CFA Institute Research Challenge
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Team 7

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101 Reasons to Invest in PETZ: Initiating coverage with BUY

Investment Highlights

We are initiating coverage on Petz (PETZ3) with a BUY recommendation and a fair value of BRL 25.7/Share, representing a 26% upside from current levels. Our positive view is based on four main Petz's attractive points: (I) A promising industry with secular growth drivers, high fragmentation, which favors consolidation following the steps seen in more developed countries, and resilience to macroeconomic downturns; (II) Megastore as the winning model, ensuring to the customer the best experience both physically and digitally; (III) Petz's ecosystem being able to create barriers of entry with higher switching costs separating the company from its competitors; and (IV) Real Options that ensure the investment a margin of safety in a valuation sense.

Favorable sector dynamics

The pet retail industry is one of the most promising retail segments in Brazil. Besides having grown up 13% a year in the last five years, the segment doesn't tend to slow down in the following years, with a projected CAGR (21'-25') of 11.1%. This is happening mainly because of the growth in the number of pets in Brazilian households, followed by the increase in the average expenditure per pet, both driven by the secular trend of pets' humanization.

Along with that, we see a colossal resiliency of the segment when compared to other retail industries, which is a huge plus given the macroeconomic scenario that we are facing. To sum up, we see an excellent opportunity for consolidation led by megastores channels (13%) and e-commerce (8%), given the considerable market fragmentation, which is now concentrated on mom & pop channels (48%).

Hub and spoke model – It's just a matter of time until the consolidation

Given the industry fragmentation, we see the *megastore as a hub* model as the true champion of this competitive dynamic, highlighting Petz and Cobasi as the leading players in this segment, both with aggressive expansion plans, recognizing a slight advantage for the company. Compared to mom & pop pet stores or food retailers, we believe this model is superior since it has better pricing, location, and product diversity, ensuring a far greater appeal. Moreover, given the significant geographic dispersion, we envision the model providing higher online penetration, with superior omnichannel contrasting it from mom & pop pet shops and pure online channels.

The result of it is a greater movement of people in Petz and Cobasi stores inside and outside São Paulo (where the competitive dynamics is different), when compared to mom & pop channels, as stated in our authoral Foot Traffic analysis.

Ecosystem – A one-stop-shop solution for pets

The megastore model companies are comparable to each other, with similar pricing, location, and assortment. Given that, we perceive a disparity between Petz and all other players (Cobasi included) owing it to the well-developed ecosystem, which has plenty of room for growth. Today, the company has some peculiarities that its competitors do not have, such as a network of veterinary clinics and hospitals, private label products, and a solid recurrence program. We believe this is gradually increasing switching costs for Petz and may increase margins in the long term. In addition, the ecosystem makes room for optionalities, as the company tends to go to the market to bring in assets that complement it, such as other services and fronts of action.

A margin of safety that guarantees returns in the long-term

In addition to the confirmative valuation, we see strong optionalities that have not yet been priced in the company, presenting us with a higher margin of safety for the investment. Seres has the potential to become Brazil's largest network of veterinary facilities, providing a cross-sell with pet health insurance and lab testing. Furthermore, we welcome the purchase of Zee.Dog, which comes with a premium of BRL 3.8/Share. In this aspect, we also measure the possibility of new M&A operations by the end of the year, which would further open the margin for Petz to expand into new products, such as life insurance. Finally, we also consider the possibility of an international expansion, especially in markets with the same opportunity as the Brazilian, such as other LatAm markets. However, in our view, that will happen over a longer time horizon, after the nationwide extension, and we do not include it in our numbers.

Investment Risks - What is barking at our thesis?

We believe that the main risks to our thesis and BUY recommendation involve three main spheres: (I) Business and Operational, which involves risks related to future projections of the operation (private label penetration, integration of acquisitions), and how the company will deal with such; (II) Market Risks, which deals with risks mainly linked to the competitive landscape and market opportunities; and (III) Macroeconomic, which mainly addresses the risks of a possible crisis in the expansion plan, both of Petz and of the industry. All these risks are furtherly explained and measured on the subsequent pages.

Equity Research | Nov. 08th 2021

CFA INSTITUTE RESEARCH CHALLENGE

Team 7 | Student Report

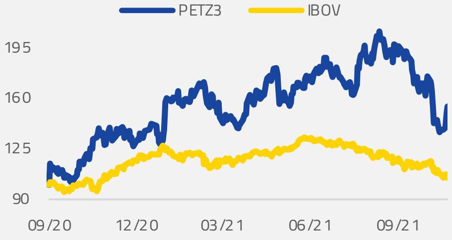
Rating	**BUY**
12M Price Target	BRL 25.7
Price	BRL 20.5
Ticker	**PETZ3**

Stock Data

Market Cap (mn)	BRL 8,057
LTM Performance	12.67%
Lowest Price (LTM)	BRL 17.45
Highest Price (LTM)	BRL 28.35
% Free Float	66.48%
Avg Daily Volume LTM (000' shares)	5,847
Stock Exchange	B3 | Novo Mercado
Industry	Pet Retail

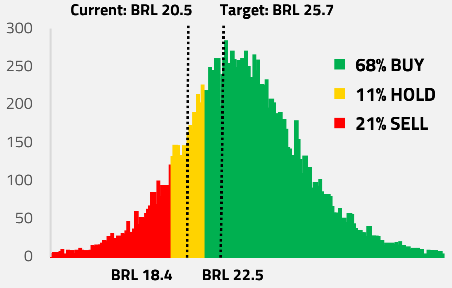
Last Update: 11/05/2021

Exhibit 1: PETZ3 vs. IBOV



Source: Refinitiv

Exhibit 2: Monte Carlo Simulation



Source: Team 7

Highlights		**20'**	**21E**	**22E**	**23E**	**24E**	**25E**	**26E**	**27E**	**28E**	**29E**	**30E**
Financial Estimates												
Net Revenue	[BRL th.]	1,436,756	2,297,603	3,036,530	3,968,182	5,113,120	6,454,841	7,753,969	9,047,487	10,374,418	11,768,350	13,218,140
Adj. EBITDA	[BRL th.]	160,750	255,242	360,280	506,096	671,605	872,747	1,055,637	1,237,528	1,426,205	1,626,202	1,834,521
Net Income	[BRL th.]	58,387	103,530	131,050	193,590	264,799	365,904	452,844	545,226	640,494	731,864	825,821
Margins												
Gross Margin	[%]	48.3%	48.1%	48.7%	49.4%	49.5%	49.7%	49.7%	49.7%	49.7%	49.7%	49.7%
Adj. EBITDA Margin	[%]	11.2%	11.1%	11.9%	12.8%	13.1%	13.5%	13.6%	13.7%	13.7%	13.8%	13.9%
Adj. Net Margin	[%]	4.1%	4.5%	4.3%	4.9%	5.2%	5.7%	5.8%	6.0%	6.2%	6.2%	6.2%
Profitability												
ROA	[%]	3.1%	7.1%	7.3%	8.5%	9.3%	10.2%	10.5%	11.0%	11.4%	11.6%	11.7%
ROE	[%]	11.3%	16.9%	18.4%	22.6%	25.1%	27.5%	28.3%	29.9%	31.3%	32.3%	33.4%
ROIC	[%]	16.9%	14.0%	16.5%	19.4%	21.7%	23.1%	25.0%	26.7%	28.3%	29.8%	31.3%
Operational Ratios												
Number of Stores	[#]	133	174	210	250	290	330	366	399	429	454	474
SSS	[%]	26.5%	13.6%	8.2%	8.1%	8.6%	8.7%	6.0%	5.4%	5.6%	6.1%	6.1%

Business Description

Pet Center Comércio e Participações S.A (IBOV: PETZ3) is the largest Brazilian pet retail company, both in revenue (BRL 1.7 bn) and in number of stores with 158 facilities distributed in 18 federative units (*see Exhibit 3*). The company now has a robust expansion plan of its stores focused on omnichannel (*see Appendix X* to check new location dynamics), interleafed with its main goal – creating the biggest pet solutions ecosystem in the world. The company also acquired brands such as Zee.Dog and Cansei de Ser Gato to develop its ecosystem even further.

Brands

Petz: It's the main ecosystem's brand, carrying the company's name, with a private label line of products, which aims to consolidate itself as the best cost-effective brand in the market, with both great assortment and customer experience. With its stores spread over the country (*see Exhibit 4*), Petz seeks to use the brand name to expand and bring scale to the operation, focusing on omnichannel – which integrates physical/digital channels and products and services segments in a proactive strategy against an undeveloped macro logistics service. The brand has two types of stores: (I) Megastores (~1000 sqm with 8-12k SKUs); and (II) Express (~500 sqm with 6-8k SKUs).

Seres: Seres is Petz's network of veterinary hospitals and nowadays represents a huge cross-sell potential to the company. The brand has 12 veterinary hospitals and 118 clinics distributed in nine states (72 cities), including Federal District (*see Exhibit 4*), and which are usually integrated with Petz stores.

Zee.Dog – The crown prince: Created in 2011 and acquired in 2021, Zee.Dog is a premium brand focused on products such as collars, wallets, toys, and in the future, pet food – with Zee Kitchen's inauguration. The acquisition brings to Petz operational synergies and expands the brand's portfolio, mainly because Zee.Dog is a company recognized for its private label products in the premium segment, capable of creating a strong brand in a commoditized segment of the pet industry with a substantial international presence.

Cansei de Ser Gato: CDSG is a company founded in 2013 and was acquired in 2021. The brand is recognized by its digital presence, with more than 1.7 mn followers on social media. The acquisition will provide Petz more digital penetration, and a strengthening in content creation (*see Appendix Y*).

Adote Petz: It's Petz's adoption program, being today the most effective adoption program in Brazil, with more than 50,000 adoptions by September 2021. The company uses the brand as a cross-sell opportunity since the new tutor connects with the brand. We believe Adote Petz is a potential starting point for a long term relationship with Petz' ecosystem.

Products and Services – How does Petz make money?

Pet retail is the core business of Petz and Zee.Dog, offering more than 15k SKUs distributed in three main segments: (I) Pet Food; (II) Non-Food; (III) Services (*see Exhibit 5*). The segment (II) is where Petz is mostly focusing on bringing more private label products, especially in items with less differentiation.

(I) Pet Food: It's the company's biggest revenue source, representing 50% of it. Pet Food can be separated into three main variations – Normal, Premium and Super Premium. The segment is a relevant source of recurrency for Petz, and the company takes advantage of it by offering discounts and subscription services in a trade-off margin gain.

(II) Non-Food: It is the company's second-largest source of revenue with a 46% share and encompasses three subtopics: Accessories, Prescription Products, and Others.

(a) Accessories: It's Petz's fastest-growing segment. In some cases, the customer seeks differentiation, inquiring products with consolidated brands and specific functionalities. In other cases – when the product is commoditized – Petz has been adopting the private label strategy in order to generate better margins. This allows Petz to compete with prices 13% lower than similar products (*see Appendix N*), with a tendency to gain more revenue share in the coming years *(see Exhibit 6)*, especially with Zee.Dog's know-how in this segment.

(b) Prescription Products: A subcategory of non-foods that represents ~15% of the company's revenue (19') and must grow according to Seres' development. This type of product has a higher ticket, but usually with lower margins due to lack of bargaining power of suppliers.

(c) Others: Represents the smallest part of the revenue. In this group we can include gardening products, small birds and fishes.

(III) Services: To offer the customer all solutions, this segment represents around 5% of the revenue and utilizes it as a cross-sell circumstance. In this category, we include bath, groom, and adoptions, which are tied to the brand Petz. We also include Seres' services of clinicals and veterinary hospitals, and future diagnosis.

Capitalization – Capitalizing first is advantageous

The arrival of Warburg Pincus, a Private Equity fund, in 2013 brought major changes to the firm. The enterprise renewed its brand, which used to be known as Pet Center Marginal, and adopted the name Petz. Furthermore, Warburg also put things right, spending a year without opening stores organizing the operation to create a scalable platform (stockout decreased from 6% to 2% and a planogram was created in all stores) and brought third-party capital to the operation – ensuring a robust expansion in subsequent years, a development of the company's operations, and the arrival of key names to the company's board, as Claudio Ely, former CEO of RADL3.

Expansion Plan - Tail-ored for success

Regarding Petz's expansion plan, it's well known that the company aims to open 30-40 stores per year until 2025E and, we see much room for that (approximately 200 cities for an organic expansion – *see Appendix K*), given the highly fragmented market and the company's low penetration in cities outside São Paulo state. Besides that, we believe that the company will succeed given the extraordinary track record, having grown its store footprint at a pace equal to 33% from 2015 until 2019 (*see Exhibit 3*). This past success is primarily because of the megastore model that generates higher returns to the company given the Four years of maturation per store as shown in our 4-wall analysis, with an ROIC per mature store equal to 36% (*see Exhibit 7 and Appendix J*).
The results per store are more extraordinary when we analyze cities where there are no megastores, having an average ROIC much bigger than those opened in already saturated states, such as São Paulo. That happens mostly because there is a combination of less competition, cheaper operating expenses and a bigger share of products like accessories (mom & pop channels have fewer SKUs than Petz, which generates a client movement).

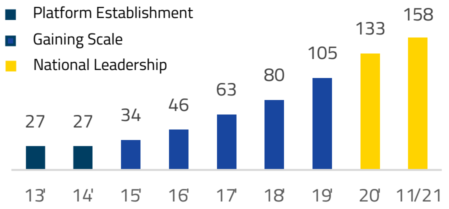
Omnichannel

Petz has one of the most excellent omnichannel solutions in the Brazilian retail industry, with digital penetration reaching 30% of the gross revenue in Q2'21 (86% of that as omnichannel sales – *see Exhibit 8*), and we believe that will increase according to the progressive integration of CDSG and Zee.Dog, and the increase of e-commerce penetration in the pet industry as a whole. Another driver for Petz's digital penetration is the expansion plan because the company will be able to use the newest stores' points as mini-hubs, developing the three primary e-commerce delivery modalities: (I) click-and-collect; (II) ship-from-store; and (III) standard shipping. That strategy has been bringing results – the average delivery time in a 3-5km radius from a Petz' store is up to one hour in approximately 50% of the deliveries and up to one day in 96% of the cases. The result? Petz has lower last-mile costs and a greater customer experience.

Exhibit 3: Number of Stores

Stores; [#]

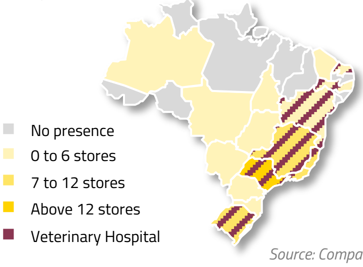
CAGR (15'-19') = **33%**



Source: Company's Data

Exhibit 4: Petz' Store Footprint

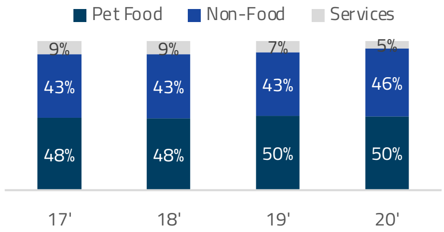
Stores; [#]



Source: Company's Data

Exhibit 5: Products Mix

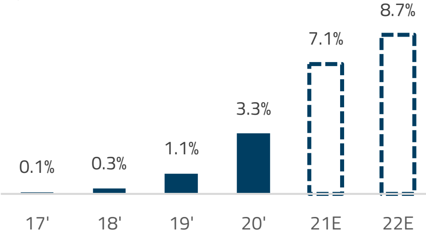
% of Gross Revenue; [%]



Source: Company's Data

Exhibit 6: Private Label Penetration

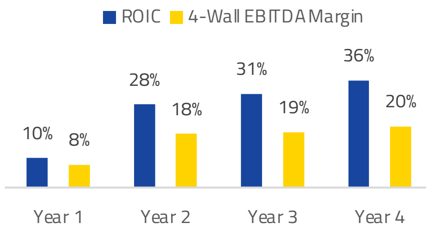
% of Gross Revenue; [%]



Source: Company's Data

Exhibit 7: 4-Wall Analysis

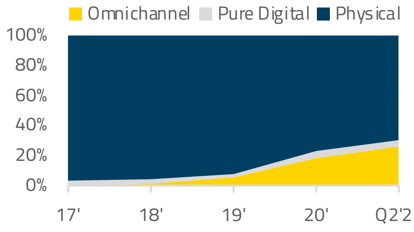
ROIC and EBITDA; [%]



Source: Company's Data; Team 7

Exhibit 8: Digital Penetration

% of Gross Revenue; [%]



Source: Company's Data

Industry Overview

The Brazilian pet retail industry has been experiencing strong growth in recent years, boosted by the number of pets per household, especially cats that have been growing at a faster pace than dogs, and the average spent per pet in the country. Given that, the industry witnessed a double-digit growth in the last five years with a CAGR (15'-20') equal to 13.27% (*see Exhibit 9*). According to Euromonitor, Brazil occupies the fourth position in worldwide market size (considering only dogs and cats) with BRL 27.8 bn, and we believe the country will keep track in higher growth rates when compared to mature countries (*see Exhibit 10*), and will reach BRL 50.5 bn in 2025E (*see Appendix I* to understand the calculation).

Resilience to Adversity – COVID-19 showed who's the winner

Pet retail is classified as an essential service, especially in Brazil where 88% of the market is categorized as pet food, and accessories and services classify only 12%. That pet food dominance guarantees Brazil a strong resiliency when compared to other retail segments. During the 2015 and 2016 crisis, the segment growth was 1.2% and 0.3%, respectively, while the country's GDP retracted 3.5% and 3.3% and the retail dropped 7.2% and 7.3% (*see Exhibit 11*).

The history repeated itself when we bring the COVID-19 pandemic to the table. According to Euromonitor, the number of pet shops in Brazil remained at the same level as 2019. However, the lockdown period affected the revenue of mom & pop channels and benefited megastore and franchisee models, which are more digitalized, and managed to grow and maintain higher margins.

Strong Secular Growth – Paternity? No, it's "peternity"

The pet humanization process has been remodeling the pet market, bringing new opportunities and growth levels. This phenomenon changes the tutor's view of their pet, who sees it with greater affection and consideration, driving the rise in the number of pets in the country and the average expenditure. The lockdown period catalyzed the process by bringing together physically and emotionally tutors and pets, reflected in a 760 bps growth of the percentage of tutors who consider their pets as a child or a family member between 2019 and 2021 (*see Exhibit 12*). This different perspective on the relationship with the pet significantly alters the consumption behavior of the tutor, who tends to buy more premium products and in greater variety, which may increase the penetration of accessories and premium products in the country. However, as said before, the pandemic just accelerated this trend, which was already happening for three main reasons: (I) Verticalization of Urban Centers; (II) Demographic and Cultural Changes; and (III) Access to Information.

(I) Verticalization of urban centers: According to IBGE, around 30% of Brazilians resided in urban areas in 1970. During the most recent demographic census, this figure increased by 5400 basis points. Customers in metropolitan regions have greater job prospects and, as a result, more purchasing power than those in rural areas. As a result, Brazilians are living in smaller apartments in metropolitan areas, leading in a bond between pet and owner. Furthermore, the space dilution is more attractive for smaller pets, such as cats, as seen by their increase, which was 2.4 times that of dogs in the previous year (3.6 percent against 1.5 percent).

(II) Demographic and cultural changes: With the secular trend of change in the age pyramid and the consequent decrease in birth rates, pets emerge as a viable option for forming families in the present times. This argument becomes even more vital when we take into account the historical rates of women's penetration in the labor market (46.8% in the Americas, according to the International Labor Organization), the growing number of pets in comparison to the number of children (97 mn vs. 44 mn in 2023E) and the affection created by them, as Millennials tend to spend more and more on their pets due to the fact that they treat their pets as members of their family (54% of 18-34s treat their pets as children vs. 39% of the +55 generation).

(III) Access to information: As pets become more popular and beloved in Brazilian families, as shown in items (I) and (II), there is also a greater demand for quality information to ensure the animals have a healthier lifestyle. This tendency reflects an increasing demand for more premium and organic products (wet foods) and, consequently, an increase in average spending per pet. A survey conducted by SPC Brasil and CNDL reinforces this fact estimating that approximately 85% of tutors search for information about products and services for their pets before purchasing. In addition to the trend, there is a low penetration of dry food options for dogs, with approximately 50% of tutors still feeding their pets human food. Analyzing the quality of the feed consumed intensifies the issue since the category of premium feed represents 19% of the total value in the country in 2020, while in the US, this value was 53% (Euromonitor). Therefore, there is a significant margin for improvement.

Room for consolidation

The Brazilian pet industry is exceptionally fragmented. Approximately 48% of the products market is concentrated on mom & pop pet shops (and vet clinics), which summarizes 32,082 places well-spaced around the whole national territory. Comparing it to international peers, we see space for consolidation both on megastore and e-commerce hands (*see Exhibit 13*). A similar phenomenon has happened in the U.S with PetCo and PetSmart during the 80s. However, we see that mom & pop pet shops should remain with higher capillarity in services and cross-selling, greeting a small but still significant penetration on pet's products thanks to it, such as 25%. However, the megastores movement is already happening step-by-step in the last few years: megastores rose from 5.7% share in 2014 to 11% in 2020, while mom & pop channels dropped from around 53% in 2014 to 51% in 2020.

E-commerce – Still underpenetrated and ready to take flight

When compared to the US, Brazil is under-penetrated in e-commerce concerning retail. In the pet retail sub-sector, the reality is even worse. Brazil has only 6.8% penetration against 14% in the UK and 25.8% in the US. Nevertheless, in terms of growth, a different dynamic can be observed; the market had only 1.6% penetration in 2016, representing a share of BRL 0.3 bn, and today the expectation for 2021 is that penetration will reach 8.3% (*see Exhibit 14*). The e-commerce market will total size of BRL 2.6 bn, a CAGR of 56% in the period.

Services

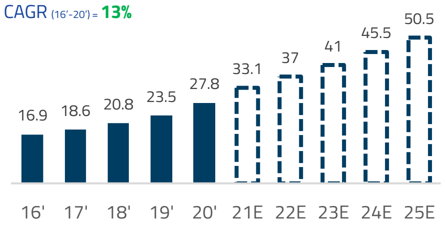
Even if the service sector represents a small part of the total revenue of large pet retailers (~5% of Petz' total revenue in 20') and is mainly dominated by veterinary clinics (63.1% share), this segment, besides representing a new BU, has as one of its main roles in creating cross-sell and up-sell throughout the ecosystem, with less complex services and regular retail. Moreover, with the humanization movement and the closeness of families to their pets, the trend suggests there will be greater penetration of this segment, given the more excellent care and concern for them. In Brazil, the services sub-sector is dominated by pet shops and veterinary private offices with 5.8% and 22.9%, according to IPB.

Competitive Positioning

As stated before, players enjoy a growing and fragmented market when compared to developed countries. With such fragmentation, we see a great opportunity for the expansion of two main sales channels, **online and megastore**, which, following the footsteps of developed markets, tend to grow their share in relation to mom-and-pop channels and other models. Thus, we see that in a first moment there will be a dispute between local players and the main competitors of these channels (Petz, Cobasi and Petlove), whereas mom-and-pop's market share in products has been decreasing, we see more specialization of this player in veterinary services, at the same time that the relevant players have been struggling for the big piece of the market, food and non-food products.

