbers a few weeks ago, and the revenue coming from the state of San Palo was smaller than the revenue coming from other states, so clearly we are at an accelerated pace of growing our national presence.

For the Seres Veterinary Center, we opened a new hospital in Brazil, the first veterinarian hospital in Brazil, a very important market for us. We have almost 140 veterinary centers and 15 hospitals in 10 different units - states - sorry. So we are building the infrastructure so we are ready to take the next steps regarding our laboratory services and our health insurance plan.

Regarding the expansion of our service offer, the last call I mentioned that we have new five VP positions. Four are already occupied. One is a VP for Services that will integrate Seres, grooming services, (inaudible), and all new services of the ecosystems. We are currently hiring for this VP position, so we have a full team in the coming weeks.

Talking about clinics and hospitals, it's being expanded for labs and the pet health plan like a mentioned before. We can move on.

Talking about ESG. We have almost 60,000 pets adopted, and very important news is that 32% of growth in comparison to the first quarter of 2021 when it comes to the level of adoptions.

So many times we see it on the media and maybe we hear it in other countries that the number of adoptions grew a lot during the pandemic and that then there was a deceleration. That might be true for the market as a whole, but for our network it's different. We are continuing to invest in our adoption program so it becomes better, so we have a better integration with our stores. We are investing on the digital channel to make the life of adopting pet owners easier, and that has been leading us to these results.

We are the largest adoption platform in Brazil by far, and we – for us this is – or this continues to be a strategic movement for the Company as a whole. Let's remember that two-thirds of the adopted pets are cats and two-thirds – or actually one-third is dog, which reinforces that cats are growing more than any other type of pet in the Brazilian market.

Still talking about ESG. We partnership [ph] with the Mall Publishing House [ph], a wonderful partnership that we have both for the publishing company. They are the largest social publishing house in the world. More than R$ 10 million have been raised with this partnership, and in the last 12 months, R$ 4 million have been raised, and these R$ 4 million are given to the partner NGOs from the adoption program.

So it's a virtuous cycle that we create because the more professional NGOs are thinking about animal welfare and offering the best practices. When it comes to adoption the more they will be ready to receive resources from this project. And this project is a huge hit because we offer quality product, they are best sellers. If we were to compared this with regular book stores I'm certain that we would have the best-selling book in that book store. And that has been helping us significantly.

It has been helping us retrofit the adoption cycle. It's interesting that not only we provide resources or financial resources but we also use part of these resources today to fund training or on the management of these NGOs. So we invest not only in providing resources for recurring expenses but also for structure expenses and for the improving of the management of this NGO.

So it's a complete plan for animal wellbeing.

(Inaudible) also talking about the Petz Group we have had a growth of around (technical difficulty) and pet (technical difficulty)

Look to same store sales of Petz standalone in the first quarter. We are talking about 14.1% [ph] of same store sales and the same store for mature store could be (technical difficulty) of the high single digit (inaudible).

In terms of gross digital revenue, we also had a strong growth. So in terms of Group, we grew (inaudible) representing 34% of the gross revenue total of the Company. And when I look Petz standalone we also had a very – a growth that's in-line with what we have been pointing out in the market, 41.5%. That was what we have pointed out to the market, something around 40%.

And the same thing is true for the gross profit. We were talking to the market that our idea was despite the inflation to work hard so we could able to do the price increases and keep our gross margins despite the opposite trends which are the following.

A higher penetration of digital (inaudible) result and a higher penetration of (inaudible) penetration has increased 4% comparison to the same quarter from the previous year so that brings additional pressure to our result. And digital had a stronger pressure in terms of share of 3%. And still the pressure on Petz standalone was only of 30 base points.

When we look in terms of EBITDA, we have been mentioning that in the year horizon because of so many stores that we're doing plus the backlog of the openings we did in the second of last year, the pressure will be around 40 or 50 basis points for the year. In this quarter, specifically, despite the pressure on the Petz standalone margin we were able to make up for that through expense whether we're talking about a renegotiation of transportations or freight or rental contract or the efficiency with more algorithms working to make this investment more efficient.

