

PETZ

2Q23 Preview: Every dog has its day

Discretionary Retail

Facing tough comps and pressured by a still challenging macroeconomic backdrop for discretionary consumption, **we estimate that Grupo Petz should deliver a q/q and y/y slowdown** - both in terms of revenues and profitability.

We expect the group to consolidate **gross revenue at R\$952m (+18.9% y/y; +4.3% q/q)**. The largest growth contribution should come from the 53 stores opened (Est. Genial) in the last 12M. We project Same Store Sales of 6.0% y/y (-290bps y/y; -210bps q/q) this quarter.

In our expectation for gross revenue, we do not expect a change in product sales mix this quarter, it should remain close to the one presented in 1Q23 - *i.e.* 59% food and 41% non food.

The biggest impact in Same Store Sales should come from the Services business, given the adjustments made to the vertical's growth strategy in recent months - opening stores in smaller formats without the presence of a Seres veterinary center. We estimate that Services will post revenues of R\$ 30m, which represents a drop of 8.8% y/y.

Regarding digital sales, we expect them to remain sequentially stable. We estimate gross revenue from this channel at R\$ 340 million (+20.3% y/y; +0.6% q/q). However, even in the face of this stability, online should gain share in sales y/y, rising from 35.3% of the group's consolidated revenue to 36.0% (Est. Genial). Despite efforts to smooth the difference in contribution margin between online and brick-and-mortar, naturally, the y/y advance of the digital channel should negatively impact the group's gross margin.

There are two other factors that should also pressure the group's gross profitability:

(I) The withdrawal of the pick-up service charge in São Paulo since the beginning of the quarter - and in the rest of Brazil from mid-June;

(II) Petex consolidation effect, given that the acquisition is accounted for as of 3Q22 and therefore still brings a different comparison base this quarter.

We project Petz group to consolidate **gross profit at R\$374 million (+14.2% y/y; +2.9% q/q) and a gross margin of 39.3% (-160bps y/y; -50bps q/q)**. It is worth mentioning that, given the strong impact of tax substitution (ICMS ST), we use gross revenue instead of net revenue to calculate margins - the same dynamics as in the pharmaceutical industry.

Analysts

Iago Souza

iago.souza@genial.com.br

Vinicius Esteves

vinicius.esteves@genial.com.br

Nina Mirazon

nina.mirazon@genial.com.br

Company

PETZ BZ Equity

Buy

Price: R\$ 7,00 (July 31, 2023)

Target Price 12M: R\$ 8,00

For EBITDA, the acquired companies (Petix + Zee.Dog) should approach break-even, but still detract from operating margin. We estimate the group's adjusted **EBITDA at R\$67mn (+2.2% y/y) and an EBTIDA margin of 7.1% (-110bps y/y)**.

We expect Petz to post a **net income** of R\$10mn (-63.5% y/y) and a net margin of 1.0% (-230bps y/y). Adjusting for stock-options and non-recurring items, we **estimate a net profit of R\$16m (-51.8% y/y) and an adjusted net margin of 1.7% (-240bps y/y)**.

Table 1: Genial Estimates vs. Consolidated Petz.

TARGET PRICE 2023 E	R\$ 8,00	Upside	16%				
Petz	2Q23 E	2Q22 C	% y/y bps	Bloomberg Cons.*	% Genial / Bloomberg	1Q23 C	% q/q bps
Gross Sales	952	801	18,9%			913	4,3%
Brick-and-Mortar	581	485	20,0%			540	7,7%
Digital	340	283	20,3%			338	0,6%
Services	30	33	-8,8%			35	-13,5%
Same Store Sales (%)	6,0%	8,9%	-292 bps		-	8,1%	-212 bps
Net Revenue	802	674	18,9%	856	-6,3%	767	4,6%
COGS	(428)	(347)	23,3%	(472)	-9,4%	(403)	6,1%
Gross profit	374	327	14,2%	384	-2,5%	363	2,9%
% Gross margin (1)	39,3%	40,9%	-160 bps	N/A	-	39,8%	-54 bps
% Gross margin (2)	46,6%	48,5%	-191 bps	44,8%	182 bps	47,4%	-77 bps
EBIT	21	27	-22,7%	34	-38,8%	14	50,4%
% EBIT margin	2,6%	4,0%	-139 bps	4,0%	-138 bps	1,8%	79 bps
Depreciation and Amortization	(40)	(30)	35,9%	(47)	-14,5%	(40)	1,2%
Adj. EBITDA	67	66	2,2%	81	-16,9%	65	3,9%
% Adj. EBITDA margin (1)	7,1%	8,2%	-115 bps	N/A	-	7,1%	-3 bps
% Adj. EBITDA margin (2)	8,4%	9,8%	-137 bps	9,5%	-107 bps	8,5%	-6 bps
Net financial expenses	(7)	5	-	N/A	-	(3)	108,0%
Income Tax	(5)	(6)	17,2%	N/A	-	(4)	24,4%
Net Income	10	26	-63,5%	N/A	-	7	38,4%
% Net margin	1,2%	3,9%	-267 bps	N/A	-	0,9%	29 bps
Adj. Net Income	16	33	-51,8%	15	-37,1%	19	-17,6%
% Adj. net margin	2,0%	4,9%	-289 bps	1,8%	-58 bps	2,5%	-53 bps

* Retrieved on Jul 20. 2023

(1) Relative to Gross Sales; (2) Relative to Net Revenue

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under Review	Under review	5%

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