Exhibit 9: Pet Industry Evolution

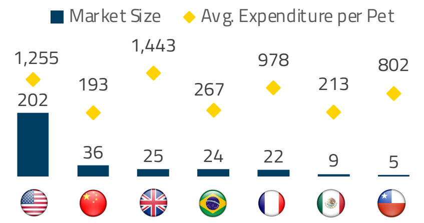
Revenue; [BRL bn]



**Only Dogs and Cats* *Source: Euromonitor, Team 7*

Exhibit 10: Market Size Comparison

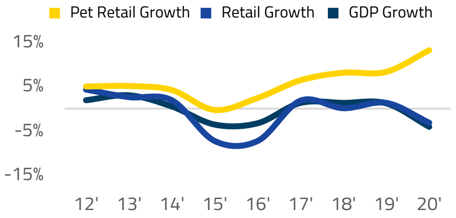
Revenue per Country in 2019; [BRL bn & BRL/year]



Source: Euromonitor

Exhibit 11: Growth Comparison

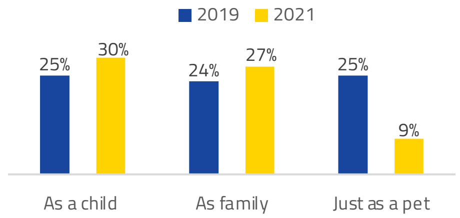
Real Growth; [%]



Source: Euromonitor; IBGE

Exhibit 12: Relation with Pets

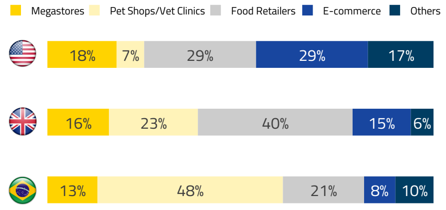
How do you consider your pet?; [%]



Source: COMAC

Exhibit 13: Product Sales by Channel

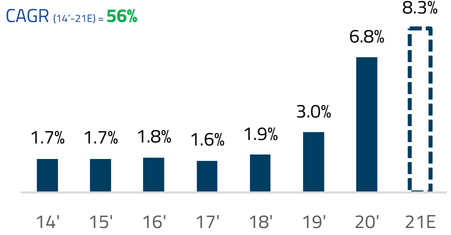
% of Total Revenue in 2021E; [%]



Source: Company's Data; Euromonitor

Exhibit 14: Pet E-commerce Penetration

% of Total Revenue; [BRL bn] and [%]



Source: Company's Data; Euromonitor

Meanwhile, medium regional chains may be one of the bigger share losers, as stores are neither service-oriented nor scaled enough to seize bargain power. Due to this panorama, we can separate the competition into two phases (I) Megastore as the winning model for the consolidation of this market; and (II) Petz and Cobasi being able to consolidate the industry side by side.

Megastore as a hub – The more the merrier

Firstly, to understand competitive dynamics, it's necessary to conjecture consumer interests (*see Exhibit 15*). In a physical store transaction, the purchase location decision is based on three ordered essential factors (I) Product Price; (II) Store Location; and (III) Product Variety. In online shopping, the dynamic changes considerably. The factors prioritized at the time of sale are: (I) Product Price, followed by (II) Delivery Time, and (III) Shipping Price. With this in mind, we analyzed each decision factor and then discussed the main advantages of the megastore business model over other sales channels. In both cases (digital and online), we see Petz better positioned in comparison to the main competitors.

Physical competition – No place for puppies

Price is king, no matter where: Both digitally and physically, price is the crucial factor in choosing a pet shop product, regardless of what it is. In this aspect, we see Petz better positioned in the physical sphere than mom & pop pet shops, as the company has strong bargaining power with suppliers, buying directly from them, having economies of scale against these . In contrast, local competitors mostly buy from resellers, being forced to sell for a higher price to customers. To better understand this, we created a normalized basket price to compare Petz's prices against mom & pop channels and its biggest competitor, Cobasi (*see Exhibit 16*). The result is a much better price than these pet shops and in line with Cobasi, where the competitive dynamic is different.

A1 positioning: To properly approach demand, megastores need to be in top locations. Even though bigger stores have an assortment advantage, store proximity is considered the second most significant factor in customers' choice. With more capillarity, mom & pop stores tend to be closer to customers than alternatives. In this scenario, we see that it is crucial to inaugurate stores on lively streets near other commercial centers: such as malls, supermarkets, and specialty stores, creating a solid one-stop-shop experience. Our geospatial analysis confirms that megastores tend to be closer to other stores and that Petz succeeded in opening stores in spots just as good as Cobasi's. But this is only the beginning: after securing a megastore hub, Petz densifies its presence by building the smaller "express" stores, pressuring more local stores.

Assortment - Megastores' main head: As a result of pet humanization, pet owners are willing to purchase a broader range of products to meet the demands of their pets. In this field, mom and pop shops have a severe disadvantage in this industry since their smaller size restricts the number of SKUs offered to customers, not offering products with lower inventory turnover (according to Euromonitor, mom & pop channels have on average 785 SKUs). With store specialization, mom & pop pet shops tends to serve customers as a convenience store, when taking the pet to a service. In contrast, megastores are able to create a unique shopping experience, where a tutor can bring its pet and test items with them. With more than 15k SKUs, Petz excels in bringing customers this experience, creating a remarkable experience for them (the same effect is seen in Cobasi).

What about supermarkets? Although expressive in the country (21% share in 21E), this sales channel is not a concern for the megastore model. This is due to the fact that these large retailers work with low product diversity, focusing mainly on those of lower added value (common feed, for example), because the don't have a considerable inventory turnover compared to Petz and Cobasi. In this case, they prefer having a better price in these types of products to generate recurrence *(see Exhibit 16)*. To cover that, Petz created the "Pesquise lá, Compre aqui", a price adjustment program for those rivals. Besides that, with more access to information and humanization, a natural demand for more sophisticated products is expected. In this scenario, specialized players take extreme advantage not only for offering this product, but also for scale and diversification. Countries such as US and UK, which have more penetration in the hands of supermarkets, have different competitive dynamics (*see Appendix S*) to see our international field research), mainly in the vision of the population that markets are a one-stop-shop and that value private labels in these markets.

Last mile matters

Regarding online competition, we see this channel as a strategic key for companies, and despite representing a small slice of the Brazilian market, e-commerce has been growing at a double-digit rate. Following developed countries' benchmarks, we expect this channel to represent ~20% of the Brazilian market. Besides megastores, only e-commerce platforms (vertical and horizontal) are capitalized enough to compete on this battlefield - which requires ongoing customer acquisition costs, investments in UX, and logistical development. The lack of those prevents mom & pop pet shops from entering this market, leading us to conclude that as the penetration of this channel grows, the participation of local players decreases. Given that and considering the customer's decision factors in an online purchase, we'll discuss the reasons for seeing Petz as the consolidator of this sales channel.

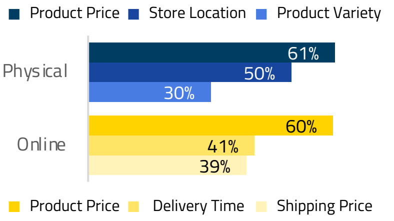
We looked 5 online stores throughout to check prices, shipping costs, and delivery time (*see Appendix L*) - which drives customers' choice. We believe Petz's superiority results from its comprehensive omnichannel system - which will be boosted by the already scheduled store expansion, bringing more capillarity and scale. Petz' omnichannel strategy also favors it from Petlove and horizontal marketplaces. Petlove, indeed, has a relevant share in the country (*see Exhibit 17*), and prices in line with Petz. However, it still does not own many distribution centers, lagging in delivery time in most non-major cities. Such results make Petlove's development in Brazil even harder and demanding, as it would fight established players charging similar prices. Petlove, which already faces challenges to raise its negative margins, would probably have to recur to an unfavorable price war to catch up Petz. For horizontal players - such as Amazon, MELI and Magazine Luiza - this challenge would stack with dealing with unfavorable inventory dynamics among a vast diversity of products. Despite higher recurrence, pet products have low turnover and added value in logistics, making it less attractive to keep in stock and have on-demand distribution. In addition, with the existing humanization trend, guardians tend to prefer stores with greater variety and customized for this type of service, especially when it comes to access to information.

Petz vs. Cobasi – A purebred battle

We already understand that megastore has advantage against mom & pop, but to understand the dynamics between the two biggest players, we must look backward. In this case, Petz started its expansion plan in 2017, while Cobasi stayed in its sandcastle, which made room for Petz to evolve its market share from 2.4% in 2015 to 6.8% in 2020 (*see Exhibit 18*). From this, Cobasi began its expansion movement in 2020 to intensify the competitive dynamic. The big thing is that both companies are similar on issues that matter to customers. As shown earlier, Petz and Cobasi have identical prices in B&M stores (*see Exhibit 16*). In terms of proximity, we used QGIS software and IBGE data to understand the competitive dynamics in the city of São Paulo, as it is the region with the most stores and the most extensive pet market in Brazil. We compared both Petz and Cobasi stores distribution with the wealthiest districts. As a result, we could see that both Petz and Cobasi are well positioned in the more affluent and richest regions of the city (*see Appendix K* and *Exhibit 19*). The last point is the issue of SKUs, but the high number of both companies (15k Petz vs. 10k Cobasi) is practically irrelevant from the customer's point of view. Given that similarity, we believe that the sector's consolidator will be the one that expands its territory to sparsely or uninhabited regions and achieve customer captivity.

Exhibit 15: Customer Decision Factors

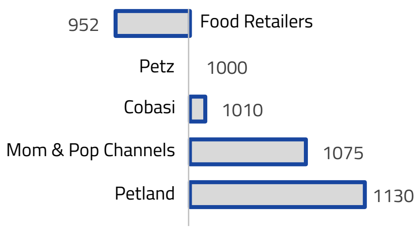
"When you buy [...], you consider first..."; [%]



Source: Team 7

Exhibit 16: Normalized Basket Prices

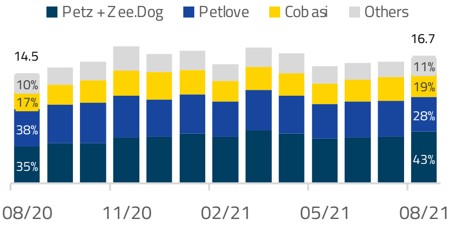
Average Price per Category; Base 1000



Source: Team 7

Exhibit 17: Share of Traffic

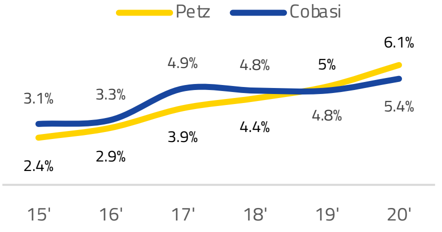
Monthly Traffic - 1 Year; [mn]



Source: Conversion

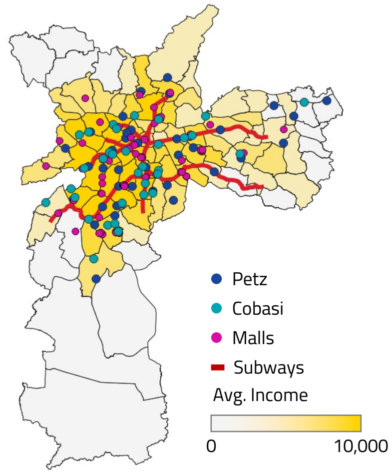
Exhibit 18: Market Share

% of Total Revenue; [%]



Source: Company's Data; Diário Oficial

Exhibit 19: Geospatial Distribution



Average Distance Analysis	Petz	Cobasi
Subway [m]	1,982	1,961
Malls [m]	1,852	1,517

Source: Team 7; QGIS; IBGE

Can there be two kings? To understand who is winning in the expansion race we used our geospatial analysis, now considering the whole Brazilian territory and an influence area equal to ~3km per store. We could see that Petz has greater penetration in the country's total GDP and population, reaching 10.35 million people and 27.8% of the Brazilian GDP. Cobasi reaches 8.22 million people and 24% of the country's GDP. The GDP/Store between both companies is almost equal given the similarity of both business models (BRL 3,439 mn for Petz vs. BRL 3,425 mn for Cobasi).

As a result, we see that both companies are practically equally in the country with a slight advantage for Petz. We also see plenty of room for consolidation for both companies to expand organically without margin compression (cannibalization). In our study using the GDP/Store (given the similarity of both companies), we discovered at least 226 new cities with a Petz and a Cobasi store without margin compression (*see Exhibit 20*), which ensure our thesis that there is space for both companies consolidate the B&M industry.

What do we see that the market does not?

To sum up, we understand that Petz and Cobasi will consolidate the Brazilian pet industry with better prices, privileged location, product variety, and, most importantly, without margins compression. However, to prove our point that both companies are similar in the competitive landscape, specially having advantages against mom & pop channels, we created a Foot Traffic analysis based on an authorial algorithm made in R using Google Cloud APIs to show this quantitatively. From this, we were able to find out in a given radius the number of pet shops in a specific area and the average traffic of each one at a given period of the day.

We decided to perform the analysis in several possible scenarios (*see Appendix O*); however, to develop our point, we decided to focus on cities outside São Paulo city, where the competition is less saturated (*see Exhibit 21*), and both Petz and Cobasi are opening more stores. Given that, we see that both Petz and Cobasi have the most significant traffic, with a traffic correlation equal to 96%. Furthermore, the analysis proves the significant advantage of the megastore models, which have higher traffic than the average mom & pop channels in the region (*see Exhibit 22*).

A one-stop-shop solution focused on customer experience

Finally, as a significant differential of Petz concerning all players, we see the company's well-developed ecosystem that serves as a one-stop-shop solution, covering all segments and generating cross-sell for the company, besides increasing customer loyalty. In this company's point of view, we highlight as Petz's strong differentiators:

M&A – Taking Petz to the next level: Petz took a step ahead of its competitors by acquiring the best available asset in the market and served to put Petz on another competitive level when compared to acquisitions made by other players (Pet Angel, by Cobasi and DogHero, by Petlove). The brand consists of Zee.Dog, the company's flagship product, and Zee.Now, an online pet store which accounts for 34% of current revenues (*see Appendix M*). In addition to these, other smaller initiatives make up the Zee ecosystem, such as the blog or the human product's brand. As a complement to the ecosystem, we highlight the fact that Zee.Dog has managed to establish its private label in the luxury segment in a market where price matters, and this know-how is relevant to Petz's private label consolidation movement (*see Exhibit 23*), something that was not even initiated by Petz's main competitors, thus increasing the company's reputation of brand power and consequently assisting in customer loyalty. A rise in gross margins is also projected as private label penetration rises. A crucial item to consider is the subscription program with a 10% discount on all products that the major companies (Petz, Cobasi, and Petlove) are developing to promote recurrence and loyalty.

Furthermore, we can cite as optionalities of the acquisition: (I) Zee's strong international presence with 45 countries with ~30% of revenues, 3 DC's outside Brazil, and partnerships with major players like Chewy and Pets At Home, which may help the scalability of Petz's international expansion; and (II) Zee.Dog is about to enter the natural food segment, thus providing Petz with a new revenue niche of organic food.

Besides Zee.Dog, we can also mention the CDSG acquisition's ecosystem, which generates increasing online engagement customer loyalty with recurring information about pets. A more significant engagement rate than other stores (*see Appendix Y*) creates a **selling channel** with a qualified lead, resulting in a CAC reduction.

Finally, we see that the company can acquire even more companies as optionalities to expand the ecosystem and generate integration between all services offered. Among the largest of the explored optionalities, we consider a merger between Petz and Cobasi in the future as a brainstorming exercise (*see Appendix U*).

Seres – Tutors are stuck to their pets, is Petz able to stick to them? In Seres' case, we see a great potential to complement the ecosystem by having a high cross-sell opportunity and by keeping the client within the company's base (increasing the company switching costs), generating a system of verticalized hospitals and clinics. In this aspect we see two main points, the asset-light services, considering grooming and vet clinics, and the asset-heavy services, considering hospitals and veterinary diagnostics.

In asset-light services, we see grooming as a service with minimal barriers to entry and highly dependent on personal relationships with clients and service providers. Customers typically seek convenience or trust. In addition, smaller places may have an advantage as they become closer to customers and usually charge less for their services. While this segment may grow due to humanization trends, we see little potential for Petz differentiation from mom & pop channel stores, besides quality of the service.

The scenario changes when we look at the veterinary market. In this aspect, we see that Petz seeks to differentiate itself by offering a better-quality service. In addition to general practice, the most in-demand specializations are dermatology and dentistry, something not found in more informal methods. We see this as an excellent opportunity for the company, given the brand's cross-sell and the real option to expand the participation of high complexity services, with higher entry barriers, becoming the reference hospital of each region, as already mentioned by management.

In the case of asset-heavy services, we see that the main factor in choosing a veterinary hospital is proximity to the location, given that veterinary hospitals can do admissions and have more service options, things that veterinary clinics cannot or do not have, causing in many emergency cases the switch from the clinic to a veterinary hospital. Considering this scenario, we again used the QGIS software to perform a geospatial analysis considering the distance of Seres and non-Seres clinics/hospitals in São Paulo city. As a result, we saw that Seres hospitals are better positioned to capture clients in emergency cases (*see Exhibit 24,*).

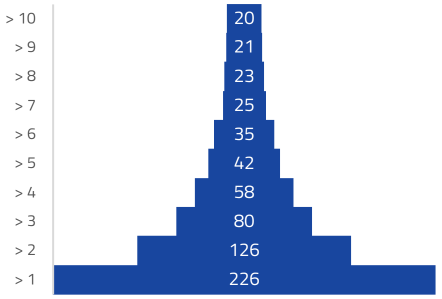
Finally, we see that Seres is well-positioned to launch health insurance plan initiatives as optionalities for companion animals, just like improving the recurrence strategy. According to COMAC, while 34% of pet owners have preventive appointments, 54% only come to veterinarians for vaccinations or when pets have symptoms, generating the opportunity to the products according to the humanization trend.

ESG Investment Framework

Over the years, good ESG practices reflect employee productivity, reduced regulatory and legal interventions and, as a result, top-line growth. That way, considering ESG aspects is extremely relevant not only for investment decisions, and we believe that the best way to evaluate these aspects is through materiality. **Materiality** is a fundamental concept of ESG analysis, as it defines the impact and relevance of a given topic on the company and

Exhibit 20: Potential Cities per Megastore

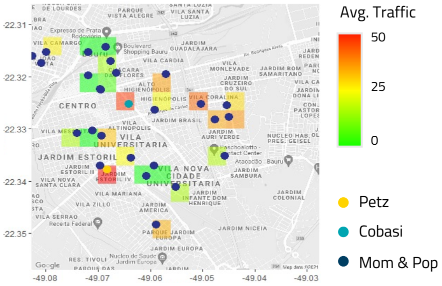
Cities w/ more than [...] megastores; [cities]



Source: QGIS; Team 7

Exhibit 21: Foot Traffic – Heat Map

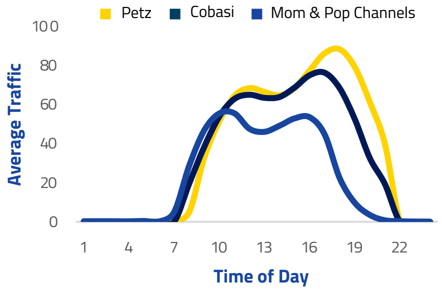
Bauru (1.5km) – Average Traffic; [Scale 100]



Source: R; Google Cloud; Team 7

Exhibit 22: Results from Foot Traffic

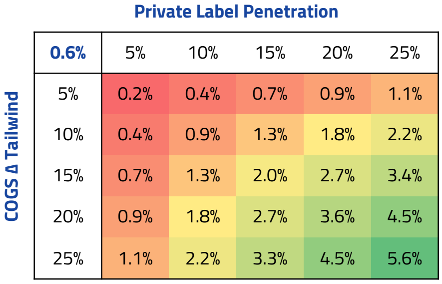
Average Traffic per Hour; [Scale 100]



Source: R; Google Cloud; Team 7

Exhibit 23: Private Label Sensitivity

Gross Margin Gains; [%]



Private Label Penetration

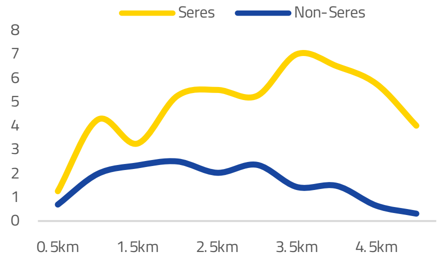
COGS Δ Tailwind

0.6%	5%	10%	15%	20%	25%
5%	0.2%	0.4%	0.7%	0.9%	1.1%
10%	0.4%	0.9%	1.3%	1.8%	2.2%
15%	0.7%	1.3%	2.0%	2.7%	3.4%
20%	0.9%	1.8%	2.7%	3.6%	4.5%
25%	1.1%	2.2%	3.3%	4.5%	5.6%

Source: Team 7

Exhibit 24: Hospitals - Clinics Distance

Clinics/Hospital (for each distance interval)



Source: QGIS; Team 7

stakeholders. In this sense, to understand this dynamic, we created a materiality matrix *(see Exhibit 25)*, in which we address the main issues in the environmental, social, and governance spheres. Such an approach helps define the themes with the greatest material impact and, therefore, will be addressed in the investment analysis. We also decided to approach the analysis in conjunction with one practiced in the pet sector, segmenting into People, Planet and Pets.

Environmental: Planet

Still a step back: Petz addresses ESG initiatives as one of its goals. However, the inexistence of a company's own sustainability report shows a lack of transparency, since it's one of the main tools of voluntary initiative that a company adopts to report to society and stakeholders about its sustainable practices. Thus, for such analyses, we took into consideration mainly the reports of foreign peers,, as PetCo (US) and Pets At Home (UK).

Carbon emissions in the chain: Considering international peers, we understand that the main scope of carbon emissions in the pet logistics chain is number 2, which represented more than 50% of Pets at Home emissions and nearly 90% of PetCo emissions, and we believe Petz may perform well in this scope, given the Brazilian energy matrix. However, scope 1 is the most interesting to consider since it mainly concerns emissions related to the logistics of the operation. We believe that Petz can excel in this aspect due to its business model, using megastores as mini-CD's and allowing them to need re-stocking less frequently, besides the shop-from-store and pick-up-from-store models that allow more efficient deliveries and with less emissions in the last mile.

Social: People and Pets

Ecosystem of excellence: Petz wants to be the global benchmark for pets' ecosystems. Thus, the company has sought to offer top-quality products and services, guaranteeing tutors a great experience and well-being for their pets. This strategy is reflected in the broadest assortment of products on the market, containing a cost-effective private label line (*see Appendix N*), providing the variety required for each customer. Furthermore, Petz has been developing a proposal of quality and reliability in services, essential for pet lovers. In conclusion, the company's strategy aligns with customers' satisfaction with the tutors, and the pet's well-being, therefore, with the growth and recognition of the brand.