So the percentage perspective we are becoming more efficient in terms of market performance. And you will be able to see that that didn't affect this growth in number of downloads and in use of app.

Finally, the adjusted net profit growing 57.7% year-over-year for the adjusted net income reinforcing this trend a small adjustment in comparison to the accounting net income that refers to our stock option plan that has (inaudible) cash affect.

(Inaudible) important to highlight that it grew 48% in the first quarter of 2022 with a total revenue of R$59 million. And I two highlights for you. First, for (inaudible) 90% year-over-year growth with a maceration of hubs taking place still but still the same store sales are the same hub sales continue to be very strong, units that reopened a little bit longer ago.

And the gross revenue of Zee.Dog Brazil was also very strong, 50% of growth and let's remember that in this case we did make a price adjustment in the main Zee.Dog products and on the PETZ products that are also growing because we are expanding the offer that we have for these products inside our stores.

As mentioned in the previous slides, the pressure on the beta [ph] margin for PETZ than alone for Zee.Dog increases from 20 basis points to 110 basis points, but we see this as a temporary effect. The first quarter was a quarter that did not include any synergy in terms of the financial elements, we had synergies in terms of brands, our own brands, and the mix of products.

But in financial points we start to calculate that as of April when we are already integrating the hubs and working in a number of initiatives like the service rate so we can improve this profitability, improve synergies, and maybe reach a (inaudible) that's very close to PETZ when all synergies are update in the medium and longer term.

In terms of the expansion of the store net where (inaudible) mentioned before we opened 10 stores in this first quarter, a very significant number for PETZ, a record level. Out of these 10 stores, seven were outside the state of Sao Paulo, which shows our ability to maintain APS [ph] levels even with this geographic footprint.

In terms of distribution by age we have 23 stores that are not even one year since the opening, and that's why we reinforced this concept of a slight pressure on our (inaudible) margin because I have these stores that take between four to six months to reach a breakeven in terms of the (inaudible) and 4 to 7% of our stores are mature only.

In terms of store mix, another interesting indicator that we have for this year is that 46% of our stores are located in other states. In March was the first month in our revenue outside Sao Paulo was higher than our revenue inside the state of Sao Paulo.

The idea here, I mentioned this before, I wanted to show the differences in terms of growth. So Zee.Dog incorporated to the group bought [ph] -- brought 10% more in terms of growth, and like I told you before, the growth trend for the Zee.Dog revenue will be sustained in the following quarters with the difference that the profitability is going to improve quarter-over-quarter.

In terms of digital we also talked about the digital performance with and without Zee.Dog. Of course, Zee.Dog increases our digital presence because we have now the Zee.Dog app that's very strong, and the Zee.Dog website. So the representation of digital has grown to 34.5% with more than $215 million in revenue coming only in this quarter, which puts us as leaders in the pet digital market in Brazil.

And other indicator is our app, it's becoming more relevant, 6 to 7% on digital revenue coms from the app, it used to be 59% in the same quarter of last year, so we added that. And our subscription program grew 50% year-over-year.

Our subscription program is growing in the number of subscribers and reducing the churn. We don't offer aggressive sales to capture new customers, and the good side of that is that the customers we capture stay with us for longer because they are not only focusing on a specific discount or offer that we bring.

Talking about our efficiency in terms of performance marketing with the algorithm set we use, so even if in percentage points we are working a little bit more with the market investment we are still leaders in the number of downloads with our app. Basically we have the combination of the second and third place in our segment, with a highlight on the month of March when we really took a lead in the number of downloads in comparison to the competition.

And just to make one thing very clear, both in terms of gross profit and adjusted EBITDA [ph], I'm sure you remember that in the fourth quarter of last year we mentioned that we got a tax benefit in December, and this has to do with the whole 2021 period.

So the numbers that you see here for 2021 in these graphs are already adjusted. What we see in the yellow circles is the margin that you initially had and it's higher when we adjust this credit to the base.