Distribution of quality information: The lack of access to technical and quality information is one of the biggest obstacles to developing good health and well-being for the pet. The problem is mainly due to poor knowledge from the tutor about the best practices in nutrition, veterinary care, and care in general. In this sense, Petz has stood out in the dissemination of quality information with its BlogPetz. Through this channel, the company publishes free and specialized knowledge on various aspects of the tutor's life with his pet. The blog has numerous articles addressing from the most frequent questions of new tutors to specific veterinary topics. In this way, Petz aligns the positive externality of disseminating quality pet information to tutors with a customer connection and brand recognition, producing an organic flow to the company's sales channels and increasing customer loyalty.

A business made by and for people: Petz values its employees and allows career paths that allow them to grow within the company, besides making available an anonymous channel for people to report any type of incident that has made them uncomfortable. Moreover, the company provides several trainings to its employees to enable them, especially in the area of veterinary care, in order to allow their evolution and learning. On the other hand, the company has below average evaluations on Glassdoor when compared to its peers (*see Exhibit 26*), especially because Petz does not usually pay meal vouchers or various benefits present in other competitors, which causes the grade to decrease. Furthermore, in some visits to the stores, we identified that some of the employees were hired as legal entities, which, although it allows for lower expenses for the company, leads to a reduction in the benefits of these people, which we do not identify as something plausible and positive for the medium/long term.

Adoption Program: Petz currently runs the largest pet adoption program in Brazil, but that wasn't always the case. Until 2019, the company sold puppies and cats with the mission of making it ethical and safe for animals, different from what happened in several establishments and fairs. However, there was an incident related to mistreatment with one of its suppliers, who acted illegally and without the knowledge of Petz. This event was seen by management as inadmissible and proved that, despite the best intentions, the animal sales chain was not 100% safe and, therefore, should be closed. This positioning demonstrated a fundamental quality for Petz's ESG analysis, which is the company's agility and adaptability in seeking responsibility towards its stakeholders. Thus, Adote Petz became the focus, a partnership network created in 2017 with NGOs and animal protection institutions, which aims to "encourage adoption, raise awareness about responsible ownership and help reduce the rate of abandoned animals." The initiative has produced outstanding results (*see Exhibit 27*), with thousands of pets finding their homes and significant financial and material support for animal welfare entities. In this way, the company has united a noble mission for the life of pets with excellent branding, as Petz becomes a model of assistance in the industry, generating a solid connection with the target audience of pet lovers.

Governance

Among the kings when it comes to governance standard: Petz has abided by the B3 listing segment "Novo Mercado", which sets guidelines for fairness and transparency, which implies the adoption of a set of corporate rules that expand shareholders' rights, while adding the disclosure of policies and inspections structures.

Aligning the strings with proper compensation: The Executive Committee gets paid in both fixed and variable ways (*see Exhibit 28*). The variable portion is primarily based on company's performance (i.e. top-line growth, EBITDA and expansion metrics). On the other hand, BoD members are entitled solely to fixed compensation, mostly in cash but with a small portion in company's shares. We believe that a highly variable-based compensations is the best way to align management's interests with those of minority stockholders.

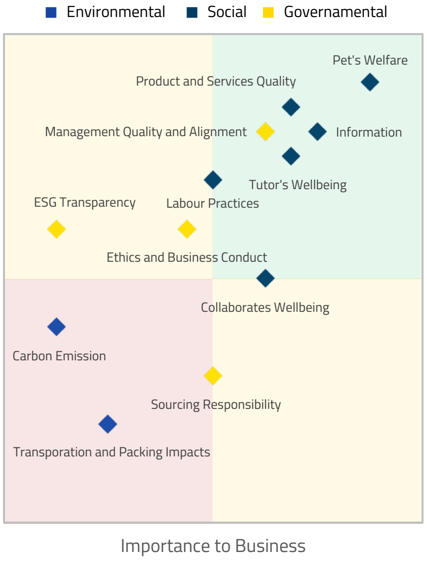
Big Co. + Big Team = Success formula: Over the years, Petz gathered a qualified team with the know-how to run the company efficiently. It contains names such as Claudio Ely, former Raia CEO and current Petz Chairman, with extensive experience in growth and expansion companies and private equity background; and Irlau Machado, current CEO of GNDI and independent advisor of the BoD, with great know-how in vertical health plans, a major optionality for Petz, besides his vast experience in operations and people management. In addition to these, Sergio Zimerman, founder, CEO and major shareholder (*see Exhibit 29*), continues active in the company's operations, applying his vast knowledge of nearly 20 years in the pet retail segment. As for the departure in October of the former CFO, Diogo Bassi, we believe that the company sought a high-level replacement with Aline Ferreira, who has a vast background in M&A operations and investor relations at Arezzo (responsible for both Reserva and BAW deals). Besides being a competent professional and complementary to the new phase the company is going through, the presence of one more woman on the Board is fundamental for diversity in the company. More than the ability to implement a prime execution, we believe that the team is prepared to face the challenging competitive scenario.

Financial Analysis

As said before, the competition in the product line is based on the market share dispute between megastore, e-commerce, and mom & pop channels. However, due to the pulverization of this third sales channel and its informality which distorts rates and taxes, we focus the analysis on comparable peers. We have on mind that mom & pop channels focus on net profit, having a most developed net margin (approximately 15% according to Petland informations). Given that, our financial analysis will focus mainly on Petz, Cobasi, and Petlove, highlighting:

Exhibit 25: Materiality Matrix

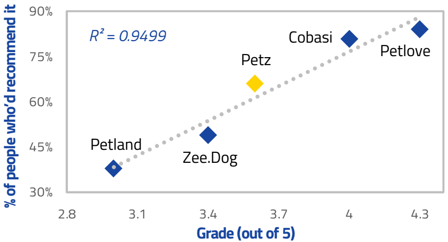
Index [0-100]



Source: Team 7

Exhibit 26: Glassdoor Evaluation

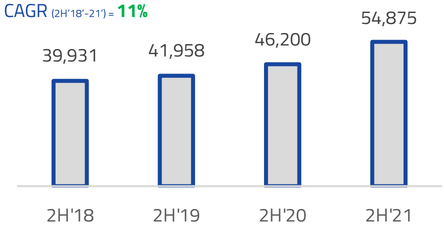
Ratings; [# and %]



Source: Glassdoor

Exhibit 27: Adoption Program

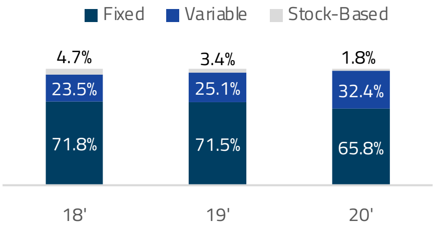
Total Number of Adoptions; [#]



Source: Company's data; Team 7

Exhibit 28: Exec. Committee Compensation

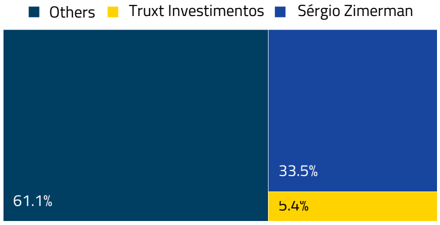
Compensation Breakdown; [BRL mn]



Source: Company's data

Exhibit 29: Shareholders' Structure

Shareholder Composition; [%]



Source: Company's data

Gross margin: As mentioned before, Petz has a better gross margin when compared to its main players, Cobasi and Petlove. Although Petlove is not very comparable having a purely digital business model, we see that Petz has a considerable advantage over Cobasi (*see Exhibit 31*). As proven, these companies are very similar in the bargaining power of both with suppliers, which is reflected in the equal pricing of the companies. In this respect, both gross margins should be similar however, we see that petz is better positioned against its main competitor, due to a higher participation of acessories in the mix together with an increasing penetration of private label.

Discounts can be a problem, but not for Petz: When we talk about the possibility of a war of discounts between companies to generate recurrence and ensure customer loyalty, we see that Petz has a better positioning precisely for two reasons: (I) A tendency to increase the presence of private label products that may guarantee the company an increase in the margin; and (II) A gross margin much higher than that of competitors, as mentioned above. Together, these two factors guarantee Petz a lower variation in gross margin with the adoption of the loyalty discount program. In this aspect, we created a simulation of the impact of different discount scenarios for the industry's leading companies, and we see that Petz manages to win in all scenarios (*see Exhibit 32*).

Similar companies, similar EBITDA: In terms of EBITDA, we see that Petz adjusts its EBITDA based on SOP, the write-offs of fixed assets and IFRS-16, and the addition or subtraction of non-recurring income. Moreover, the company also adds the rent discount to the account. In this respect, we restated the 2019 figure to compare with Cobasi. As a result, we have an EBITDA of BRL 115 mn for Petz and BRL 117 mn for Cobasi. Similarly, we have an EBITDA per store equal to BRL 1.1 mn for Petz and BRL 1.5 mn for Cobasi. This is mainly because both companies have a similar SG&A expense (36.6% for Petz readjusted vs. 31.7% for Cobasi).

Breaking down net margin: Unlike Cobasi, which prioritized bottom-line development, Petz has prioritized top-line growth before focusing on bottom-line development throughout the years. Petz's net margin has increased significantly from 1.1 percent in 2016 to 5.2 percent in 2020 at this stage. Meanwhile, Cobasi's net margin had fallen from 10.5 percent in 2016 to 8.7 percent in 2019. We believe Cobasi is making this move from bottom-line to top-line as it executes its expansion strategy, but without reaching the same heights as Petz as a result of taking the other way.

Petz' stores are money magnets: We see that Petz has successfully executed its top-line focused expansion plan with efficient investments. We analyze the ability to generate revenue over the total invested capital, which tells us how efficiently companies' Capex is generating revenue. This analysis requires that companies have similar capital intensities, which obliges us to exclude Petlove. The study shows us that Petz has a considerable and sustainable advantage from Cobasi, with Petz' 2.2x ratio vs. Cobasi's 1.8x in 2019 (*see Exhibit 33*). Moreover, the company's ROIC results from the product of NOPAT margin. This rate is a solid indicator that Petz will maintain consolidation in the future, mitigating the risk of suffering problems on this matter.

Payback shows self-sustainability: Another comparison factor that shows whether the stores are profitable is the unit economics per store. They end up showing the open stores are self-sustainable, i.e., they can reach maturity to recover the invested capital. In the case of Petz, we have a maturation ROIC of 36%, as shown above (*see Exhibit 7*). Cobasi, on the other hand, has an ROIC of development equal to 30%, which offers a slight advantage for Petz in the operational issue per store. Another essential point to analyze is the payback period, i.e., how long Petz and Cobasi need to generate the return on investment per store. Here we see that Petz has a payback period of 3.1 years, while Cobasi has a payback period of 3.9. In this aspect, we see that both companies can be sustainable in the expansion plan, having a payback time lower than the fully maturation period, with Petz being slightly better in the operation (for further details, *see Appendix J*).

Leverage? Only the necessary: Regarding financial leverage, the capitalization through the Warburg Pincus entry enabled Petz to raise debt and accelerate its expansion. In 2019, its leverage (Assets/Equity) reached 4.22x, compared to 3.82x for Petlove and 1.34x for Cobasi. However, with the capital inflow with the IPO, Petz has been reducing the deleveraging, reaching 2.5x. With the sustainable expansion, Petz should be able to reduce leverage further. In addition, we see that Petz and Cobasi do not need to leverage much because of the self-sustainability of store expansion. Petz's historical average Net Debt/EBITDA multiple is approximately 1.2x over the period 2017 to 2020, we see this mainly linked to other plans, such as omnichannel development.

SSS – Far from the inflection point: With the number of Petz stores, just like the top-line revenue expansion, we see an impressive track record of SSS growth, being above the CPI in the period (*see Exhibit 34*). This should still be driven by the maturation of the stores, which 54% have not yet reached the pure state of maturation according to the company in Q2 2021. Furthermore, we believe the company is far from an inflection point given that there is no cannibalization, including some specific scenarios in the city of São Paulo (*see Appendix O*), summed to the fact that it is a very fragmented segment with the competition one step behind Petz.

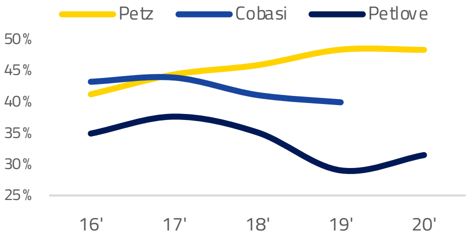
WK dynamics: The megastore business model with a highly developed omnichannel network demands a high working capital for Petz, leveraged especially by inventory. When we compare Petz with Cobasi, we see a much higher DIO for Petz *(see Exhibit 35)*, given its much more developed omnichannel, making the need for a higher inventory (94 days for Petz vs. 63 for Cobasi in 2019), causing Cobasi to have a smaller cash cycle.

Concerning DPO, we see that both Petz and Cobasi reach historically similar values (92 days for Petz vs. 91 for Cobasi in 2019), given that both companies have high bargaining power with suppliers, as commented earlier. Finally, we see that the companies have relatively similar bargaining power with customers, given the complexity of the recurrence plans that make the companies receive payment for the products after the purchase. Numerically, Petz is surpassing Cobasi in WK Turnover – year revenues divided by total working capital -, with a 6.86x rate, compared to Cobasi's 6.32x in 2019. This suggests that trading WK for revenue increases, an element of omnichannel's strategy, has been worthi t for Petz.

In the end, it's all about ROE: What matters is whether the company manages to generate shareholder value. In this regard, we see that Petz's ROE of 25%. When we break this ROE down using a DuPont analysis (*see Exhibit 36*) we see that Petz has a higher ROE because it has higher leverage. One of the main aspects that may define this return is future margin growth, while sustaining its market share and deleveraging its financial structure.

Exhibit 31: Gross Margin Evolution

Gross Margin; [%]



Source: Company's Data; Diário Oficial

Exhibit 32: Discount Simulation

Gross Margin Variation; [%]

Without Zee.Dog (Private Label Penetration = 3.3%)

Gross Margin Δ	Petz	Cobasi	Petlove
5% Discount Increase	-2.7%	-3.2%	-3.7%
10% Discount Increase	-5.7%	-6.7%	-7.9%
15% Discount Increase	-9.0%	-10.6%	-12.5%

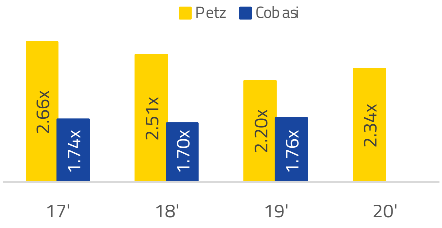
With Zee.Dog (Private Label Penetration = 7.1%)

Gross Margin Δ	Petz
5% Discount Increase	-2.6%
10% Discount Increase	-5.4%
15% Discount Increase	-8.6%

Source: Company's Data; Diário Oficial, Team 7

Exhibit 33: Sales/Capital Evolution

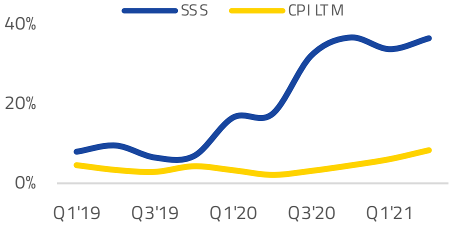
Sales/Capital; [%]



Source: Company's Data; Diário Oficial

Exhibit 34: SSS vs. CPI

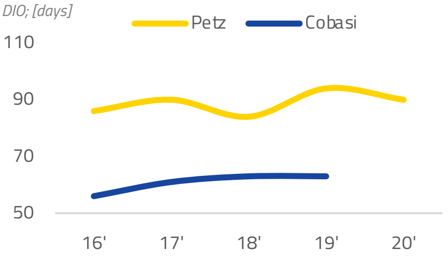
SSS vs. CPI Evolution; [%]



Source: Company's Data; Bacen

Exhibit 35: DIO Evolution

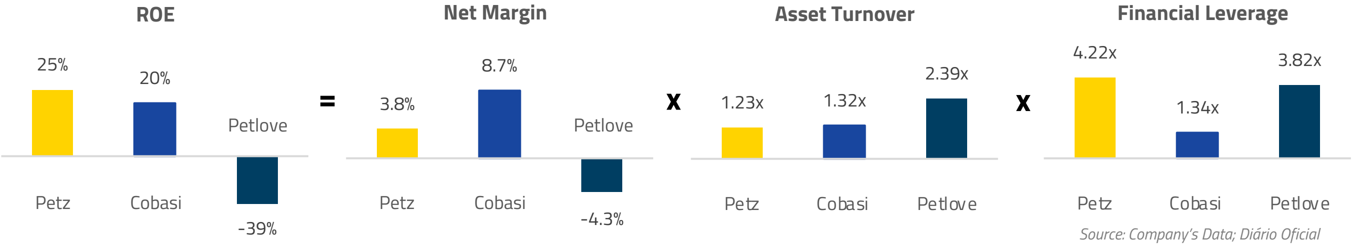
DIO; [days]



Source: Company's Data; Diário Oficial

Exhibit 36: ROE DuPont Analysis

ROE in 19' (IAS-17); [%];



Source: Company's Data; Diário Oficial

Valuation

We reiterate our BUY recommendation for Petz, with a 2022 target price of BRL 25.7/share, representing an upside of 26% from the current price, obtained through a 10-year nominal DCF Model. Comparing our DCF with the company's trading multiples we verified our thesis that Petz is very far from its fair value, with significant margin for upside. We also considered a 5-year IRR through P/E (20.6%), with a IRR-Ke spread equal to 8.8%, that summed with sensibility analysis, confirms our recommendation.

Key assumptions to our DCF

Stores expansion: Petz has shown robust top-line growth in the last few years, driven mainly by the aggressive expansion plan. In our projections, we see that there is still plenty of room for continuing this plan, but with the slight difference of an expansion also bottom-lined. According to our geospatial analysis, we have mapped 229 cities between 100k and 300k inhabitants, in which Petz has a 9% penetration and 307 towns with per capita income between BRL 1,000 and BRL 1,500, with Petz having a 7% penetration (see Appendix K). Furthermore, we also consider that Petz can enter the same city at different points. As said before, in our geospatial analysis, we found that Petz can open at least 2 points in 226 new cities, even with Cobasi presence (*see Exhibit 20*). With this in mind, we believe that there will be no significant cannibalization and that the returns will not be damaged, justifying our premise that a mature store will continue to generate 36% Return on Invested Capital.

Our analysis, together with management guidance, the number of stores opened in the next few years will be 35 on average, with the megastore model (~1,000 sqm) being prioritized, after which we see the number reducing to 20 stores and the average area following the same trend due to the densification plan with express stores (~500 sqm) (*see Exhibit 38*).

SSS vs. Pet industry: In our SSS projection, we found an 88% correlation between the actual growth of the pet industry in Brazil and the historical same-store-sales guidance provided by the company. Thus, we used our projection of the sector's development until 2030, considering the increase in average spending per pet in the country and the number of pets (to understand our forecasts, see Appendix I).

Considering all of this, we arrive at an SSS of 13.2% in 2021E and historically decline to 6.6%, according to the increase in-store maturity and the company's densification plan.

Margin gains and private label: As shown, Petz plans to increase the variety of private label products, and we believe that strategy will be succeed. According to our analysis, we see that there is still a lot of potential for private label penetration, which today represents only 3.3% of product sales and as it approaches the projected benchmark of 15% by 2030E. This together with the bargaining power with suppliers will provide to Petz a gross margin expansion of 170 bps from 48.3% to 49.7% by 2025E (to understand the impact, *see Exhibit 23*).

What about Seres? We see that Seres has an outstanding possibility to expand in conjunction with the increase in megastore stores in Brazil. In this aspect, we believe that the company will continue to use the brand as a cross-sell generator. In this aspect, we believe that the company can open 32 veterinary hospitals and numerous clinics that have their sales tied to the stores. However, even with this substantial expansion, we believe that the service line should maintain a low percentage of revenue penetration, reaching 9% of gross revenue in 2030E.

Digitalization: We see digitalization as a critical point in Petz's thesis that will expand organically in conjunction with the increase in the number of stores in the country. Thus, we project digital revenues to reach 39% of the company's total revenues. In addition, we also believe in improved omnichannel ratios, which are already impressive today, at 33% of company revenues and 85% of digital sales (*see Exhibit 39*).

Opex dilution: In regard to Petz's expenses, we see that many of them are fixed, such as expenses with rent and employees. So, we projected the cost per employee based on the most recent data and the rent expense, which was projected according to the increase in the number of stores. Thus, the SG&A projection was from 30.4% of net revenue in 2020 to 31.3% in 2030E, according to the company's expansion.

Working capital - A bright future: On the issue of working capital, we see that Petz will further increase its omnichannel strategy as it increases its store expansion. Thus, we believe that the company will maintain its high level of DIO (approximately 90 days until 2030E), as shown in the past. Furthermore, as the company builds customer captivity, its bargaining power with customers will increase. As a direct recurrence of this, we believe in diluting the DRO from 40 days in 2021E to 38 in 2030E. Finally, we believe that the company also tends to increase its bargaining power with suppliers as it increases its operational scale in the country. That said, we see that Petz can significantly increase its DPO from 95 days in 2021E to 100 in 2030E.

As a result of all the growth in the company's competitive advantages, we see that the company will decrease its cash conversion cycle from 32 days in 2021E to 28 days in 2030E (*see Exhibit 41*).

Reinvestment rate and returns: Petz currently generates a return on invested capital (ROIC) of 17% (*see Exhibit 42*, to understand ROIC's Evolution) with a spread of 8.3% above the company's cost of capital (WACC). When analyzing the return of a mature store, the value reaches 36%, as shown above. With this in mind, we project that Petz will expand 820 bps ROIC as the stores opened in the expansion plan mature reaching 68% of total stores as mature by 2025E. To support this plan, we have maintained a 75% reinvestment rate until the same year. In 2026E, we see that the expansion plan will slow down. The densification plan will be prioritized, decreasing the ROIC per mature store and consequently expanding the company's dividend yield.

Cash generation: Petz's expansion plan, aggressive mainly in the next four years, affects the company's cash generation, mainly due to the high expansion Capex. However, as the stores mature and the expansion plan is discontinued, we see that the capital allocated to expansion decreases considerably while the Capex to maintain the mature stores grows in smaller proportions, leading, therefore, to a positive and growing cash generation through the rest of our projection. We can see this relationship in our projected FCFF, which goes from negative values until 2025E, where the expansion plan is more aggressively (*see Exhibit 43*).