So basically we are talking about a gross margin that's relatively flat which shows our ability to do price increases even with the increase of digital and the increase of food in our mix, and for the adjusted EBITDA margin pressure coming from digital and food.

But with an effect [ph] of the expenses that helped us a lot. So even if this Zee.Dog quarter effected our consolidated results, we were able to be very efficient in terms of expanses when we look at PETZ standalone.

Finally, talking about investments. The gross of our (inaudible) or 45 million focused on new stores and hospitals -- 10 stores and one hospital were opened, and around R$30 million with a focus on technology and digital structuring our growth with the app, our user experience with the website, and the integration of the acquired companies.

In terms of leverage, after the follow on we continue to be in a very comfortable position in terms of cash, and this comfortable position is what allowed us to have since the last year a more preventative [ph] approach to control (inaudible) the supply chain.

We know that our suppliers are suffering with late deliveries, with containers, and specific features [ph] with important companies for our mix of products. And we were able to have enough stock so we won't lose these customers once they are already with us.

So this was something strong that we did in the fourth quarter, and in the first quarter of this year we are going to continue with that. Of course, our stock increase is not only because of this tactical decision but because of the all the stores that we are also opening.

Talking a little bit about our ecosystem now, in terms of Zee.Dog we have the rollout of the supply from the hubs by PETZ. This is the first financial synergy of this transaction, so

PETZ with our purchasing power, acquiring from suppliers on behalf of (inaudible) we are already doing that with some suppliers. It's a synergy that will start to ramp up as of April, this is already happening.

And the management from Zee.Dog has been mentioning the improvement in the supply, so they are losing fewer sales because the use of the PETZ distribution center, not to mention the improved financial conditions because we are acquiring directly from the supplier and not from the distributor anymore.

In terms of the maturation of the Zee.Now hubs, we had a very strong growth for Zee.Now, around 9% with the same store sales for the hub -- for the same hub sales for the hubs that are mature was 56%. So these hubs continue to gain relevance.

In April to improve profitability and to make Zee.Now a more profitable platform close to the profitability levels that the digital PETZ platform has we added a fee service of R$3.99 it's a fee service that's in line with all delivery apps that offer a super express delivery, and we're talking about a delivery taking place in 30 minutes.

In the web PETZ website we offer two hour delivery, three hour deliver but Zee.Now has this (inaudible) super express delivery. This fee didn't cause any sales reductions, churns, or complaints. Actually we had only eight complaints from the fans from Zee.Dog and two other important (inaudible) optionality as you know Zee.Dog (inaudible) will launch it on May 17, we already showed you the video with more details on the launch.

And finally a synergy that will take place in the end of the year which is the nationalization of Zee.Pad which is the pad from Zee.Dog. It's the best sold SKU 25% of Zee.Dog Brazil sales come from these pad, and Petix the recently acquired company will be able to supply that in the end of this year, beginning of next year. And so that's why we say that in the second quarter of last year most likely we will have all the synergies taking place in-house.

Now the idea is to show you two quick videos with details of the launch of Zee.Dog kitchen.

(technical difficulty)

Unidentified Speaker

(Translated) We also have a reopening of a store in the Ipanema neighborhood in Rio de Janeiro. A space that was designed to create new experience and become closer to our pet owners, and it's a concept that could be replicated to other (inaudible) in the future.

I think this will be a test of concept and a good pilot to understand how this format could be, whether it happens via Zee.Dog or via Zee.Now we will study this model at the end of this year and beginning of last year.

I think the idea is to talk about the feline world domination, we are hosting a lot of events together (inaudible) community. We have hosted, in fact, in five different states and these events that have a long waiting list, many people -- 4,000 people have already been registered and we have nine stores with exclusive and differentiated assortment of (inaudible) products.

What stocks [ph] from even more stores has to do with supply, so in this quarter we are working strong to have a more robust assortment [ph] because initially their production was a little bit more manual for some products. And here our Zee.Dog PIS will start working stronger on that in the coming months to deal with international sourcing on the same line that we do for the other Zee.Dog accessories.

Finally, talking about the synergies that we have with (inaudible) we have started selling online courses from Dr. Pet [ph] to the PETZ customer base as you can see on the page this is the homepage of our PETZ website.

In one of the -- you can already see the banner for the online training courses, and they are available for our pet owners. We have dog training, puppy training and we are doing a lot of boosts and activations so PETZ customers can access this content and also become (inaudible) customers.

We are working on integration between (inaudible) and other segments from the PETZ segment so (inaudible) is hosting live streams to talk about animal behavior and this has been a very good experience. Dr. Petz [ph] has a huge fan base and a lot of followers on social media. And he has been supporting us on our adoption program. We have created exclusive Dr. Petz [ph] content for tutors that adopt a pet, they will receive this content immediately.

And finally franchisees from (inaudible) can already create a virtual store, it's almost like an affiliated program to recommend products that they would recommend to tutors like collars, dog beds -- they can already do that via our website, they receive compensation for that and we lock in that tutor, that customer (inaudible) only a Dr. Petz [ph] customer. These are the main highlights for (inaudible) in the quarter, and I think now we can open for questions. Thank you very much.

Questions And Answers

Operator

Ladies and gentlemen, we are about to start the Q&A session. (Operator Instructions).

Our first question comes from Maria Clara [ph] from ETOL BBA [ph].

Q - Unidentified Participant

(Translated) Good morning. I would like to understand better the profitability dynamic for the quarter, thinking about PETZ standalone, especially considering the gross margin pressure of 30 BTS seems to be very resilient considering the inflation rate and digital share.

Is this behavior the result of the price increase strategy? Do you have any other initiatives behind that? Talking about a (inaudible) margin we were surprised to see the dilution of expenses to accelerate the expansion plan. With the maturation of the new stores, can we think about higher dilution from now on?

A - Unidentified Speaker

(Translated) Aline, would you like to take that?

A - Aline Penna

(Translated) I think that during the presentation we talked a lot about elements from the gross margin and (inaudible) margin. The gross margin we do have this (inaudible) which are the share of the food products and the share of digital, but we are working a lot with the My Offers program, and the price increases for the food products.

And I would say that we are also working with some incentives that we would bring to the loyalty program or discounts from (inaudible) that would not necessarily (inaudible) generate all the bets [ph] instead of investing more on My Offers program. So there is a smaller effect of some tactical adjustments we've made in some of the programs, with a focus on pricing that (inaudible) program margin.

The forecast for this year, we see a very similar behavior probably the pressure on the gross margin that we have will continue to exist or we're going to see something around flarish [ph] and a small pressure because of the trends that might continue throughout the year. And considering the EBITDA margins with improvement of Zee.Dog we will see an improvement as a whole on the consolidated margin for the pets group, but without a doubt that meant [ph] a lot on inflation and how much we can mitigate that in the period with our negotiations.

We have been very effective in freight negotiations, in rental negotiations. We hope to continue that throughout the year. What doesn't change is our perspective for the year of a pressure of 30 and to 50 bps of margin for a growth that would be above 30% of revenue and looking only at PETZ standalone primarily.

Operator

(translated) Thank you very much. Our next question from the webcast comes from Danniela Eiger from XP.

Q - Danniela Eiger {BIO 20250080 <GO>}

(translated) Good morning. Could you give us more information on what do you think about the laboratory strategy and the pet health insurance plan that is supposed to be launched by the end of the year? Would it be something organic that could be reinforced through partnerships or M&As? Considering Zee.Dog you mention that the gains of synergy will happen in the next quarter. When do you expect that this operation will generate EBITDA again, and could you talk us a little bit about the evolution of the strategy for the PETZ private brand?

A - Sergio Zimerman {BIO 21681486 <GO>}

Okay. Thank you, Danniela, for your questions. We have three topics that you mentioned. The Zee.Dog brands, laboratories, and health insurance questions.

Starting with laboratories, we are understanding what is the best alternative. This is not a decision like everything that we do we don't like to make hasty decisions because that has an impact in the mid and long-term results of the Company, so we need to be confident about the path we are taking.