Zee.Dog: Adding 3.8/Share to our Valuation:

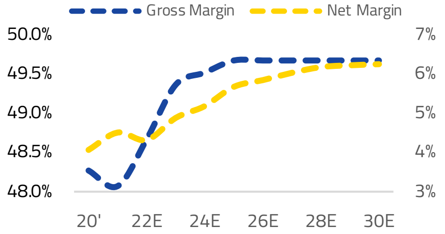
Even though some of the impacts of the Zee.Dog acquisition are assumed in our model (i.e. increased private label penetration due to the know-how of Zee's team), we believe that doing an independent valuation of the company can show us how much value it is adding to our TP. Therefore, as the company's data is not available, we used some proxies and guidances from the company to arrive at an estimated value of BRL 3.8/Share (*see Exhibit 44*), as follows: (I) Revenue of 228 mn in 2021, expected to reach 1 bn in 4/5 years, especially due to the entry in the natural food segment with Zee.Kitchen; (II) Gross Margin expansion mainly due to greater bargaining power with suppliers and EBITDA margin approaching Petz in the coming years, due to logistics efficiency and scale gain; (III) Sum of NPV of Goodwill equivalent to BRL 150 mn to the firm value (for further explanations, see Appendix M).

DCF Methodology

The value of the company was calculated using the Discounted Cash Flow method. For the discount rate, we used the Capital Asset Price Model (CAPM), and for the Ke calculation, we used the (I) The Risk-Free Rate of 1.6% in 2021E (US 10Y Treasury Bond); (II) An adjusted beta of 1.4 in 2021E (Bloomberg) (III) An Equity Risk Premium (ERP) of 4.3% in 2021E, calculated by Aswath Damodaran; (IV) Brazil Risk Premium (BRP) of 2.9% also calculated

Exhibit 37: Margins Projection

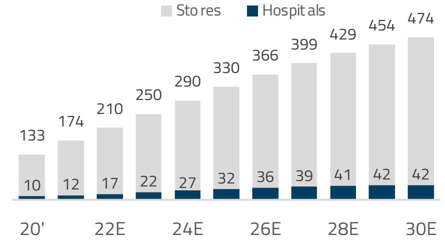
Gross and Net Margin; [%]



Source: Team 7

Exhibit 38: Stores/Hospitals Projection

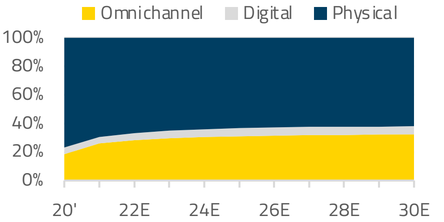
Stores and Hospitals; [#]



Source: Team 7

Exhibit 39: Digital Penetration Projection

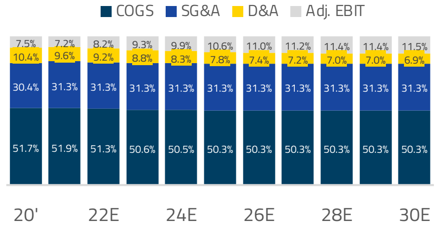
% of Gross Revenue; [%]



Source: Team 7

Exhibit 40: P&L Breakdown

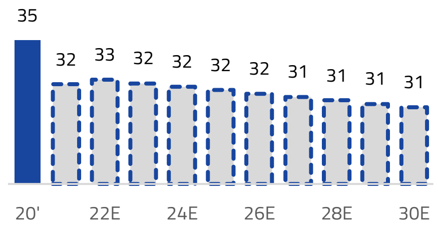
% of Net Revenue; [%]



Source: Team 7

Exhibit 41: Cash Conversion Cycle

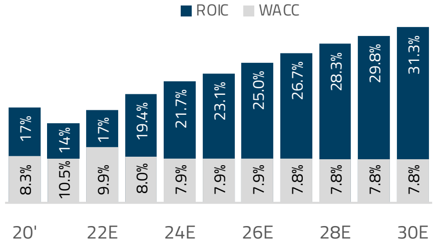
CCC; [days]



Source: Team 7

Exhibit 42: ROIC vs WACC

ROIC and WACC; [%]



Source: Team 7

by Damoradan; and, (V) The inflation differential between Brazil and the US in the following years. Using this method, we arrived at the Cost of Equity of 14.5% in 2021E. We averaged the weighted cost of borrowing (Ke) for the cost of maintenance by their respective values. With this, we arrived at the WACC of 10.0% in 2021E and using the same methodology, 7.8% in 2030E (*see Appendix E*). We estimated a 5.5% terminal growth rate, a lower value, considering 3% long-term Brazilian CPI and long-term growth for the pet retail industry arriving at a growth estimate of 6.6% in perpetuity, following the GDP. We also estimated a 25% incremental ROIC for future capital expenditures, a 34% tax rate in perpetuity and arrived at a contribution of terminal growth of 86% (*see Exhibit 44*).

Multiples

It is complicated to do a relative valuation of Petz, since there are no listed players with similar operations. However, we decided to make a comparison with the national retail market in general, comparing Petz with players that have high efficiency and have gone through an aggressive expansion plan. Moreover, we added some international peers that operate in the pet market with operations similar to Petz's (*see Appendix W*) for the complete analysis of comparables). In this analysis, we conclude that although Petz trades at high multiples in the market (29.7x EV/EBITDA and 91.9x P/E), when we look at future projections, we understand that Petz is slightly on the cheaper side of the median line, with a ROIC that sustains such growth (*see Exhibit 45*).

5Y Price-to-Earnings IRR

To improve our valuation, we also did a 5Y Price-to-Earnings IRR study. Using a fair P/E exit 2025E equal 26x (calculated considering the fair P/E), in line with our projections of the company. We arrived at an IRR of 20.6% and an IRR-Ke spread of 8.8%. In this way, we also sensitized our analysis to understand how a change in the multiple, or a change in the revenue CAGR would affect our recommendations. As a result, we have over 72% of the scenarios with a buy recommendation (*see Exhibit 46*).

Can our projections be wrong?

Bull, Base, and Bear: Getting the future right is not easy, and our projections may not be 100% accurate. Therefore, we recalculated our target price in two different scenarios, one very optimistic and the other very pessimistic, in which we changed our SSS projections for mature stores, store openings, and the company's gross margin (*see Exhibit 47*). In our bull case, we reach a target price of BRL 30.6, with a strong buy recommendation, this being one of the perfect scenarios for the company's expansion. In our bear case, we see a target price of BRL 14.5, representing a downside of 19%, being this one of the worst scenarios for the company's expansion.

Sensitizing more than you can count: In addition, we have also done a simpler sensitivity, using the company's terminal growth rate and WACC to understand how to interest rate increase will affect the company's shares. In this case, 60% of the scenarios are in line with our buy recommendation (*see Exhibit 48*). Finally, we also performed a Monte Carlo simulation with more than 10,000 interactions. Here, we had more than 68% of the simulations reiterating a buy scenario (*see Exhibit 2*).

Investment Summary

Until the present moment, we present points and perspectives that reiterate our recommendation to buy this stock, which is based on 4 main theses: (I) An extremely promising and resilient sector, highlighting fragmentation and humanization of pets as secular trains; (II) Megastore model as a winner on all competitive fronts, whether digital or physical, and thriving as king in the coming years; (III) Petz ecosystem as the icing on the cake; able to create real options, cross-sell and up-sell among BU's, especially with the densification of the veterinary front and the acquisition of Zee. Dog, reaching different and complementary target audiences; and, finally, (IV) Optionalities and the ability to surprise the market as a safety margin for investment, with the possibility of new M&A's, overcoming guidances and new proposals.

Promising and resilient industry

Regarding the sector, we highlight that it is a constantly growing sector, with a historical CAGR of 13% from 2016 to 2020. All this, leveraged by the high growth in the number of pets in Brazil, which is in line with the increase in average spending per pet. In this aspect, we highlight:

Resiliency to macro-downturns: Due to its apparent dominance of recurring products, we highlight that the pet segment is resilient to macroeconomic crises, which becomes a crucial factor in a country formerly affected by the macro environment, such as Brazil. In the COVID-19 turmoil, one of the worst in recent years, the pet sector grew 13.2%, while the Brazilian GDP fell 4.1%, and the average Brazilian retail market fell 3.2%.

Secular trend is a plus: The apparent process of humanization of pets worldwide has gained strength in the country, driving the increase in average spending per pet in Brazil. In this aspect, we highlight as drivers of this trend: (I) The Verticalization of Urban Centers; (II) Cultural and Demographic Changes; and finally, (III) A greater Access to Information.

Space for consolidation: We see that the pet segment in the country is hugely fragmented, with most of the market share concentrated in the hands of mom & pop channels. Megastore companies today have something around 11% of the market share, which generates an excellent capacity for consolidation of this segment (to understand our consolidation view, *see Exhibit 49*), both physically and online, as has occurred in more mature markets.

The right business model, for the right industry

We see that the consolidating model for this industry will be the *megastore as a hub* model because it satisfies customer preferences in both the physical and digital realms. In the physical scope, we believe that megastores have a better price than mom & pop channels because they can buy directly from suppliers.

Furthermore, we see that megastores have a greater variety of products. Lastly, we see that despite being strategically located (near subways, malls, and regions of influence), we note that mom & pop channels, for having a greater capillarity, are better located, which, in our opinion, will generate a residual share for these channels. In the digital arena, we see that Petz has a more privileged position than marketplaces and purely online players, as it has a high index of stores throughout the country, which serve as a mini-hubs and help the company to have a better shipping time and price. Thus, by having one of the best developed omnichannel systems in the country, we see that Petz's position does not tend to be threatened in the future, given the company's expansion plan that will further increase the company's digital effectiveness.

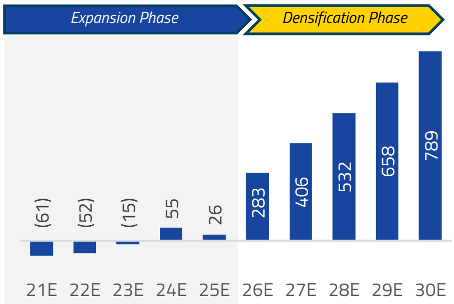
Finally, we can also mention that the company has an advantage over supermarkets. Again, the company has a more significant number of SKUs and has a higher stock turnover. In contrast, supermarkets usually have simpler products, such as regular feed.

1 + 1 = 3? Adding up parts and cross-selling around the ecosystem

After understanding which business model will be the winner, we decided to understand the competitive dynamics between Petz and Cobasi. The companies are very similar from the point of of price, proximity, and product variety. In this aspect, we understand both companies will lead the industry consolidation without margins compression (to understand our top-line view, *see Exhibit 50*). We see Petz's ecosystem as the main differential to achieve customer captivity against all the industry players (*see Exhibit 51*). We highlight as part of the ecosystem:

Exhibit 43: FCFF

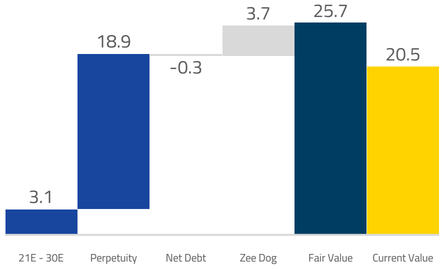
FCFF; [BRL mn]



Source: Team 7

Exhibit 44: Value Composition

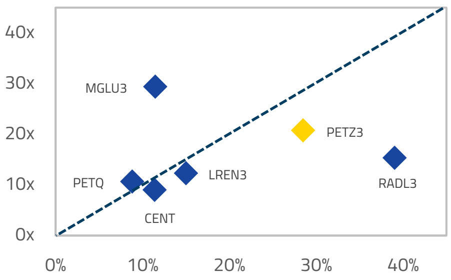
Target Price Breakdown [BRL]



Source: Team 7

Exhibit 45: Fwd. EV/EBITDA vs. 22E ROIC

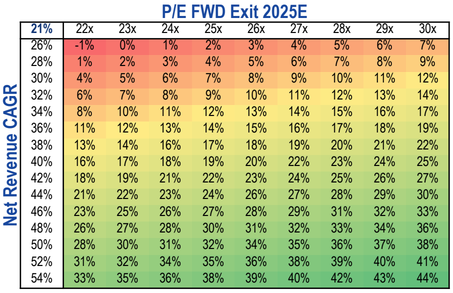
Fwd. EV/EBITDA vs. ROIC 22E; [x] and [%]



Source: Refinitiv; Team 7

Exhibit 46: IRR Sensitivity

Net Revenue CAGR vs. Exit P/E 2025E; [%]



21%	22x	23x	24x	25x	26x	27x	28x	29x	30x
26%	-1%	0%	1%	2%	3%	4%	5%	6%	7%
28%	1%	2%	3%	4%	5%	6%	7%	8%	9%
30%	4%	5%	6%	7%	8%	9%	10%	11%	12%
32%	6%	7%	8%	9%	10%	11%	12%	13%	14%
34%	8%	10%	11%	12%	13%	14%	15%	16%	17%
36%	11%	12%	13%	14%	15%	16%	17%	18%	19%
38%	13%	14%	16%	17%	18%	19%	20%	21%	22%
40%	16%	17%	18%	19%	20%	22%	23%	24%	25%
42%	18%	19%	21%	22%	23%	24%	25%	26%	27%
44%	21%	22%	23%	24%	26%	27%	28%	29%	30%
46%	23%	25%	26%	27%	28%	29%	31%	32%	33%
48%	26%	27%	28%	30%	31%	32%	33%	34%	36%
50%	28%	30%	31%	32%	34%	35%	36%	37%	38%
52%	31%	32%	34%	35%	36%	38%	39%	40%	41%
54%	33%	35%	36%	38%	39%	40%	42%	43%	44%

Source: Team 7

Exhibit 47: Bull, Base and Bear Scenarios

Fair Value Sentivity; [%]

Avg. 21E-30E	**Bull**	**Base**	**Bear**
Stores Opened	485	474	416
2030E Gross Margin	50.3%	49.7%	46.7%
Mature SSS (Geometric Mean)	8.1%	7.3%	6.2%
Target Price [BRL]	**30.6**	**25.7**	**16.5**

Source: Team 7

Seres - Vets for PETZ: We believe that Petz is building an ecosystem of excellence, which has as one of its main jewels the front of veterinary clinics and hospitals. With a better positioning (*see Exhibit 24*) and customer loyalty and cross-selling (*see Exhibit 51*), the veterinary unit, unique in the market, is an extremely relevant asset that will generate value in the coming years for the company.

M&A - The easiest way to the next level: Petz made the acquisitions of Zee.Dog and CDSG, already commented on previously, and we believe that with these decisions it chose the best way for the further densification of its ecosystem, with clear synergies and long-term options (i.e. international expansion and private label know-how on the Zee.Dog side and informational sources and new fronts of activity with CDSG). We believe that Petz is well positioned to make new acquisitions and enter in great strides in several fronts of the pet market (hospitality, ride services, among others), in order to complement its ecosystem and bring even more synergies between the BU's.

Real Options - A safety margin for the investment

As mentioned, Petz still has a lot to add to the construction of its ecosystem, which creates incredible opportunities for the company. Besides the already highlighted international expansion and increased private label penetration, we also see the possibility of Petz generating a pet health plan according to the development of Seres, as well as the possibility of a merger between Petz and Cobasi (*see Appendix U*) in the future, which would accelerate the consolidation of the sector.

Investment Risks

In this section, we will take a closer look at the main risks associated with our valuation, representing them in a Risks Matrix (*see Exhibit 52*), in which we can assess such risks regarding their likelihood and impact on the company's future and our assumptions. We separated them into 3 groups: Business and Operational (B); Market Risks (M); and Macroeconomic Risks (MA)

Business and operational Risks (B)

(-) Inability to expand maintaining high returns (B1): One of the most significant risks in our thesis is that Petz will not open the estimated number of stores by 2025E. In addition, we see the drop in ROIC per mature store as a severe risk. However, given the high room for penetration and considering the new environments per megastore, we believe that ROIC per mature store exceeds the average value of 36% in these regions, which makes margin compression difficult in the medium term.

(-) Unsuccessful integration of Zee.Dog (B2): The new acquisition came to integrate and complement the Petz ecosystem, so much so that part of the upside value refers to an independent valuation of Zee.Dog, in addition to possible synergies. Thus, possible inefficient integration of the company into Petz would significantly affect the value we see in future years and possibly change our investment recommendation. However, the qualified and experienced team surrounding such operation, in addition to the lock-up for shareholders and the permanence of Zee's founders, gives us comfort in such an outcome.

(-) Failure in private label penetration (B3): Part of the projected gross margin expansion is due to greater private label penetration within revenue in the coming years (see Exhibit 6), which generates both greater brand and pricing power, thinking Petz can offer similar products on average at ~5/10% off and with a higher take rate on it. This part of the thesis was already substantial and well-accepted even before the acquisition of Zee.Dog, with Petz itself managing to penetrate its brand in the market, and now with the arrival of Zee's know-how (only 27% of products sold by Zee come from third parties), the tendency is for such penetration to be even more assiduous. However, a failure in such expansion brings a risk to the thesis, thinking precisely in the margin expansion that brings value to the model due to Petz' current high valuation.

(-) Image risk due to higher penetration in Services (B4): As services increase and take part as a relevant BU, the company's image risk increases, mainly due to the fact that dealing with animals' lives is a highly delicate issue that moves many activists in the country. The company has already been through a crisis moment due to an incident with a supplier that raised animals at the time when Petz was selling dogs and cats. However, although we believe that there is a systemic risk, the fact that the risk is within Petz's chain makes it more manageable, unlike the case in which a partner was caught, and Petz ended up taking responsibility for it.

Market Risks (M)

(-) Lack of M&A opportunities (M1): As one of our main options, going to market in search of new assets that complement the ecosystem is part of Petz's consolidation thesis and gives us comfort. However, should the company fail in such a mission and not be able to add cross-sell and up-sell services to its unit base, part of the value for margin of the investment will be lost.

(-) Tougher competitive landscape (M2): Even though we believe that Petz is the favorite to benefit from the movement that is occurring in the industry, it is undeniable that the competitive landscape has become more and more assiduous, and it may become even more complex through two different fronts: (I) The two main competitors, Cobasi and Petlove, have recently had capital injections and should engage firmly into national expansion and store densification; and (II) there may be a more aggressive entry of horizontal marketplaces into this sector, either through an increase in operations and investments.

Statement number (I) is already a reality, however, in an extremely fragmented market, we believe there is opportunity for all to coexist. Assertion number (II) is the one that can bring the greatest headaches to the thesis, considering that one of the great strengths of the Petz model is precisely its scalability and omnichannel strategy, and that such horizontal players could easily compete strongly in this segment due to the existing logistics and their capillarity. However, as previously mentioned, we believe the sector, although attractive, isn't the favorite for such players, especially considering the value-added factors of the product and the difficulties of stocking

(-) Lack of bargaining power (M3): As previously commented, the pet retail market in Brazil is extremely fragmented, with very little share held by the top two players (*see Exhibit 18*). However, in an opposite scenario, the pet food players are dominant and have almost ~45% in the hands of the top 3 players. This can directly affect the bargaining power of the company, considering that a good part of its revenue is from food, a commoditized product. However, we believe that with the expansion and the imminent scale gain in the coming years, Petz will have no problem showing dominance and demonstrating importance to such suppliers, granting bargaining power.

Macroeconomic Risks (E)

(-) Macro crisis and loss of purchasing power (E1): Much of the thesis is based on the pillar that there is an extremely resilient and growing sector behind Petz's winning model, and this mainly considers the increase in spending on animals. However, macro crises with rising unemployment and a runaway rise in inflation can directly affect the purchasing power of consumers who, while treating their pet increasingly as a member of the family, will have as their first spending cut the accessories or even though premium pet food for a common and cheaper one. Even so, we believe that such events occur in sporadic periods and more serious crises. Despite we believe that Petz is not well positioned to withstand such crisis due to its considerable accessories mix penetration, we also believe that considering its premium food penetration, we see Petz's customers more resilient to face these times do not needing to make spending cuts.

Exhibit 48: WACC vs. g Sensitivity

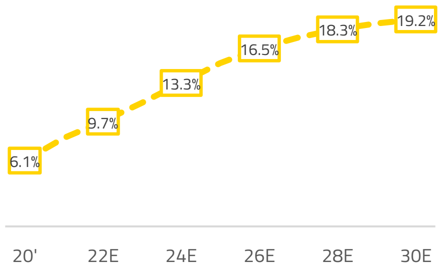
Fair Value Sensitivity; [%]

		WACC								
	26%	8.0%	8.5%	9.0%	9.5%	10.0%	10.5%	11.0%	11.5%	12.0%
g (perpetuity)	4.0%	73%	49%	31%	16%	4%	-7%	-15%	-23%	-30%
	4.4%	86%	59%	38%	22%	8%	-3%	-13%	-21%	-28%
	4.8%	102%	71%	47%	28%	13%	1%	-9%	-18%	-26%
	5.1%	122%	85%	57%	36%	19%	5%	-6%	-15%	-23%
	5.5%	148%	102%	70%	45%	26%	11%	-2%	-12%	-21%
	5.9%	183%	125%	85%	56%	34%	17%	3%	-9%	-18%
	6.3%	233%	154%	104%	69%	43%	24%	8%	-4%	-15%
	6.6%	308%	195%	129%	85%	55%	32%	14%	0%	-11%
	7.0%	438%	256%	163%	107%	69%	42%	22%	6%	-7%

Source: Team 7

Exhibit 49: Market Share Projection

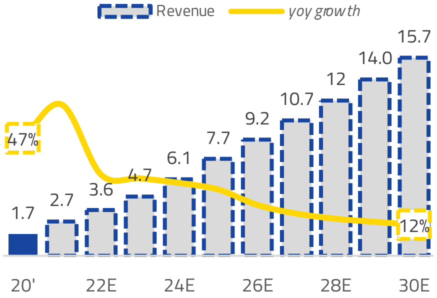
% of Total Revenue; [%]



Source: Team 7

Exhibit 50: Top-Line Growth

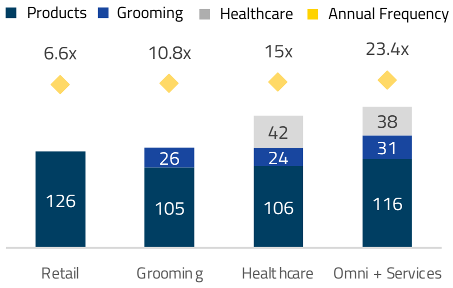
Gross Revenue; [BRL bn]



Source: Team 7

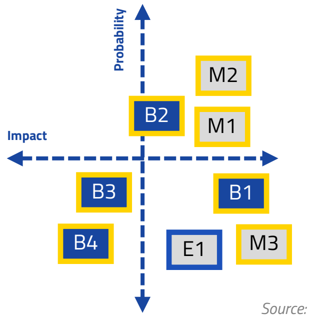
Exhibit 51: Petz's Cross-Sell

Average Ticket ; [BRL/year]



Source: Company's data; Team 7

Exhibit 52: Risk Matrix



Source: Team 7

Appendix Index

Appendix A – Income Statement

Source: Team 7

Income Statement	[Unit]	17'	18'	19'	20'	21E	22E	23E	24E	25E	26E	27E	28E	29E	30E
Gross Revenue	**[BRL Th.]**	**716,005**	**913,419**	**1,164,234**	**1,706,729**	**2,716,430**	**3,590,055**	**4,691,536**	**6,045,183**	**7,631,484**	**9,167,429**	**10,696,740**	**12,265,556**	**13,913,586**	**15,627,656**
growth YOY	*[%]*	*N.A*	28%	27%	47%	59%	32%	31%	29%	26%	20%	17%	15%	13%	12%
Deductions	**[BRL Th.]**	-118,636	-145,512	-178,158	-269,973	-418,827	-553,525	-723,354	-932,063	-1,176,644	-1,413,460	-1,649,253	-1,891,138	-2,145,236	-2,409,516
% Gross Revenue	*[%]*	*-17%*	*-16%*	*-15%*	*-16%*	*-15.4%*	*-15.4%*	*-15.4%*	*-15.4%*	*-15.4%*	*-15.4%*	*-15.4%*	*-15.4%*	*-15.4%*	*-15.4%*
Net Revenue	**[BRL Th.]**	**597,369**	**767,907**	**986,076**	**1,436,756**	**2,297,603**	**3,036,530**	**3,968,182**	**5,113,120**	**6,454,841**	**7,753,969**	**9,047,487**	**10,374,418**	**11,768,350**	**13,218,140**
growth YOY	*[%]*	*N.A*	*29%*	*28%*	*46%*	*60%*	*32%*	*31%*	*29%*	*26%*	*20%*	*17%*	*15%*	*13%*	*12%*
COGS	**[BRL Th.]**	-332,534	-416,039	-509,748	-743,249	-1,193,131	-1,558,753	-2,009,441	-2,581,326	-3,248,715	-3,902,565	-4,553,592	-5,221,435	-5,923,000	-6,652,677
% Net Revenue	*[%]*	*-56%*	*-54%*	*-52%*	*-51.7%*	*-51.9%*	*-51.3%*	*-50.6%*	*-50.5%*	*-50.3%*	*-50.3%*	*-50%*	*-50%*	*-50%*	*-50%*
growth YOY	*[%]*	*N.A*	*25%*	*23%*	*46%*	*61%*	*31%*	*29%*	*28%*	*26%*	*20%*	*17%*	*15%*	*13%*	*12%*
Gross Profit	**[BRL Th.]**	**264,835**	**351,868**	**476,328**	**693,507**	**1,104,472**	**1,477,778**	**1,958,741**	**2,531,793**	**3,206,125**	**3,851,404**	**4,493,895**	**5,152,983**	**5,845,351**	**6,565,463**
% Net Revenue	*[%]*	*44%*	*46%*	*48%*	*48.3%*	*48.1%*	*48.7%*	*49.4%*	*49.5%*	*49.7%*	*49.7%*	*50%*	*50%*	*50%*	*50%*
growth YOY	*[%]*	*N.A*	*33%*	*35%*	*46%*	*59%*	*34%*	*33%*	*29%*	*27%*	*20%*	*17%*	*15%*	*13%*	*12%*
SG&A	**[BRL Th.]**	-217,132	-275,547	-283,375	-436,821	**-720,050**	**-951,623**	**-1,243,595**	**-1,602,409**	**-2,022,893**	**-2,430,029**	**-2,835,407**	**-3,251,256**	**-3,688,103**	**-4,142,455**
% Net Revenue		-36%	-36%	-29%	-30%	-31.3%	-31.3%	-31.3%	-31.3%	-31.3%	-31%	-31%	-31%	-31%	-31%
Sales expenses	[BRL Th.]	-144,637	-192,133	-194,609	-312,941	-500,443	-661,389	-864,313	-1,113,693	-1,405,934	-1,688,898	-1,970,640	-2,259,661	-2,563,274	-2,879,054
% Net Revenue	*[%]*	*-24%*	*-25%*	*-20%*	*-22%*	*-22%*	*-22%*	*-22%*	*-22%*	*-22%*	*-22%*	*-22%*	*-22%*	*-22%*	*-22%*
growth YOY	*[%]*	*N.A*	*33%*	*1%*	*61%*	*60%*	*32%*	*31%*	*29%*	*26%*	*20%*	*17%*	*15%*	*13%*	*12%*
G&A	[BRL Th.]	-61,794	-73,598	-82,052	-116,128	-199,033	-263,044	-343,750	-442,932	-559,160	-671,699	-783,752	-898,700	-1,019,451	-1,145,041
% Net Revenue	*[%]*	*-10%*	*-10%*	*-8%*	*-8%*	*-9%*	*-9%*	*-9%*	*-9%*	*-9%*	*-9%*	*-9%*	*-9%*	*-9%*	*-9%*
growth YOY	*[%]*	*N.A*	*19%*	*11%*	*42%*	*71%*	*32%*	*31%*	*29%*	*26%*	*20%*	*17%*	*15%*	*13%*	*12%*
Other Expenses	[BRL Th.]	-10,701	-9,815	-11,197	-13,321	-29,479	-38,960	-50,913	-65,604	-82,818	-99,487	-116,083	-133,108	-150,993	-169,594
% Net Revenue	*[%]*	*-2%*	*-1%*	*-1%*	*-1%*	*-1%*	*-1%*	*-1%*	*-1%*	*-1%*	*-1%*	*-1%*	*-1%*	*-1%*	*-1%*
growth YOY	*[%]*	*N.A*	*-8%*	*14%*	*19%*	*121%*	*32%*	*31%*	*29%*	*26%*	*20%*	*17%*	*15%*	*13%*	*12%*
PIS/Cofins Credit over Depreciation - Rights-of-Use (CPC 06 (R2)/IFRS 16)	[BRL Th.]	0	0	4,482	5,569	8,906	11,770	15,381	19,819	25,020	30,055	35,069	40,212	45,615	51,235
% Net Revenue	*[%]*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
growth YOY	*[%]*	*N.A*	*N.A*	*N.A*	*24%*	*60%*	*32%*	*31%*	*29%*	*26%*	*20%*	*17%*	*15%*	*13%*	*12%*
Adjusted EBITDA	**[BRL Th.]**	**47,703**	**76,322**	**192,952**	**256,686**	**384,422**	**526,155**	**715,146**	**929,384**	**1,183,232**	**1,421,374**	**1,658,488**	**1,901,727**	**2,157,248**	**2,423,008**
% Net Revenue	*[%]*	*8%*	*10%*	*20%*	*17.9%*	*16.7%*	*17%*	*18%*	*18%*	*18%*	*18%*	*18%*	*18%*	*18%*	*18%*
growth YOY	*[%]*	*N.A*	*60%*	*153%*	*33%*	*50%*	*37%*	*36%*	*30%*	*27%*	*20%*	*17%*	*15%*	*13%*	*12%*
Ex-IFRS 16 EBITDA	**[BRL Th.]**			**115,097**	**160,750**	**255,242**	**360,280**	**506,096**	**671,605**	**872,747**	**1,055,637**	**1,237,528**	**1,426,205**	**1,626,202**	**1,834,521**
% Net Revenue	*[%]*			12%	11%	*11.11%*	*11.86%*	*12.75%*	*13.13%*	*13.52%*	*13.61%*	*13.7%*	*13.7%*	*13.8%*	*13.9%*
growth YOY	*[%]*				40%	59%	41%	40%	33%	30%	21%	17%	15%	14%	13%
Rental Expenses	[BRL Th.]			-77,855	-95,936	-129,180	-165,875	-209,050	-257,780	-310,485	-365,738	-420,960	-475,522	-531,046	-588,487
% Net Revenue	*[%]*			-8%	-6.7%	-5.62%	-5.46%	-5.27%	-5.04%	-4.81%	-4.72%	-4.65%	-4.58%	-4.51%	-4.45%
EBIT	**[BRL Th.]**	**25,103**	**53,171**	**73,545**	**108,028**	**165,726**	**249,742**	**369,497**	**505,412**	**686,692**	**849,608**	**1,012,621**	**1,182,472**	**1,346,404**	**1,514,583**
% Net Revenue	*[%]*	*4%*	*7%*	*7%*	*7.5%*	*7.2%*	*8.2%*	*9.3%*	*9.9%*	*10.6%*	*11.0%*	*11.2%*	*11.4%*	*11.4%*	*11.5%*
growth YOY	*[%]*	*N.A*	*112%*	*38%*	*47%*	*53%*	*51%*	*48%*	*37%*	*36%*	*24%*	*19%*	*17%*	*14%*	*12%*
Financial Result	**[BRL Th.]**	**-6,976**	**-6,345**	**-49,776**	**-54,153**	**-43,021**	**-51,182**	**-76,179**	**-104,201**	**-132,292**	**-163,480**	**-186,521**	**-212,025**	**-237,519**	**-263,338**
% Net Revenue	*[%]*	*-1%*	*-1%*	*-5%*	*-4%*	*-2%*	*-2%*	*-2%*	*-2%*	*-2%*	*-2%*	*-2%*	*-2%*	*-2%*	*-2%*
growth YOY	*[%]*	*N.A*	*-9%*	*684%*	*9%*	*-21%*	*19%*	*49%*	*37%*	*27%*	*24%*	*14%*	*14%*	*12%*	*11%*
Financial Revenue	[BRL Th.]	3,806	9,151	8,714	14,218	22,670	20,278	19,401	22,428	30,380	37,074	50,629	62,111	75,022	89,341
Financial Expenses	[BRL Th.]	-10,782	-15,496	-58,490	-68,371	-65,690	-71,460	-95,580	-126,629	-162,671	-200,555	-237,149	-274,137	-312,541	-352,680
EBT	**[BRL Th.]**	**18,127**	**46,827**	**36,337**	**69,949**	**122,706**	**198,560**	**293,318**	**401,211**	**554,400**	**686,128**	**826,100**	**970,446**	**1,108,885**	**1,251,244**
% Net Revenue	*[%]*	*3%*	*6%*	*4%*	*5%*	*5%*	*7%*	*7%*	*8%*	*9%*	*9%*	*9%*	*9%*	*9%*	*9%*
growth YOY	*[%]*	*N.A*	*158%*	*-22%*	*93%*	*75%*	*62%*	*48%*	*37%*	*38%*	*24%*	*20%*	*17%*	*14%*	*13%*
Income Tax and Social Contribution	[BRL Th.]	-6,702	-15,930	-12,762	-11,562	-19,175	-67,510	-99,728	-136,412	-188,496	-233,283	-280,874	-329,952	-377,021	-425,423
Tax Rate	*[%]*	*-37%*	*-34%*	*-35%*	*-17%*	*-34%*	*-34%*	*-34%*	*-34%*	*-34%*	*-34%*	*-34%*	*-34%*	*-34%*	*-34%*
Net Profit	**[BRL Th.]**	**11,425**	**30,897**	**23,576**	**58,387**	**103,530**	**131,050**	**193,590**	**264,799**	**365,904**	**452,844**	**545,226**	**640,494**	**731,864**	**825,821**
% Net Revenue	*[%]*	*2%*	*4%*	*2%*	*4%*	*5%*	*4%*	*5%*	*5%*	*6%*	*6%*	*6%*	*6%*	*6%*	*6%*
growth YOY	*[%]*	*N.A*	*170%*	*-24%*	*148%*	*77%*	*27%*	*48%*	*37%*	*38%*	*24%*	*20%*	*17%*	*14%*	*13%*

Appendix B – Balance Sheet

Source: Team 7

Balence Sheet		17'	18'	19'	20'	21E	22E	23E	24E	25E	26E	27E	28E	29E	30E
Current assets	**[BRL Th.]**	**224,190**	**351,704**	**440,917**	**886,275**	**900,657**	**1,081,723**	**1,383,905**	**1,799,359**	**2,229,739**	**2,781,729**	**3,293,374**	**3,839,577**	**4,427,621**	**5,046,955**
Cash and Cash Equivalents	[BRL Th.]	61,089	160,829	169,277	443,757	272,638	291,124	385,307	540,637	666,884	922,482	1,139,016	1,382,485	1,652,509	1,941,079
Financial Investments	[BRL Th.]	0	0	0	43,761	32,248	32,248	32,248	32,248	32,248	32,248	32,248	32,248	32,248	32,248
Accounts Receivable	[BRL Th.]	66,875	76,163	96,076	160,675	241,476	310,702	406,029	523,181	660,468	793,396	925,750	1,061,524	1,204,153	1,352,497
Inventory	[BRL Th.]	82,818	97,489	132,657	185,701	296,335	389,688	502,360	645,332	812,179	975,641	1,138,398	1,305,359	1,480,750	1,663,169
Taxes and Contributions to be Recovered	[BRL Th.]	2,651	8,901	35,375	41,722	39,986	39,986	39,986	39,986	39,986	39,986	39,986	39,986	39,986	39,986
Other Assets	[BRL Th.]	10,757	8,322	7,532	10,659	17,975	17,975	17,975	17,975	17,975	17,975	17,975	17,975	17,975	17,975
Non-Current Assets	**[BRL Th.]**	**178,178**	**245,309**	**801,731**	**1,006,613**	**567,744**	**719,243**	**890,817**	**1,063,170**	**1,366,264**	**1,525,057**	**1,669,598**	**1,797,826**	**1,903,125**	**1,983,866**
Other Assets	[BRL Th.]	955	1,070	768	2,884	4,932	4,932	4,932	4,932	4,932	4,932	4,932	4,932	4,932	4,932
Taxes and Contributions to be Recovered	[BRL Th.]	0	426	1,692	1,701	1,847	1,847	1,847	1,847	1,847	1,847	1,847	1,847	1,847	1,847
Deferred Income Tax and Social Contribution	[BRL Th.]	22,209	12,606	14,770	23,703	24,574	24,574	24,574	24,574	24,574	24,574	24,574	24,574	24,574	24,574
Immobilized	[BRL Th.]	146,700	215,555	280,774	350,363	454,438	575,298	709,588	837,163	1,088,020	1,191,643	1,281,881	1,359,814	1,421,511	1,468,401
Intangible	[BRL Th.]	8,314	15,652	41,099	56,902	81,953	112,592	149,876	194,654	246,891	302,061	356,364	406,659	450,261	484,112
Current Liabilities	**[BRL Th.]**	**150,762**	**212,605**	**380,950**	**654,287**	**631,766**	**797,701**	**1,022,321**	**1,293,696**	**1,613,126**	**1,921,223**	**2,228,906**	**2,545,383**	**2,878,631**	**3,226,081**
Suppliers	[BRL Th.]	80,234	98,915	130,812	195,675	314,944	412,537	533,211	686,756	866,569	1,043,688	1,220,959	1,403,654	1,596,366	1,797,648
Loans, Financing and Debentures	[BRL Th.]	22,293	56,697	111,102	273,942	221,043	289,385	393,330	511,161	650,778	781,756	912,169	1,045,950	1,186,486	1,332,654
Labor and Social Security Obligations	[BRL Th.]	22,010	27,101	36,120	53,716	55,670	55,670	55,670	55,670	55,670	55,670	55,670	55,670	55,670	55,670
Tax Obligations	[BRL Th.]	15,931	11,831	25,385	36,556	26,419	26,419	26,419	26,419	26,419	26,419	26,419	26,419	26,419	26,419
Dividends payable	[BRL Th.]	602	7,941	5,599	13,867	4,521	4,521	4,521	4,521	4,521	4,521	4,521	4,521	4,521	4,521
Bills to pay	[BRL Th.]	7,573	8,138	2,877	5,993	6,184	6,184	6,184	6,184	6,184	6,184	6,184	6,184	6,184	6,184
Loyalty Program	[BRL Th.]	2,119	1,982	2,252	3,015	2,985	2,985	2,985	2,985	2,985	2,985	2,985	2,985	2,985	2,985
Non-Current Liabilities	**[BRL Th.]**	**93,791**	**202,638**	**685,420**	**723,842**	**222,374**	**290,716**	**394,661**	**512,492**	**652,109**	**783,087**	**913,500**	**1,047,281**	**1,187,817**	**1,333,985**
Loans, Financing and Debentures - NC	[BRL Th.]	92,064	200,596	287,383	222,403	221,043	289,385	393,330	511,161	650,778	781,756	912,169	1,045,950	1,186,486	1,332,654
Provision for Civil, Labor and Tax Risk	[BRL Th.]	1,727	2,042	2,212	1,902	1,331	1,331	1,331	1,331	1,331	1,331	1,331	1,331	1,331	1,331
Shareholders' equity	**[BRL Th.]**	**157,815**	**181,770**	**176,278**	**514,759**	**614,262**	**712,549**	**857,741**	**1,056,341**	**1,330,769**	**1,602,475**	**1,820,566**	**2,044,739**	**2,264,298**	**2,470,754**
Share capital	[BRL Th.]	50,515	50,515	50,515	387,250	409,041	409,041	409,041	409,041	409,041	409,041	409,041	409,041	409,041	409,041
Capital Reserve	[BRL Th.]	79,818	79,818	79,818	54,639	54,639	54,639	54,639	54,639	54,639	54,639	54,639	54,639	54,639	54,639
Reserve for Granted Option	[BRL Th.]	721	1,118	1,471	1,754	1,818	1,818	1,818	1,818	1,818	1,818	1,818	1,818	1,818	1,818
Special Goodwill Reserve	[BRL Th.]	24,825	24,825	24,825	24,825	24,825	24,825	24,825	24,825	24,825	24,825	24,825	24,825	24,825	24,825
Profit Reserve	[BRL Th.]	1,936	25,494	19,649	46,291	123,939	222,226	367,418	566,018	840,446	1,112,152	1,330,243	1,554,416	1,773,975	1,980,431

Appendix C – Cash Flow Statement

Source: Team 7

Cash Flow		21E	22E	23E	24E	25E	26E	27E	28E	29E	30E
Cash BoP	**[BRL Th.]**	**443,757**	**272,638**	**291,124**	**385,307**	**540,637**	**666,884**	**922,482**	**1,139,016**	**1,382,485**	**1,652,509**
(=) Net Income	[BRL Th.]	103,530	131,050	193,590	264,799	365,904	452,844	545,226	640,494	731,864	825,821
(+/-) Financial Result add Back	[BRL Th.]	43,021	51,182	76,179	104,201	132,292	163,480	186,521	212,025	237,519	263,338
(+) D&A	[BRL Th.]	89,059	110,081	135,649	165,910	185,773	205,572	224,450	242,784	279,516	319,656
(-/+) Change in Other Assets and Liabilities	[BRL Th.]	-26,584	0	0	0	0	0	0	0	0	0
(-/+) Change in WK	[BRL Th.]	-72,166	-64,986	-87,326	-106,579	-124,321	-119,272	-117,841	-120,039	-125,309	-129,481
(=) CFO	**[BRL Th.]**	**136,860**	**227,327**	**318,092**	**428,332**	**559,648**	**702,625**	**838,356**	**975,265**	**1,123,590**	**1,279,335**
(-) Expansion Capex	[BRL Th.]	-104,075	-120,861	-134,290	-127,575	-250,857	-103,623	-90,238	-77,933	-61,697	-46,890
(-) Maintenance Capex	[BRL Th.]	-73,077	-86,490	-102,066	-119,372	-122,733	-122,263	-117,173	-107,801	-112,946	-117,443
(-) Intangibles	[BRL Th.]	-41,033	-54,230	-70,868	-91,316	-115,277	-138,479	-161,580	-185,277	-210,172	-236,064
(-) Change in investments	[BRL Th.]	11,513	0	0	0	0	0	0	0	0	0
(=) CFI	**[BRL Th.]**	**-206,672**	**-261,580**	**-307,224**	**-338,263**	**-488,867**	**-364,364**	**-368,991**	**-371,012**	**-384,815**	**-400,397**
(+/-) Financial Result	[BRL Th.]	-43,021	-51,182	-76,179	-104,201	-132,292	-163,480	-186,521	-212,025	-237,519	-263,338
(+/-) Change in Gross Debt	[BRL Th.]	-54,260	136,685	207,890	235,663	279,233	261,956	260,825	267,563	281,073	292,336
(+/-) Change in Capital	[BRL Th.]	21,855	0	0	0	0	0	0	0	0	0
(-) Dividends	[BRL Th.]	-25,883	-32,762	-48,397	-66,200	-91,476	-181,138	-327,136	-416,321	-512,305	-619,366
(=) CFF	**[BRL Th.]**	**-101,308**	**52,740**	**83,314**	**65,262**	**55,465**	**-82,662**	**-252,831**	**-360,784**	**-468,751**	**-590,368**
(=) FCF	**[BRL Th.]**	**-171,119**	**18,487**	**94,182**	**155,331**	**126,246**	**255,599**	**216,534**	**243,469**	**270,024**	**288,570**
FCF Yield	[%]	*-7%*	*1%*	*2%*	*3%*	*2%*	*3%*	*2%*	*2%*	*2%*	*2%*
Cash EoP	**[BRL Th.]**	**272,638**	**291,124**	**385,307**	**540,637**	**666,884**	**922,482**	**1,139,016**	**1,382,485**	**1,652,509**	**1,941,079**

g
5,5%

WACC
10%

Term. ROIC
25%

Appendix D – Free Cash Flow to Firm

Source: Team 7

Free Cash Flow to Firm	21E	22E	23E	24E	25E	26E	27E	28E	29E	30E	Perpetuity
(=) EBIT	**165,726**	**249,742**	**369,497**	**505,412**	**686,692**	**849,608**	**1,012,621**	**1,182,472**	**1,346,404**	**1,514,583**	**35,508,553**
(-) EBIT * Taxes	(25,898)	(84,912)	(125,629)	(171,840)	(233,475)	(288,867)	(344,291)	(402,040)	(457,777)	(514,958)	(12,072,908)
(=) NOPAT	**139,828**	**164,830**	**243,868**	**333,572**	**453,217**	**560,741**	**668,330**	**780,431**	**888,627**	**999,625**	**23,435,645**
(+) D&A	89,059	110,081	135,649	165,910	185,773	205,572	224,450	242,784	279,516	319,656	7,494,168
(+/-) Change in NWK	(72,166)	(64,986)	(87,326)	(106,579)	(124,321)	(119,272)	(117,841)	(120,039)	(125,309)	(129,481)	
(+/-) Maintenance Capex	(73,077)	(86,490)	(102,066)	(119,372)	(122,733)	(122,263)	(117,173)	(107,801)	(112,946)	(117,443)	(7,494,168)
(+/-) Expansion Capex	(145,108)	(175,090)	(205,158)	(218,891)	(366,134)	(242,102)	(251,818)	(263,211)	(271,869)	(282,953)	(5,155,842)
(=) Reinvestment	**(290,350)**	**(326,566)**	**(394,549)**	**(444,842)**	**(613,187)**	**(483,636)**	**(486,832)**	**(491,050)**	**(510,124)**	**(529,878)**	**(12,650,010)**
(=) FCFF	**(61,463)**	**(51,655)**	**(15,032)**	**54,641**	**25,802**	**282,677**	**405,948**	**532,164**	**658,019**	**789,403**	**18,279,803**
Period	0.25	1.25	2.25	3.25	4.25	5.25	6.25	7.25	8.25	9.25	9.25
Present Value of Cash Flows	**(60,016)**	**(45,854)**	**(12,131)**	**40,086**	**17,208**	**171,387**	**223,752**	**266,654**	**299,743**	**326,901**	**7,569,883**

FCFF	
10y Cashflow	**1,227,730**
Perpetuity	**7,569,883**
Enterprise Value	8,797,614
Net Debt	134,360
Equity Value	8,663,254
Number of shares (K)	393,991
Petz Target Price	BRL 21.99
Zee.Dog Target Price	BRL 3.75
Target Price	**BRL 25.74**
Stock Price	BRL 20.45
Upside	**26%**