What I can say is that we are assessing both models. We are assessing if it’s better to start this completely organically or if we are going to start via acquisition, so we have a platform that will put us a few steps ahead.

This is a very complex valuation. There are a number of factors that favor one model or the other, so we are deepening our understanding to make the best decision regarding labs.

For health plans, we want to offer a vertical health plan. So we – what has been happening is that we are investing in hospitals in different states, building a very expensive network of veterinarian centers all over the country, so we can support our health insurance plan. But the model that we will launch, the task we will choose for the pilot program, these are the elements that we are still analyzing, so before we launch our pilot program. And only after we launch a pilot program, only after we start to see in reality what it really means to have a health insurance plan, (inaudible) or pet owners see the value of this, what is the payment of the premium comparison to the service that we offer. Only after we understand all these elements we will be able to talk about the rollout and the profitability of this system.

We try to be very consistent. In the retail segment we have control of the variables, so we are at an accelerated pace. Now in matters where we are still learning, we are a little bit more cautious, so we respect the resources that the Company has.

About the second part of your question, you ask about the positive EBITDA. In our perspective, this is going to happen in the second quarter. Am I right, Aline?

A - Aline Penna

Yes. Considering all the leverages that we mentioned and especially the service fee that we added to the integration of the hubs, we are going to be moving to that scenario of profitability.

A - Sergio Zimerman {BIO 21681486 <GO>}

In our perspective, the first quarter for Zee.Dog is the minimum of what's going to be, and we pretty much did not benefit at all from the effect coming from the integration process, and we still suffer some additional pressure because of the acquisition itself, so we see this as the worst case scenario in terms of results. So from now one we are focusing in a different trend, a trend of improving results in the coming quarter.

And now talking about the strategy for our private brands, as I mentioned before, and I would like to use this opportunity to highlight it, we have a very robust strategy for our private brand products. When we think about category management, for example, we put a best, better, good, and first price product.

So basically we have four different levels for each product category. Out of these four levels, we are not going to work on the first one only because the first option or the first price doesn't need to be connected to a specific brand. It could be any entry level product, but for the other three levels we are developing a very robust work so we can position ourselves with our own private brands or with exclusive brands that might be sold by us.

In our perspective, we can – especially for non-food products, we can be extremely relevant with the participation of this global perspective that we have for the positioning of our private label products. This was a great benefit that we are reaping from the Zee.Dog partnership. We are expanding our vision on what is an exclusive brand, what is a private brand, and how we can build that in the coming years. We are very excited about this.

Operator

Thank you very much. We are ending the Q&A session right now. I would like to hand the floor to Mr. Sergio Zimerman to make his final comments. Mr. Zimerman, the floor is yours.

A - Sergio Zimerman {BIO 21681486 <GO>}

(translated) Well thank you very much for your attention. Thank you for your time. We started the year with a very challenging scenario as I'm sure you know globally speaking. I think you are all following everything that is happening around the globe, challenges happening in Brazil, political challenges, economic challenges, an inflation rate scenario, but we are still very confident, very certain that our investment thesis is robust. Our thesis is countercyclical to some extent.

And it's actually moments of more stress, in these moments we strengthen our conviction that we need to focus on expansion and build our ecosystem, so – and we are absolutely certain that many opportunities come especially because other industries and other sectors suffer more from the economic crisis moment. So it is the time to reposition ourselves, and once – and the market comes back like it has happened before throughout the 20 years we have been around, we will be ready and well positioned to make the most of it.

When we were advancing on the digital, the pandemic came, and once again we are making the most of the turbulent times to really strengthen our infrastructure. Maybe we could have a different perspective. We could focus only on results, but that might generate short-term value without generating mid and long-term results.

The name of the game is balance, and this is what we try to do. Thank you very much, once again, for your attention, and I wish you all a great Friday. See you soon.

Operator

(translated) The PETZ video conference is now concluded. Thank you all for coming, and have a great day. Thank you for using Chorus Call.