Appendix E – Cost of Capital (WACC)

Source: Team 7

Kd	Index	Debt (BRL K)	21E	22E	23E	24E	25E	26E	27E	28E	29E	30E	Perpetuity
Banco Santander - Borrow	1,95% a.a. + Selic Anual	30,000	11%	12%	9%	9%	8%	8%	8%	8%	8%	8%	
Banco Santander - Borrow	3,00% a.a. + Selic Anual	20,000	12%	13%	10%	10%	10%	10%	10%	10%	10%	10%	
Banco Votorantim - Borrow	3,00% a.a. + Selic Anual	21,159	12%	13%	10%	10%	10%	10%	10%	10%	10%	10%	
Banco Safra - Borrow	3,30% a.a. + Selic Anual	10,000	13%	14%	11%	10%	10%	10%	10%	10%	10%	10%	
Banco ABC - Borrow	3,40% a.a. + Selic Anual	30,000	13%	14%	11%	10%	10%	10%	10%	10%	10%	10%	
Banco do Brasil - Borrow	2,50% a.a. + Selic Anual	20,000	12%	13%	10%	9%	9%	9%	9%	9%	9%	9%	
Banco Santander - Borrow	3,49% a.a. + Selic Anual	150,000	13%	14%	11%	10%	10%	10%	10%	10%	10%	10%	
Promissory Note	2,90% a.a. + Selic Anual	60,000	12%	13%	10%	10%	9%	9%	9%	9%	9%	9%	
Debentures	1,40% a.a. + Selic Anual	200,000	11%	12%	9%	8%	8%	8%	8%	8%	8%	8%	
Debentures	1,30% a.a. + Selic Anual	200,000	11%	12%	9%	8%	8%	8%	8%	8%	8%	8%	
Cost of Debt			**11.4%**	**12%**	**9%**	**9%**	**9%**	**9%**	**9%**	**9%**	**9%**	**9%**	**9%**
Ke			**21E**	**22E**	**23E**	**24E**	**25E**	**26E**	**27E**	**28E**	**29E**	**30E**	**Perpetuity**
Risk Free			1.64%	1.64%	1.64%	1.64%	1.64%	1.64%	1.64%	1.64%	1.64%	1.64%	
Unlevered Beta			0.95	0.95	0.95	0.95	0.95	0.95	0.95	0.95	0.95	0.95	
Debt			442,085	578,770	786,660	1,022,323	1,301,555	1,563,512	1,824,337	2,091,900	2,372,973	2,665,309	
Equity			614,262	712,549	857,741	1,056,341	1,330,769	1,602,475	1,820,566	2,044,739	2,264,298	2,470,754	
Tax Rate			-34%	-34%	-34%	-34%	-34%	-34%	-34%	-34%	-34%	-34%	
Levered Beta			1.40	1.46	1.53	1.56	1.56	1.56	1.58	1.59	1.61	1.63	
Equity Risk Premium			4.31%	4.31%	4.31%	4.31%	4.31%	4.31%	4.31%	4.31%	4.31%	4.31%	
Brazil Risk Premium			2.91%	2.91%	2.91%	2.91%	2.91%	2.91%	2.91%	2.91%	2.91%	2.91%	
Nominal Ke (USA)			10.6%	10.8%	11.1%	11.3%	11.3%	11.3%	11.4%	11.4%	11.5%	11.6%	
USA CPI			5%	2%	2%	2%	2%	2%	2%	2%	2%	2%	
Real Ke (USA)			4.9%	8.5%	8.4%	8.6%	8.6%	8.6%	8.6%	8.7%	8.8%	8.8%	
Brazil CPI			9%	5%	3%	3%	3%	3%	3%	3%	3%	3%	
Cost of Equity			**14.5%**	**14%**	**12%**	**12%**	**12%**	**12%**	**12%**	**12%**	**12%**	**12%**	**12%**
WACC			**21E**	**22E**	**23E**	**24E**	**25E**	**26E**	**27E**	**28E**	**29E**	**30E**	**Perpetuity**
Cost of Debt Post-Tax			7.5%	8.2%	6.2%	5.9%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	
Debt/(Debt + Equity)			42%	45%	48%	49%	49%	49%	50%	51%	51%	52%	
Cost of Equity			14.5%	13.5%	12.0%	11.8%	11.8%	11.8%	11.9%	12.0%	12.0%	12.1%	
Equity/(Debt + Equity)			58%	55%	52%	51%	51%	51%	50%	49%	49%	48%	
WACC			**10.5%**	**10%**	**8%**	**8%**	**8%**	**8%**	**8%**	**8%**	**8%**	**7.8%**	**8%**

Appendix F – WK Dynamics

Source: Team 7

Working Capital	[Unit]	17'	18'	19'	20'	21E	22E	23E	24E	25E	26E	27E	28E	29E	30E
Days in the Period	[days]	360	360	360	360	360	360	360	360	360	360	360	360	360	360
Net Revenue	[BRL Th.]	597,369	767,907	986,076	1,436,756	2,297,603	3,036,530	3,968,182	5,113,120	6,454,841	7,753,969	9,047,487	10,374,418	11,768,350	13,218,140
COGS	[BRL Th.]	-332,534	-416,039	-509,748	-743,249	-1,193,131	-1,558,753	-2,009,441	-2,581,326	-3,248,715	-3,902,565	-4,553,592	-5,221,435	-5,923,000	-6,652,677
Change in WC	**[BRL Th.]**		**5,278**	**23,184**	**52,780**	**72,166**	**64,986**	**87,326**	**106,579**	**124,321**	**119,272**	**117,841**	**120,039**	**125,309**	**129,481**
% Net revenue	*[%]*	*0%*	*1%*	*2%*	*4%*	*3%*	*2%*	*2%*	*2%*	*2%*	*2%*	*1%*	*1%*	*1%*	*1%*
WC (Operational)	**[BRL Th.]**	**69,459**	**74,737**	**97,921**	**150,701**	**222,867**	**287,852**	**375,178**	**481,757**	**606,078**	**725,349**	**843,190**	**963,229**	**1,088,537**	**1,218,018**
% Net revenue	*[%]*	*12%*	*10%*	*10%*	*10%*	*10%*	*9%*	*9%*	*9%*	*9%*	*9%*	*9%*	*9%*	*9%*	*9%*
Receivables	[BRL Th.]	66,875	76,163	96,076	160,675	241,476	310,702	406,029	523,181	660,468	793,396	925,750	1,061,524	1,204,153	1,352,497
Days of Receivables	[days]	40	36	35	40	38	37	37	37	37	37	37	37	37	37
% Net revenue	*[%]*	*11%*	*10%*	*10%*	*11%*	*11%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*
Inventory	[BRL Th.]	82,818	97,489	132,657	185,701	296,335	389,688	502,360	645,332	812,179	975,641	1,138,398	1,305,359	1,480,750	1,663,169
Days of Inventory	[days]	90	84	94	90	89	90	90	90	90	90	90	90	90	90
% Net revenue	*[%]*	*14%*	*13%*	*13%*	*13%*	*13%*	*13%*	*13%*	*13%*	*13%*	*13%*	*13%*	*13%*	*13%*	*13%*
Suppliers	[BRL Th.]	80,234	98,915	130,812	195,675	314,944	412,537	533,211	686,756	866,569	1,043,688	1,220,959	1,403,654	1,596,366	1,797,648
Days of Suppliers	[days]	87	86	92	95	95	95	96	96	96	96	97	97	97	97
% Net revenue	*[%]*	*13%*	*13%*	*13%*	*14%*	*14%*	*14%*	*13%*	*13%*	*13%*	*13%*	*13%*	*14%*	*14%*	*14%*
Cash Conversion Cycle	**[days]**	**43**	**34**	**36**	**35**	**32**	**32**	**31**	**31**	**31**	**31**	**30**	**30**	**30**	**30**

Appendix G – Revenue Build-Up

Source: Team 7

Revenue Build Up		17'	18'	19'	20'	21E	22E	23E	24E	25E	26E	27E	28E	29E	30E
Gross Revenue	**[BRL Th.]**	716,005	913,419	1,164,234	1,706,729	2,716,430	3,590,055	4,691,536	6,045,183	7,631,484	9,167,429	10,696,740	12,265,556	13,913,586	15,627,656
growth YOY	*[%]*		28%	27%	47%	59%	32%	31%	29%	26%	20%	17%	15%	13%	12%
Products	**[BRL Th.]**	**653,409**	**833,291**	**1,077,509**	**1,625,236**	**2,613,402**	**3,434,571**	**4,464,408**	**5,740,657**	**7,232,725**	**8,697,283**	**10,158,138**	**11,658,990**	**13,237,591**	**14,881,473**
growth YOY			28%	29%	51%	61%	31%	30%	29%	26%	20%	17%	15%	14%	12%
B&M (Products)	**[BRL Th.]**	**630,161**	**796,362**	**987,966**	**1,229,602**	**1,784,086**	**2,295,030**	**2,921,332**	**3,680,158**	**4,544,372**	**5,357,902**	**6,138,044**	**6,912,589**	**7,703,818**	**8,503,699**
Revenue per Store	[BRL Th./#]	10,003	9,955	9,409	9,245	10,253	10,929	11,685	12,690	13,771	14,639	15,384	16,113	16,969	17,940
Number of Stores	[#]	63	80	105	133	174	210	250	290	330	366	399	429	454	474
Net Opening of Stores	[#]	17	17	25	28	31	36	40	40	40	36	33	30	25	20
Opened	[#]	17	17	25	28	31	36	40	40	40	36	30	25	23	20
Closed	[#]		0	0	0	0	0	0	0	0	0	0	0	0	0
Store's Area	[m²]	77,481	94,726	119,477	142,074	166,604	196,608	229,945	261,616	291,702	317,427	337,792	353,914	368,005	379,646
Average Area per Store	[m²/#]	1,230	1,184	1,138	1,068	957	936	920	902	884	867	847	825	811	801
Average Area per New Store	[m²/#]	-	1,014	990	807	833	833	833	792	752	715	679	645	613	582
New Store Size Diluiton	*[%]*					*100%*	*100%*	*100%*	*95%*	*95%*	*95%*	*95%*	*95%*	*95%*	*95%*
Store Maturation Curve															
Store's Area per Year	**[m²]**	**76,238**	**93,482**	**118,191**	**140,768**	**166,604**	**196,608**	**229,945**	**261,616**	**291,702**	**317,427**	**337,792**	**353,914**	**368,005**	**379,646**
Sales per Squared Meter	[BRL Th./m²]	8	9	8	9	11	12	13	14	16	17	18	20	21	22
Year 1	[m²]	18,963	17,245	24,708	22,577	25,836	30,004	33,337	31,671	30,087	25,724	20,365	16,122	14,091	11,640
Sales per Squared Meter	[BRL Th./m²]	3	4	4	4	4	4	5	5	6	6	6	7	7	8
% of Mature Store	*[%]*	*65%*	*65%*	*65%*	*65%*	*65%*	*65%*	*65%*	*65%*	*65%*	*65%*	*65%*	*65%*	*65%*	*65%*
Cohort Adjusted	*[%]*	*33%*	*33%*	*33%*	*33%*	*33%*	*33%*	*33%*	*33%*	*33%*	*33%*	*33%*	*33%*	*33%*	*33%*
Year 2	[m²]	12,934	18,963	17,245	24,708	22,577	25,836	30,004	33,337	31,671	30,087	25,724	20,365	16,122	14,091
Sales per Squared Meter	[BRL Th./m²]	8	8	8	8	9	10	11	12	13	14	15	15	16	17
% of Mature Store	*[%]*	*85%*	*85%*	*85%*	*85%*	*85%*	*85%*	*85%*	*85%*	*85%*	*85%*	*85%*	*85%*	*85%*	*85%*
Cohort Adjusted	*[%]*	*75%*	*75%*	*75%*	*75%*	*75%*	*75%*	*75%*	*75%*	*75%*	*75%*	*75%*	*75%*	*75%*	*75%*
Year 3	[m²]	7,374	12,934	18,963	17,245	24,708	22,577	25,836	30,004	33,337	31,671	30,087	25,724	20,365	16,122
Sales per Squared Meter	[BRL Th./m²]	10	10	10	10	11	12	13	14	16	17	18	19	20	21
% of Mature Store	*[%]*	*95%*	*95%*	*95%*	*95%*	*95%*	*95%*	*95%*	*95%*	*95%*	*95%*	*95%*	*95%*	*95%*	*95%*
Cohort Adjusted	*[%]*	*90%*	*90%*	*90%*	*90%*	*90%*	*90%*	*90%*	*90%*	*90%*	*90%*	*90%*	*90%*	*90%*	*90%*
Year 4 - Mature	[m²]	36,966	44,341	57,275	76,238	93,482	118,191	140,768	166,604	196,608	229,945	261,616	291,702	317,427	337,792
Sales per Squared Meter	[BRL Th./m²]	11	11	11	11	13	14	15	16	17	19	20	21	22	23
% of Mature Store	*[%]*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*
Cohort Adjusted	*[%]*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*
Same Store Sales (SSS)	*[%]*	*13%*	*6%*	*8%*	*27%*	*13.6%*	*8.2%*	*8.1%*	*8.6%*	*8.7%*	*6.0%*	*5.4%*	*5.6%*	*6.1%*	*6.1%*
Digital (Products)	**[BRL Th.]**	**23,248**	**36,929**	**89,543**	**395,634**	**829,317**	**1,139,541**	**1,543,076**	**2,060,499**	**2,688,353**	**3,339,381**	**4,020,094**	**4,746,401**	**5,533,773**	**6,377,774**
Digital Penetration (as a % of Total Gross Revenue)	*[%]*	*3%*	*4%*	*8%*	*23%*	*31%*	*32%*	*33%*	*34%*	*35%*	*36%*	*38%*	*39%*	*40%*	*41%*
Omnichannel Penetration (as a % of Total Gross Revenue)	*[%]*	*1%*	*29%*	*71%*	*80%*	*85%*	*85%*	*85%*	*85%*	*85%*	*85%*	*85%*	*85%*	*85%*	*85%*
Digital/B&M Ratio	*[%]*	*4%*	*5%*	*9%*	*32%*	*46%*	*50%*	*53%*	*56%*	*59%*	*62%*	*65%*	*69%*	*72%*	*75%*
							37%	35%	34%	30%	24%	20%	18%	17%	15%
Services and Others	**[BRL Th.]**	**62,596**	**80,128**	**86,725**	**81,493**	**103,027**	**155,484**	**227,128**	**304,526**	**398,760**	**470,146**	**538,601**	**606,566**	**675,995**	**746,183**
% Gross Revenue	*[%]*	*9%*	*9%*	*7%*	*5%*	*6%*	*7%*	*8%*	*8%*	*9%*	*9%*	*9%*	*9%*	*9%*	*9%*
growth YOY	*[%]*	*N.A*	*28%*	*8%*	*-6%*	*26%*	*51%*	*46%*	*34%*	*31%*	*18%*	*15%*	*13%*	*11%*	*10%*
Seres	**[BRL Th.]**		17,532	18,975	17,831	25,382	50,188	101,241	178,081	278,751	385,527	488,996	573,756	654,799	728,956
Number of Hospitals BoP	[#]				7	10	12	17	22	27	32	36	39	41	42
New hospitals	[#]				3	2	5	5	5	5	4	3	2	1	0
Number of Hospitals EoP	[#]				10	12	17	22	27	32	36	39	41	42	42
Revenue per Hospital	[BRL Th./#]				2098	2,307	3,461	5,192	7,269	9,449	11,339	13,040	14,344	15,778	17,356
growth YOY	*[%]*					*10%*	*50%*	*50%*	*40%*	*30%*	*20%*	*15%*	*10%*	*10%*	*10%*
Other Services	[BRL Th.]	62,596	62,596	67,750	63,662	77,645	105,296	125,886	126,445	120,008	84,618	49,605	32,811	21,197	17,227
growth YOY	*[%]*					*22%*	*36%*	*20%*	*0%*	*-5%*	*-29%*	*-41%*	*-34%*	*-35%*	*-19%*
% Gross Revenue	*[%]*	*9%*	*7%*	*6%*	*4%*	*3%*	*3%*	*3%*	*2%*	*2%*	*1%*	*0%*	*0%*	*0%*	*0%*

Appendix H – COGS and SG&A

Source: Team 7

COGS		**17'**	**18'**	**19'**	**20'**	**21E**	**22E**	**23E**	**24E**	**25E**	**26E**	**27E**	**28E**	**29E**	**30E**
COGS	[BRL Th.]	-332,534	-416,039	-509,748	-743,249	-1,193,131	-1,558,753	-2,009,441	-2,581,326	-3,248,715	-3,902,565	-4,553,592	-5,221,435	-5,923,000	-6,652,677
% Net Revenue	*[%]*	*-55.7%*	*-54.2%*	*-51.7%*	*-51.7%*	*-51.9%*	*-51.3%*	*-50.6%*	*-50.5%*	*-50.3%*	*-50.3%*	*-50.3%*	*-50.3%*	*-50.3%*	*-50.3%*
growth YOY	*[%]*	*N.A*	*25%*	*269%*	*225%*										
Stardard Products Margin	*[%]*				*-52.0%*	*-52.5%*	*-52.0%*	*-51.5%*	*-51.5%*	*-51.5%*	*-51.5%*	*-51.5%*	*-51.5%*	*-51.5%*	*-51.5%*
Private Label Margin	*[%]*				*-44.2%*	*-44.6%*	*-44.2%*	*-43.8%*	*-43.8%*	*-43.8%*	*-43.8%*	*-43.8%*	*-43.8%*	*-43.8%*	*-43.8%*
Private Label Penetration	*[%]*	0.1%	0.3%	1.1%	3.3%	7.1%	8.4%	11.0%	13.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Private Label Margin Increase	*[%]*	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%

SG&A		**17'**	**18'**	**19'**	**20'**	**21E**	**22E**	**23E**	**24E**	**25E**	**26E**	**27E**	**28E**	**29E**	**30E**
SG&A	[BRL Th.]			-283,376	-436,821	-720,050	-951,623	-1,243,595	-1,602,409	-2,022,893	-2,430,029	-2,835,407	-3,251,256	-3,688,103	-4,142,455
% Net Revenue	*[%]*	*0%*	*0%*	*-29%*	*-30%*	*-31%*	*-31%*	*-31%*	*-31%*	*-31%*	*-31%*	*-31%*	*-31%*	*-31%*	*-31%*
growth YOY	*[%]*	*N.A*	*N.A*	*N.A*	*54%*	*65%*	*554%*	*722%*	*2229%*	*2772%*	*237%*	*198%*	*161%*	*130%*	*105%*
Sales Expenses	[BRL Th.]	-144,637	-192,133	-194,609	-312,941	-500,443	-661,389	-864,313	-1,113,693	-1,405,934	-1,688,898	-1,970,640	-2,259,661	-2,563,274	-2,879,054
% Net Revenue	*[%]*	*-24%*	*-25%*	*-20%*	*-22%*	*-22%*	*-22%*	*-22%*	*-22%*	*-22%*	*-22%*	*-22%*	*-22%*	*-22%*	*-22%*
growth YOY	*[%]*	*N.A*	*33%*	*1%*	*61%*	*60%*	*32%*	*31%*	*29%*	*26%*	*20%*	*17%*	*15%*	*13%*	*12%*
G&A	[BRL Th.]		-73,598	-82,052	-116,128	-199,033	-263,044	-343,750	-442,932	-559,160	-671,699	-783,752	-898,700	-1,019,451	-1,145,041
% Net revenue	*[%]*	*N.A*	*-10%*	*-8%*	*-8%*	*-9%*	*-9%*	*-9%*	*-9%*	*-9%*	*-9%*	*-9%*	*-9%*	*-9%*	*-9%*
growth YOY	*[%]*	*N.A*	*N.A*	*11%*	*42%*	*71%*	*32%*	*31%*	*29%*	*26%*	*20%*	*17%*	*15%*	*13%*	*12%*
Other Expenses	[BRL Th.]	-10,701	-9,815	-11,197	-13,321	-29,479	-38,960	-50,913	-65,604	-82,818	-99,487	-116,083	-133,108	-150,993	-169,594
% Net revenue	*[%]*	*-2%*	*-1%*	*-1%*	*-1%*	*-1%*	*-1%*	*-1%*	*-1%*	*-1%*	*-1%*	*-1%*	*-1%*	*-1%*	*-1%*
growth YOY	*[%]*	*N.A*	*-8%*	*14%*	*19%*	*121%*	*132%*	*131%*	*129%*	*126%*	*120%*	*117%*	*115%*	*113%*	*112%*
PIS/Cofins Credit over Depreciation - Rights-of-Use (CPC 06 (R2)/IFRS 16)	[BRL Th.]	0	0	4,482	5,569	8,906	11,770	15,381	19,819	25,020	30,055	35,069	40,212	45,615	51,235
% Net revenue	*[%]*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
growth YOY	*[%]*	*N.A*	*N.A*	*N.A*	*24%*	*60%*	*132%*	*131%*	*129%*	*126%*	*120%*	*117%*	*115%*	*113%*	*112%*
Rental Expenses	[BRL Th.]			-77,855	-95,936	-129,180	-165,875	-209,050	-257,780	-310,485	-365,738	-420,960	-475,522	-531,046	-588,487
% Net Revenue	*[%]*			-8%	-7%	-6%	-5%	-5%	-5%	-5%	-5%	-5%	-5%	-5%	-4%
Total Store Area				105,837	129,479	153,686	181,606	213,276	245,780	276,659	304,565	327,609	345,853	360,960	373,826
Rent/m²				-0.74	-0.74	-0.84	-0.91	-0.98	-1.05	-1.12	-1.20	-1.28	-1.37	-1.47	-1.57

Appendix I – Pet Industry & SSS

Source: IBGE; Bacen; The World Bank; Team 7

We understand the importance of estimating the growth of the pet segment in Brazil, given the history of annual double-digit growth and pulverization. Thus, we decided to break the sector into price and quantity, where the price is the average spend per pet in the country and quantity is the growth in the number of pets in Brazil (considering only dogs and cats).In the first point, we decided to calculate the average spend per pet from two valuable proxies.

First, we consider using comparables from developed and underdeveloped countries. The second point is to compare this average spending data with each country's GDP per capita, given that average spending per pet is strongly correlated with purchasing power. In this case, we found a 90% correlation between the base data used. Thus, we used linear regression to estimate the average spending per pet for the next ten years, using the GDP and population growth projections.

Countries	GDP per Capita (000's)	Average Expenditure
BRA	36	304
CHN	56	193
MEX	44	213
FRA	205	978
JAP	213	1109
DEU	242	961
UK	214	1443
USA	337	1255

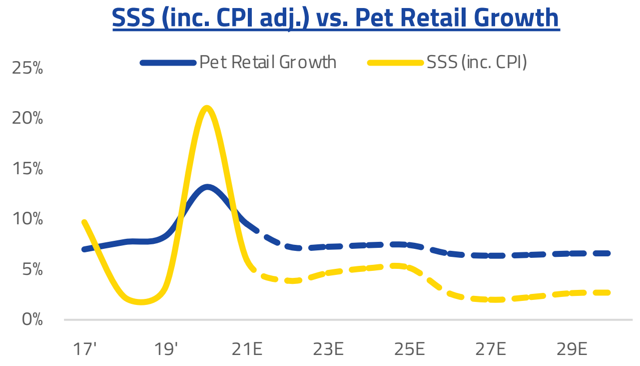
BRA 21E	38	363
BRA 22E	39	365
BRA 23E	39	368
BRA 24E	40	371
BRA 25E	41	374
BRA 26E	42	378
BRA 27E	43	381
BRA 28E	44	385
BRA 29E	45	389
BRA 30E	46	392

Regression Statistics	
Multiple R	90%
R Square	81%
Adjusted R Square	78%
Standard Error	52
Observations	8

Nominal GDP	Population
8,094.6	213.3
8,272.7	214.8
8,520.9	216.8
8,759.5	217.6
9,004.8	219.1
9,256.9	220.3
9,516.1	221.5
9,782.5	222.7
10,056.4	223.8
10,338.0	224.8

After that, we tried to understand what correlates with Petz's SSS. We did a test analysis with different correlation scenarios (GDP, Stores Outside São Paulo, and CPI). In all cases, the natural growth of the pet industry was the one that achieved the highest correlation, reaching up to 85% with CPI-adjusted values. From this, we again did a statistical study to project SSS growth and then readjusted it to nominal growth, given that our model is nominal.

	Pet Industry	Pet Retail Growth	SSS (inc. CPI)	SSS
17'	16.9	7.0%	9.7%	13%
18'	20.8	7.7%	2.2%	6.1%
19'	23.5	8.3%	3.3%	7.7%
20'	27.8	13.2%	21.1%	26.5%
21E	33.1	9.5%	5.9%	15.2%
22E	37.0	7.3%	3.9%	8.2%
23E	41.0	7.3%	4.7%	8.1%
24E	45.5	7.4%	5.1%	8.6%
25E	50.5	7.4%	5.2%	8.7%
26E	55.6	6.6%	2.6%	6.0%
27E	61.1	6.4%	2.0%	5.4%
28E	67.2	6.5%	2.3%	5.6%
29E	74.0	6.6%	2.7%	6.1%
30E	81.5	6.6%	2.7%	6.1%


SSS (inc. CPI adj.) vs. Pet Retail Growth

Appendix J – 4-Wall Analysis

Source: Diário Oficial; Team 7

We did a 4-Wall analysis to understand how Petz stores perform, using the estimated maturation time in our model. From this, we saw that Petz stores manage to have a positive EBITDA throughout their opening time, reaching an average ROIC of 36% at the end of the four-year maturity period. Furthermore, we see a positive IRR for the investment per store, reaching 15% at the end of the period, with a payback of 3.1 years.We use COGS and SG&A data per mature store as assumptions and adjust this for an Opex maturity starting at 80% and reaching 100% at the end of the four years. In addition, we also assume that sales via omnichannel will have a lower penetration in the first few years of opening, going from 40% in the first year to 100% in the last year.About NOPAT, we used the average CAPEX per store (BRL 4,049 mn) and added pre-operating costs and net working capital, as shown in the model below.

Using the same assumptions we did for Petz, we could also simulate a 4-wall analysis using Cobasi's data in 2019. In the thick of it, we have as leading indicators:

Main Indicators Cobasi 4-Wall				
Payback		3.9		
ROIC	-3.2%	14.0%	14.8%	22.0%
ROIC + SG&A	4.5%	21.6%	22.4%	29.7%
4-Wall EBITDA Margin	1.7%	13.4%	12.7%	16.5%

Main Assumptions Petz Store Model	
Gross Revenue per Store	14,818,690
Omnichannel	1,998,928
Revenue ex-Omnichannel	**12,819,763**
Costs per Store	6,835,195
Gross Margin	*46.7%*
Gross Profit	5,984,568
Store Expenses	3,369,785
% of Gross Revenue ex-Omnichannel	*26.3%*
Store Contribution Margin	2,614,783
Additional SG&A	133,447
% of Gross Revenue ex-Omnichannel	*1.0%*
D&A	433,300
Income Tax	*34%*
NOPAT	**1,637,682**
Capex	4,049,000
Pre-Operational	620,253
Net Working Capital	277,778
Invested Capital	**4,947,031**
ROIC - Mature Store	**36%**

Year 0	Year 1	Year 2	Year 3	Year 4
-4,947,031	668,594	2,012,156	2,073,741	2,614,783
-4,947,031	-4,278,437	-2,266,281	-192,540	2,422,243

IRR	15%

Payback	3.1

	Year 1	Year 2	Year 3	Year 4
Maturation Curve - Sales ex-Omnichannel	65%	85%	95%	100%
Gross Revenue per Store	9,632,149	12,595,887	14,077,756	14,818,690
Omnichannel	799,571	1,399,250	1,799,035	1,998,928
Revenue ex-Omnichannel	**8,832,578**	**11,196,637**	**12,278,721**	**12,819,763**
Maturation Curve - Omnichannel	40%	70%	90%	100%
Digital Penetration	*8.3%*	*11.1%*	*12.8%*	*13.5%*
Costs per Store	5,468,156	6,151,675	6,835,195	6,835,195
Gross Margin	*38.1%*	*45.1%*	*44.3%*	*46.7%*
Gross Profit	3,364,422	5,044,962	5,443,526	5,984,568
Store Expenses	2,695,828	3,032,806	3,369,785	3,369,785
% of Gross Revenue ex-Omnichannel	*30.5%*	*27.1%*	*27.4%*	*26.3%*
Maturation Curve - Opex	80%	90%	100%	100%
Store Contribution Margin	668,594	2,012,156	2,073,741	2,614,783
% of Gross Revenue ex-Omnichannel	7.6%	18.0%	16.9%	20.4%
Additional SG&A	133,447	133,447	133,447	133,447
D&A	433,300	433,300	433,300	433,300
Income Tax	*34%*	*34%*	*34%*	*34%*
NOPAT	**353,197**	**1,239,948**	**1,280,594**	**1,637,682**
Capex	4,049,000	4,049,000	4,049,000	4,049,000
Pre-Operational	620,253	620,253	620,253	620,253
Net Working Capital	277,778	277,778	277,778	277,778
Invested Capital	**4,947,031**	**4,947,031**	**4,947,031**	**4,947,031**
ROIC	**7.1%**	**25.1%**	**25.9%**	**33.1%**
ROIC + SG&A	**9.8%**	**27.8%**	**28.6%**	**35.8%**
4-Wall EBITDA Margin	**7.6%**	**18.0%**	**16.9%**	**20.4%**

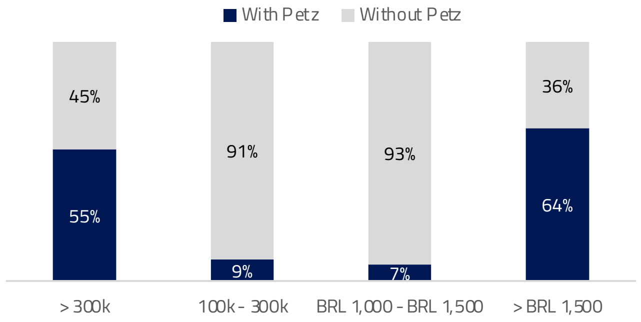
Appendix K – Geospatial Analysis

Source: IBGE; Companies'' Data; Geo Sampa; QGIS; Team 7

In this context, we created several geospatial analyses to understand various aspects of the pet industry in Brazil. We know that the distribution of stores in the retail segment is essential, especially for a company that seeks to consolidate the sector from a plan to open stores in different cities of the country. That said, we perform our analysis in two main geographic poles: (I) Brazil and (II) São Paulo.

(i) Brazil: In the question covering the entire national territory, the first point we sought to understand was the standard of stores Petz seeks to open. In this aspect, we applied a municipal filter, considering 5,567 Brazilian cities. From this, we saw the pattern of stores Petz seeks to extend and compare its penetration level in these cities.The result was apparent. Petz has the vast majority of its stores (125) in cities with over 300k inhabitants, i.e., the central poles of the country. Another fact that corroborates this is the pattern of towns by average income. In the analysis in question, Petz has 118 stores in cities with an average per capita income higher than BRL 1,500.

Petz Distribution



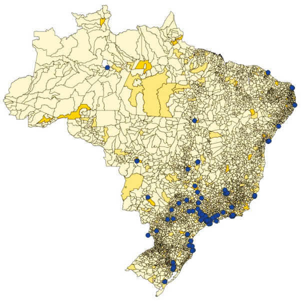
However, despite this appearing to be the company's standard, the penetration level in cities across the country comes to 55% and 64%, respectively. Thus, the company is now looking to open its stores in cities between 100k and 300k inhabitants and average per capita income between BRL 1,000 and 1,500.

In addition, we were also able to perform the analysis considering the leading players in the country, such as Cobasi and Petland, as well as more regional players, such as Mundo Pet, Poli Pet, and American Pet. Thus, considering an average radius of influence of 3km per store, we were able to find data such as penetration in the country, the population reached, and most importantly, the GDP per store.

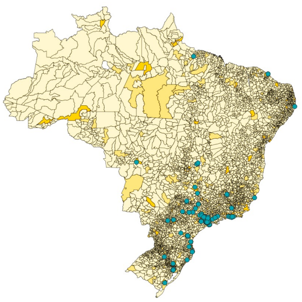
Companies	Pop. Coverage (mn)	GDP Coverage (mn)	% of total GDP	GDP/Store (mn)
Petz	**10.4**	**512,392**	**27.8%**	**3,439**
Cobasi	**8.2**	**441,844**	**24%**	**3,425**
Petland	5.4	287,442	15.6%	3,026
American Pet	2.2	110,394	6%	2,905

Besides the quantitative data, we can see that Petz has a better geographical distribution with Cobasi, when compared to other players. This is due to the expansion pattern of both companies which are very similar.

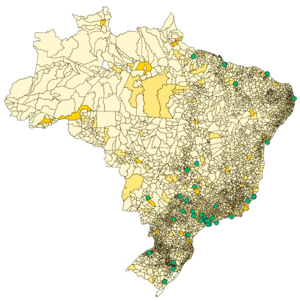
Petz



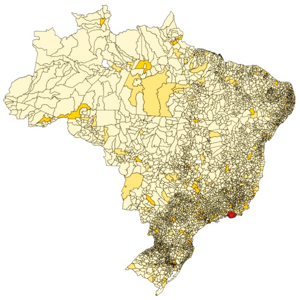
Cobasi



Petland



American Pet



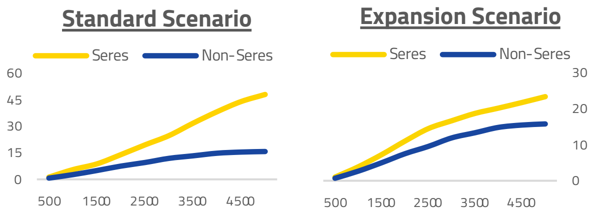
In this way, we could also calculate a more granular store potential than the potential of standard cities. Using the average GDP/store value of Petz and Cobasi, we found the GDP value of influence for the megastore model (as showed in *Exhibit 20*)

(II) São Paulo: That said, we seek to understand the competitive positioning of both companies. In the matter of analysis in the city of São Paulo, we focused more on the two most prominent players, Petz and Cobasi. We applied an average per capita income filter in the São Paulo districts and sought to understand how Petz and Cobasi stores are distributed. The result clearly showed that both Petz and Cobasi are well distributed in the wealthiest regions of the city.

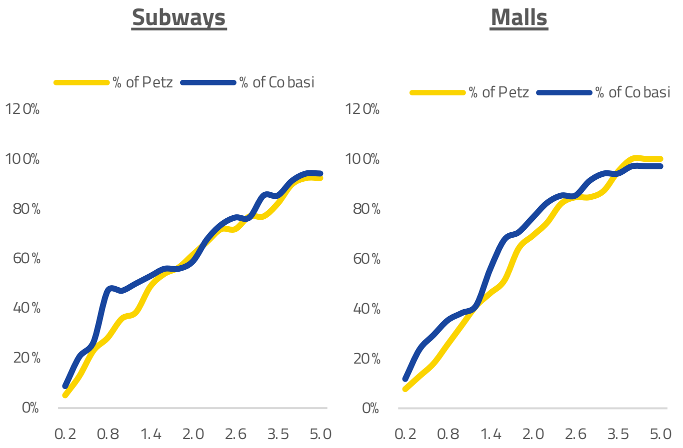
In addition, we also sought to understand the pattern of Petz and Cobasi stores. We understand that despite having a high radius of influence, the megastore model does not have the same capillarity as mom & pop channels. Thus, the companies positioned themselves to ensure the best strategic positioning, opening their stores near avenues, malls, supermarkets, and subways. We tried to understand if there is any gap between Petz and Cobasi in this positioning issue. The companies were very similar in price and quantity of products. Thus, we applied a minimum distance filter using more than 80 shopping centers in the city of São Paulo and the 89 subway stations in the city. The results can be seen below and corroborate the thesis that both companies are well-positioned.

Finally, we also conducted a geospatial analysis to prove the potential of the Seres network, considering around 700 clinics and 50 veterinary hospitals. We crossed each location to find: (i) the nearest hospital for each clinic and (ii) the number of clinics on each distance radius from the hospital. Besides having a strategic position in the cross-sell with the product line, Seres also has the potential to become the reference hospital of each region, thus addressing an adjacent but different market. In São Paulo, for instance, we see well-positioned hospitals covering a more significant number of clinics considering the distance between a clinic and its closest hospital, one of the factors prioritized by veterinarians in an emergency room, as verified in a field survey.In this aspect, we considered two main scenarios. The first only find Seres' current veterinary hospitals (3 in the city of São Paulo). The second considers an expansion of 20 hospitals adjacent to current stores, a movement that has been happening slower than the opening of hospitals. We see that Petz' current stores have optimal positioning for getting a geographic edge. The two graphics below shows the accumulated number of clinics into Seres and Non-Seres hospital's radius adjusted by the number of hospitals, increasing the possibility to attract more customers in the long term.

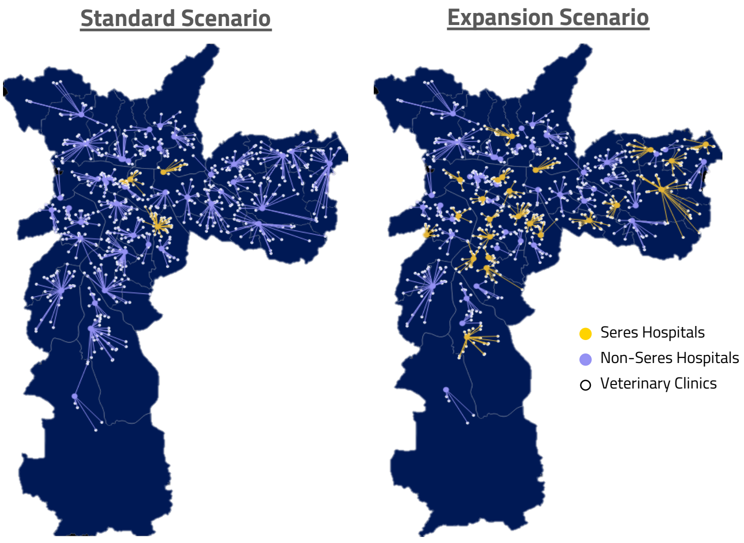
Results Nearest Distance Clinics - Hospital


Standard Scenario
Expansion Scenario

Accumulated Distance


Subways
Malls

Nearest Distance Hospitals - Clinics


Standard Scenario
Expansion Scenario

Appendix L – Shipping Analysis

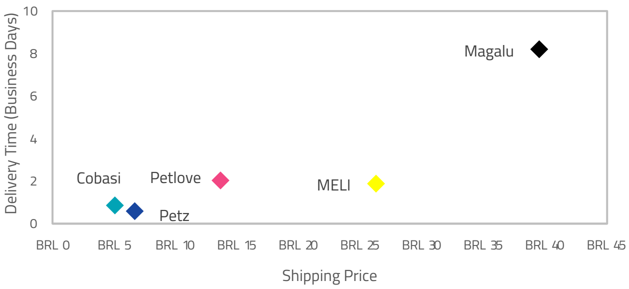
Source: Team 7

		Petz	Cobasi	PetLove	Magalu	MELI
Fortaleza	Price	BRL 86.9	BRL 86.9	BRL 86.9	BRL 78	BRL 78.9
	Subscription Discount	10%	10%	10%	N.A	N.A
	Shipping I	BRL 7.9	BRL 4.9	BRL 14.4	BRL 34.9	BRL 40.8
	Shipping Time (Business Days)	1	1	2	14	5
	Shipping II	BRL 10.3	BRL 5.9	N.A	BRL 79.9	N.A
	Shipping Time (Business Days)	0.17	0.17	N.A	17	N.A
	Shipping III	N.A	BRL 13.9	N.A	BRL 41.9	N.A
	Shipping Time (Business Days)	N.A	13	N.A	14	N.A
	Pick-up from Store?	Yes	Yes	N.A	N.A	N.A
	Time	2 Hours	45 min	N.A	N.A	N.A

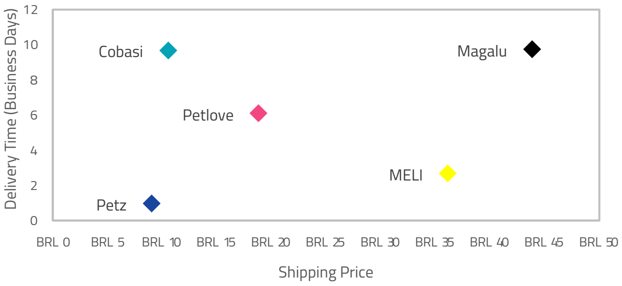
In the competitive dynamics of online, we concluded that prices are merely standardized, with small variations, and freight is the major variable to understand which player is best positioned to meet the demands of its customers. In our freight analysis, we included 21 different locations with 4 types of specifications, these being: (I) Presence of Petz and Cobasi; (II) Presence of Petz; (III) Presence of Cobasi; and (IV) No Petz and Cobasi. The model done for each of the 21 locations is in example table on the right, where we experimented for Fortaleza-CE. In this analysis, we analyzed a feed in 5 different stores (Petz, Cobasi, Petlove, Magalu and MELI), analyzing the different types of delivery and respective times, coming to the following conclusions: (I) Last-Mile matters, and where Petz and Cobasi are physically present are the places where both can deliver most cost-effectively and most efficiently;

(II) Petlove, although a purely Pet market player, cannot deliver as efficient a service as megastore players due to low capillarity and the need to pass on freight price to the customer; and (III) Horizontal players do not pay as much attention to this market yet, with difficulties in stocking and making efficient deliveries, especially MELI that, although it has extreme capillarity in the country and makes deliveries as fast as Petz and Cobasi, charges a lot for this, which is not well seen by consumers. It is important to point out that there are business days smaller than 1 because we have made averages between the different delivery times, some of which are fractions of a day (i.e. 3 or 4 hours).

(I) Petz and Cobasi

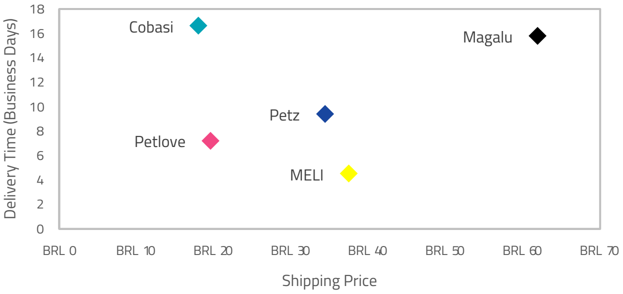


(II) Only Petz



(III) Only Cobasi

(IV) Neither one

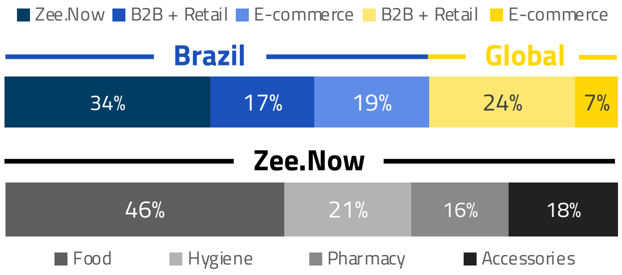


Appendix M – Zee.Dog Analysis

Source: Company's Data; Team 7

The Diz Brothers created the brand in 2011, after becoming frustrated with the offer of low quality and generic products that existed in the Pet market. After 10 years, the brand's main characteristic is differentiation, a strong branding strategy and the search for quality and innovation and was recently acquired by Petz in 2021. The company comes to complement Petz's ecosystem, granting the private label know-how (only 27% of Zee's sales come from third party products) and new business lines in the premium segment, besides the development of Zee.Kitchen, with the development and rebranding of Eleven Chimps, a fresh and natural food company acquired by Zee in April 2021.

Zee.Dog Revenue Breakdown



In addition, Zee has a strong presence in digital, with 12 hubs spread throughout Brazil to assist in such logistics. With Petz, Zee generates powerful synergy when considering that it will be able to use Petz's 150+ stores as mini-hubs for its deliveries, bringing even more quality and reach to Zee.Now, which is already a reference in e-commerce. This whole transaction was crowned with a share and lock-up payment prevalence for the founders, which aligns their interests and brings them closer to the company they now own a significant share of 5.7% We chose to do an independent valuation of the company to understand how much value would be added by such an acquisition, and future projections of the company. As the company does not have all the financial information publicly available, we set up a valuation proxy that followed some of the company's own guidance, arriving at a value of BRL 3.1/Share. These guidances are: (I) Revenue of 228 mn in 2021, with EBITDA of 22 mn (after synergies); (II) revenue reaching 1 bn in 4/5 years (III) company unprofitable at the moment and living in a period of expansion, reaching similar levels of margin of Petz in 25E. We also used some main assumptions involving capex, working capital and tax rate to make the assumptions.

Income Statement (mn)	20'	21E	22E	23E	24E	25E	26E	27E	28E	29E	30E
Gross Revenue	125	228	365	547	766	1034	1396	1885	2450	3063	3522
growth YOY		*83%*	*60%*	*50%*	*40%*	*35%*	*35%*	*35%*	*30%*	*25%*	*15%*
(-) Deductions		34	55	82	115	155	209	283	368	459	528
% of Gross Revenue		*15%*	*15%*	*15%*	*15%*	*15%*	*15%*	*15%*	*15%*	*15%*	*15%*
Net Revenue		194	310	465	651	879	1,187	1,602	2,083	2,603	2,994
growth YOY		-	60%	50%	40%	35%	35%	35%	30%	25%	15%
(-) COGS		116	186	274	384	510	688	913	1,187	1,484	1,707
growth YOY		-	*60%*	*48%*	*40%*	*33%*	*35%*	*33%*	*30%*	*25%*	*15%*
% of Net Revenue		*60%*	*60%*	*59%*	*59%*	*58%*	*58%*	*57%*	*57%*	*57%*	*57%*
Gross Profit		78	124	191	267	369	498	689	896	1,119	1,287
growth YOY		-	60%	54%	40%	38%	35%	38%	30%	25%	15%
% of Net Revenue		*40%*	*40%*	*41%*	*41%*	*42%*	*42%*	*43%*	*43%*	*43%*	*43%*
(-) SG&A		59	93	137	189	251	338	457	594	742	853
growth YOY		-	*57%*	*48%*	*38%*	*33%*	*35%*	*35%*	*30%*	*25%*	*15%*
% of Net Revenue		*31%*	*30%*	*30%*	*29%*	*29%*	*29%*	*29%*	*29%*	*29%*	*29%*
EBITDA		18	31	54	78	119	160	232	302	378	434
% of Net Revenue		*10%*	*10%*	*12%*	*12%*	*14%*	*14%*	*15%*	*15%*	*15%*	*15%*
EBIT (Proxy)		16	27	48	71	108	146	214	278	347	399

DCF Zee.DOG	21E	22E	23E	24E	25E	26E	27E	28E	29E	30E	Perpetuity
EBIT	16	29	48	70	108	146	213	277	347	399	
(-) Taxes	-5	-9	-16	-24	-37	-50	-73	-94	-188	-136	
NOPAT	11	18	32	47	71	97	141	183	229	263	
(+) D&A	2	4	5	8	10	14	19	25	31	35	
(+/-) Change in WS	-2	-3	-4	-4	-5	-7	-10	-11	-12	-9	
(-) Capex	-9	-15	-22	-31	-41	-56	-75	-98	-123	-141	
FCFF	2	4	12	19	35	47	75	98	125	148	2,796
Period	0.25	1.25	2.25	3.25	4.25	5.25	6.25	7.25	8.25	9.25	9.25
NPV	2	4	9	14	22	27	39	46	52	56	1,056

Zee Dog Valuation	
(+) Cash Flows	271
(+) Perpetuity	1,056
(+) Goodwill NPV	150
(=) Equity Value	1,477
Shares	394
Value per Share	BRL 3.8

Main Assumptions	
Tax Rate	34%
Capex/Sales	4%
WC/Gross Revenue	2%
WACC	11%
D&A/Sales	1%
g (perpetuity)	5.5%

21E-30E	18.3%
Goodwill	10.2%
Perpertuity	71.5%
Total	**100%**

Appendix N – Private Label Analysis

Source: Team 7

Within the Petz ecosystem, the private label product line is a promising business area for the company, whose value proposition is to offer products with the best cost-benefit ratio in strategic categories. In this sense, the company can reduce the cost of the product by removing one of the intermediaries in the value chain, the supplier brands, buying their private label products directly from the manufacturer, with quality and customization for the Petz brand being a reference among pet lovers. With such an operation, Petz can reduce its COGS for this line and offer more competitive prices. Such dynamics are perceptible in the analysis to the right, in which we compare the competition between more than 1900 variations of 1182 unique products in 21 different categories. To do so, we used web-scraping tools on the Petz e-commerce site to scan the products, collecting price, quantity (weight, units, volume, etc.), brand, description, and other specific information.

After this, we performed the segmentation by categories, following the markings of the site itself and the data treatment, eliminating statistical outliers, repeated products, and intruders in the class. Having performed these steps, we compared the average price of Petz with the general average. We concluded that Petz's private label products are priced lower than average, with a median z-score (distance from the mean normalized by standard deviation) of -0.47, i.e., they are cheaper than 68% of the products. Looking closely on snacks and toys category, we can see that on similar products, Petz charges lower prices than competition.

Snacks Price Points

Same Product Price Comparison


500g: BRL 22.99
60g: BRL 3.49


500g: BRL23.99
60g: BRL 3.89


500g: -
60g: BRL 6.80

Category	Total			Private Label		
	Unit	Avg. Price	St. Dev	Avg. Price	% PL Price Variation	Z-Score
Dehydrated	100g	BRL 26.9	BRL 3.2	BRL 22.0	-18%	-1.55
Cookies	kg	BRL 139.9	BRL 75.9	BRL 36.2	-74%	-1.37
Blankets	#	BRL 65.1	BRL 32.6	BRL 33.0	-49%	-0.98
Feed Holders	kg	BRL 12.1	BRL 6.6	BRL 6.0	-50%	-0.92
Leashes	#	BRL 111.4	BRL 54.6	BRL 61.3	-45%	-0.92
Collars	#	BRL 48.4	BRL 17.3	BRL 34.8	-28%	-0.78
Shampoo	L	BRL 108.8	BRL 106.8	BRL 29.9	-72%	-0.74
Breastplate	#	BRL 92.7	BRL 52.7	BRL 56.8	-39%	-0.68
Snacks	kg	BRL 106.7	BRL 80.5	BRL 56.2	-47%	-0.63
Guinea pig feed	kg	BRL 136.4	BRL 119.1	BRL 69.9	-49%	-0.56
Beds	#	BRL 235.2	BRL 125.9	BRL 176.2	-25%	-0.47
Oral Care	100g	BRL 17.9	BRL 17.9	BRL 9.8	-45%	-0.45
Odor Eliminator	L	BRL 13.9	BRL 2.7	BRL 12.9	-7%	-0.35
Hamster feed	kg	BRL 92.9	BRL 55.7	BRL 79.3	-15%	-0.25
Clay cat litter	kg	BRL 6.4	BRL 5.3	BRL 5.4	-16%	-0.20
Litter mat	#	BRL 85.4	BRL 13.4	BRL 86.7	1%	0.09
Feeder	#	BRL 30.6	BRL 27.3	BRL 37.4	22%	0.25
Disinfectant	L	BRL 54.4	BRL 39.7	BRL 65.9	21%	0.29
Toys	#	BRL 39.3	BRL 26.2	BRL 47.5	21%	0.31
Litter boxes	#	BRL 67.0	BRL 66.4	BRL 89.9	34%	0.35
Litter scoops	#	BRL 10.1	BRL 5.7	BRL 12.9	29%	0.51

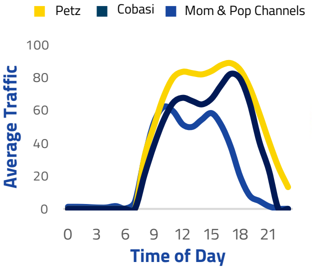
Appendix O – Foot Traffic Analysis

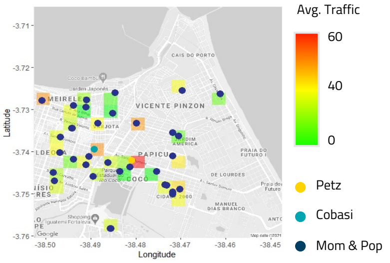
Source: R; Google Cloud; Team 7

To understand the competitive dynamics of the industry in the best possible way, we created the Foot Traffic analysis to understand two main points: (I) If the megastore model is indeed the big winner in this industry and; (II) If there is any crucial difference in customer acquisition between Petz and Cobasi.

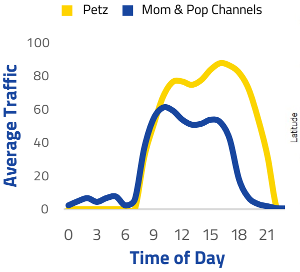
Our analysis was performed using a proprietary algorithm developed by Team 7, using Google Cloud and R. In this analysis, we start from specific features used by large geolocation companies such as Waze and Uber. This way, the study selects all pet shops in a given radius and thus identifies the average traffic of each of the stores and compares them. That said, we decided to perform our analysis in several competitive scenarios, taking into account the company's expansion plan:

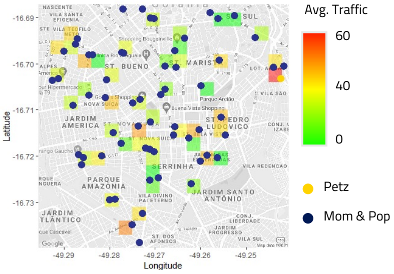
Scenario 1 - Outside São Paulo State (Fortaleza): In Fortaleza - CE, we have a very close competition between Petz and Cobasi stores, with a distance of less than 2km radius, against mom & pop pet shops. That said, we see that Petz has a considerable advantage because it opened its store in the region earlier and has a better-developed ecosystem.



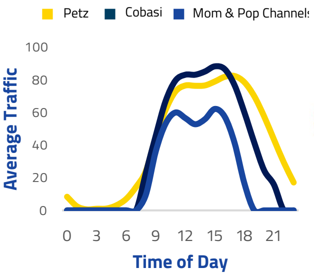


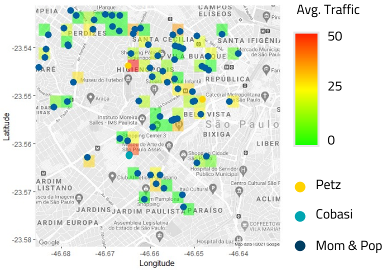
Scenario 2 - Outside São Paulo State (Goiania): In the first scenario, we considered a city outside São Paulo where the Petz vs. Cobasi competitive dynamics exists, as also shown in our report. Now, we seek to see the competitive dynamics outside the state of São Paulo, where there is no Cobasi store. Here again, we can see that the Petz business model attracts more people to the stores than mom & pop.



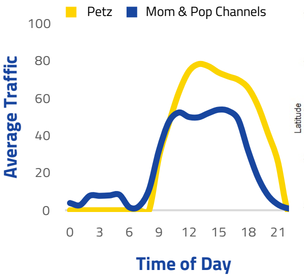


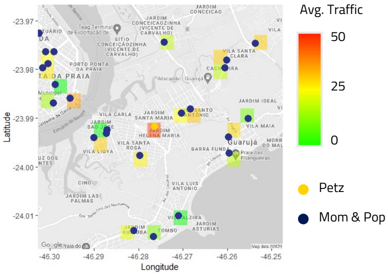
Scenario 3 - Inside São Paulo State (São Paulo): Now that we understand how the competitive dynamics work outside the state of São Paulo, let's focus on the region with the most extensive pet market in Brazil, more specifically on Augusta Street, given the high rate of pet shops per km in the area. In this aspect, we see that Petz and Cobasi have almost the same level of traffic, as shown in our thesis, while the local pet shops lose overwhelmingly.





Scenario 4 - Inside São Paulo State (Guarujá): To conclude our analysis covering all competitive scenarios (Petz physical only), we were able to see that even within the state of São Paulo, Petz beats mom & pop. This shows the dominance of the company's business model, added to the ecosystem that generates switching costs for Petz.





Appendix P – Basket Price

Source: Team 7

The question of product price is the main decision factor for the customer. Thus, to understand the product prices of the leading players in the physical environment (62 facilities were analyzed, including megastores, food retailers, franchises, and mom & pop channels). Thus, we created a comparative table with the prices of more than 13 cities distributed in 9 Brazilian states to avoid bias in our analysis. The products were separated into four divisions (Dry Food, Wet Food, Hygienic, and Medicines), being subdivided into six main products (totaling 137 analyses per product). Finally, the table below shows the average results found per product and the standard deviation.

Product	Type	Petz	Cobasi	Petland	Food Retail	Mom & Pop Channel	Average	St. Dev
Ração Golden Fórmula Mini Bits Para Cães Adultos Pequeno Porte Sabor Carne e Arroz 1 kg	Dry Food	19.9	19.9	25.5	18.9	23.4	21.5	2.8
Ração Royal Canin Mini Indoor - Cães Adultos	Dry Food	52.4	52.4	62.4	47.2	64.6	55.8	7.4
Alimento Ração Úmida Pedigree Sachê Carne Ao Molho para Cães Adultos de Raças Pequenas 100g	Wet Food	2.7	3.0	4.3	3.4	2.7	3.2	0.7
Alimento Ração Úmida Whiskas Sachê Carne Ao Molho para Gatos Adultos 85g	Wet Food	3.0	3.0	4.3	3.1	2.9	3.3	0.6
Tapete Higiênico Super Secão C/30 Unidades	Hygienic	75.9	85.9	87.9	78.9	86.1	82.9	5.2
Tapete Higiênico Chalesco	Hygienic	87.9	92.5	93.9	83.9	91.3	89.9	4.0
Anti-Infamatório Agener União Ketojet Cetoprofeno 5mg C/10 Comprimidos	Medicines	44.9	36.9	46.7	36.9	39.8	41.0	4.5
Antipulgas Zoetis Simparic 10mg para Cães 2,6 a 5kg	Medicines	78.5	75.3	81.4	75.5	81.8	78.5	3.1
Total		**365.2**	**368.8**	**406.3**	**347.8**	**392.6**	**376.2**	
Normalized		**1000**	**1010**	**1113**	**-952**	**1075**	**1030**	

Appendix Q – Discount Simulation

Source: Team 7

Naturally, companies in the pet industry, especially online, are looking for two things: recurrence and customer captivity. Thus, the three largest (Petz, Cobasi, and Petlove), have created a recurrence program considering a 10% non-cumulative discount on all purchases. From this, we created a simulation involving this scenario and others to understand which company will have a more negligible impact on its gross margin. To achieve a satisfactory result, the group used some assumptions. The first was to consider a value per standard product equal to BRL 100. After this, we considered the number of products sold as "x". Another point was that for Petz, we assumed that 7.1% of the products are of the private label type. Finally, we took the competitors' gross margin and COGS data so that the result would be as natural as possible. The tables below show the simulation, considering the current scenario of 10% discount.

Average Discount	0%
Petz	
Sales Mix	
Products	92.8%
Private Label	7.2%
Total Units Sold	x
Average Sales Price (Products)	BRL 100
Average Sales Price (Private Label)	BRL 87
Products Revenue	92.8x
Private Label Revenue	6.3x
Total Revenue	**99.1x**
% COGS (Products)	*53.3%*
% COGS (Private Label)	*43.3%*
COGS (Products)	49.5x
COGS (Private Label)	2.7x
Total COGS	**52x**
Gross Profit (Products)	43x
Gross Margin	*46.7%*
Gross Profit (Private Label)	3.6x
Gross Margin	*56.7%*
Gross Profit	**47x**
Gross Margin	*47.3%*

Average Discount	10%
Petz	
Sales Mix	
Products	92.8%
Private Label	7.2%
Total Units Sold	x
Average Sales Price (Products)	BR 100
Average Sales Price (Private Label)	BRL 87
Products Revenue	83.5x
Private Label Revenue	6.3x
Total Revenue	**89.8x**
% COGS (Products)	*59.2%*
% COGS (Private Label)	*43.3%*
COGS (Products)	49.5x
COGS (Private Label)	2.7x
Total COGS	**52x**
Gross Profit (Products)	34x
Gross Margin	*40.8%*
Gross Profit (Private Label)	3.6x
Gross Margin	*56.7%*
Gross Profit	**38x**
Gross Margin	*41.9%*

Change in Gross Margin -5.4%

Average Discount	0%
Cobasi	
Sales Mix	
Products	100%
Total Units Sold	X
Average Sales Price	BRL 100
Products Revenue	100.0x
Total Revenue	**100.0x**
% COGS	*59.9%*
COGS	59.9x
Total COGS	**59.9x**
Gross Profit	**40x**
Gross Margin	*40.1%*

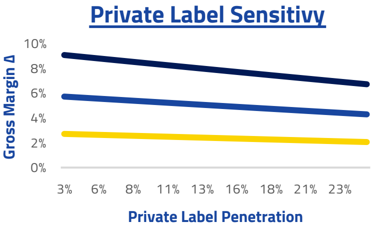
Average Discount	10%
Cobasi	
Sales Mix	
Products	100%
Total Units Sold	x
Average Sales Price	BRL 90
Products Revenue	90.0x
Total Revenue	**90.0x**
% COGS	*66.6%*
COGS	59.9x
Total COGS	**59.9x**
Gross Profit	**30x**
Gross Margin	*33.4%*

Change in Gross Margin -6.7%

Average Discount	0%
Petlove	
Sales Mix	
Products	100.0%
Total Units Sold	x
Average Sales Price	BRL 100
Products Revenue	100.0x
Total Revenue	**100.0x**
% COGS	*71.0%*
COGS	71.0x
Total COGS	**71.0x**
Gross Profit	**29x**
Gross Margin	*29.0%*

Average Discount	10%
Petlove	
Sales Mix	
Products	100.0%
Total Units Sold	x
Average Sales Price	BRL 90
Products Revenue	90.0x
Total Revenue	**90.0x**
% COGS	*78.9%*
COGS	71.0x
Total COGS	**71.0x**
Gross Profit	**19x**
Gross Margin	*21.1%*

Change in Gross Margin -7.9%



In this way, the team was able to see the actual value of an increased private-label penetration, which is the main factor that guarantees a lower variation in gross margin for the company. We replicated the following model numerous times, creating a sensitivity analysis that shows the variation in gross margin according to the increase in Petz's private label penetration.

Source: Company's Data

Appendix R – Corporate Governance

On the question regarding Petz's management, we see an excellent and well-aligned team, as commented in our ESG analysis. However, some people are seen as key to the future of the company, such as Claudio Roberto Ely (former CEO of Raia Drogasil) and Irlau Machado Filho (CEO of NotreDame Intermédica). They bring to the company expertise in the national expansion and verticalization of companies in the healthcare segment.

At this point of critical people, we see as the most important point for Petz its strategy committee, which encompasses the main names for the future of the company's national and international expansion, as shown in the table.

Name	Position	Background
Claudio Roberto Ely	CFO, IRO and *Independent Member*	Mr. Claudio is a sênior consultant at Warburg Pincus. Prior to that, Mr. Ely was CEO at Drogasil S.A., where he led the company's IPO process in 2007 and participated in the merger of Drogasil with Raia S.A., which resulted in Raiadrogasil S.A., Brazil's largest pharmacy.
Aline Ferreira Pena	CFO and IRO	Mrs. Aline has almost 20 years of experience, having been, prior to joining the Company, Executive Director of Strategy at Arezzo&Co, where she worked for around 5 years. Mrs. Aline also has 14 years of experience in the Financial Market including PE, M&A and Equity research.
Eduardo Terra	*Independent Member*	Mr. Terra has been serving as deliberative advisor to Savegnago Supermercados since 2014 and to Lopes Supermercado since 2016. He also serves at the strategy and innovation committee of Center Norte since 2017 and at the advisory board of Extrafarma / Grupo Ultra since 2018.
Sergio Zimerman	CEO and Board Member	Mr. Zimerman is CEO and founder. As founder and CEO, he has led the initial expansion, which in ten years reached the mark of 27. Now Petz has 115 stores and Mr. Zimerman intends to transform Petz into the largest and best chain of pet shops in Latin America.
Gregory Louis Reider	Board Member	Mr. Gregory holds bachelor's degrees in Economics and International Relations from the Yale College. Mr. Gregory Louis Reider is senior consultant at Warburg Pincus. Prior to that, he was Principal at Warburg Pincus from 2012 to 2020.
Luciano Rocha Sessim	Board Member	Mr. Sessim, prior to joining Petz, served as an officer at Walmart. He joined Petz in 2015 as the executive officer of trade, marketing, and foreign trade, where he implemented several strategic plans increasing store productivity and commercial margins in 1000 bps in the past five years.
Valéria Pires Corrêa	Officer	Ms. Corrêa holds a bachelor's degree in veterinary medicine, a master's degree in veterinary clinic surgery and a Ph.D. in experimental physiopathology from the University de São Paulo. She joined us in 2004 and she now serves as technical director of Seres.

Appendix S – International Approach

Source: Team 7

To better understand how the Brazilian market will perform, we tried to look at the two countries with the best development of the megastore model, the US, and the UK. Thus, we made a comparison between the markets and the dominance of the leading players in this environment:

USA: In the United States, we see one of the largest pet markets in the world. However, the story was not always like this. In the early 1980s, the US pet market was dominated by local players and food retailers, which were the big news at the time. This led to the emergence of two large megastore chains, PetSmart and PetCo, fighting for market dominance by aggressively opening stores across the country (PetSmart currently has 1,278 stores across the country, while PetCo has approximately 1,200). That said, both companies have achieved a relevant history of market share, reaching 40.3% for PetSmart and 19.5% for PetCo. However, the scenario for both companies was once better. With the arrival of the COVID-19 crisis, there was an acceleration of purely online and omnichannel services, which caused the two industry leaders a considerable lost share to the new entrant Chewy (a company that PetSmart had already acquired last year).In this aspect, we draw a parallel with the North American market, given that the consolidation that started to occur 40 years ago is happening in Brazil, with some slight differences.

We believe that a purely digital player such as Chewy and Amazon have ascended due to a window of opportunity created by the combination of: (I) underdeveloped Ominichannel by dominant players and (II) well-developed logistics network in the US (III) high e-commerce penetration in the country. These factors are not observed both individually and in combination in the Brazilian scenario, supporting our thesis that Petz with its more Asset heavy model appears well positioned in the online sales channel.

UK: In UK's market, we see a remarkable parallel to be drawn, mainly with the market, which is very similar to what we believe the Brazilian market will be after consolidation, with a residual share of mom & pop channels and food retailers in the future due to the high capillarity of these channels. Furthermore, we see a profound similarity between Pets at Home and Petz, which can be used as a comparison player for future projections.

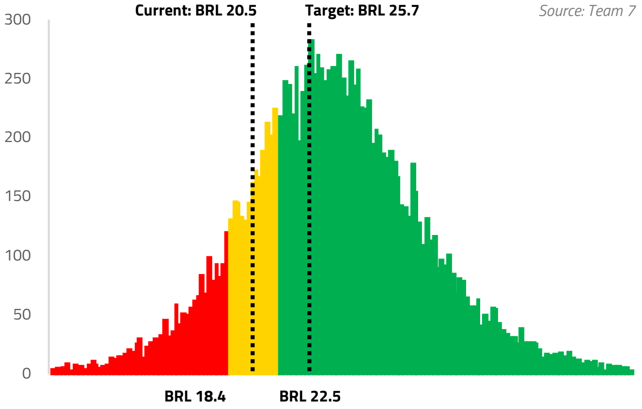
Thus, the team decided to do authorial field research using our contacts in one of the Pets at Home stores in Worthing, West Sussex. As a result, we could perceive three points that bring Petz and Pets at Home closer together: (I) Pets at Home has a much more extensive range of private label products (44% of the company's total revenue) than Petz; (II) Both companies have grooming, adoptions and veterinary services in their portfolio as a way to generate cross-sell and increase customer loyalty; (III) Both companies have a very similar business model with big stores and omnichannel approach, the most significant difference is in the moment of consolidation of both companies (Pets at Home has opened more small superstore stores, which have 350 sqm).

Appendix T – Monte Carlo Simulation

	[Unit]	21E	22E	23E	24E	25E	26E	27E	28E	29E	30E
Gross Revenue	[BRL mn]										
Average	*[%]*	*34%*	*34%*	*34%*	*31%*	*33%*	*33%*	*31%*	*28i%*	*29%*	*27%*
Std. Dev.	*[%]*	*9%*	*9%*	*9%*	*5%*	*5%*	*5%*	*3%*	*2%*	*2%*	*0%*
Deductions	[BRL mn]										
Average	*[%]*	*-16%*	*-16%*	*-16%*	*-16%*	*-16%*	*-16%*	*-16%*	*-16%*	*-16%*	*-16%*
Std. Dev.	*[%]*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
COGS	[BRL mn]										
Average	*[%]*	*-53%*	*-53%*	*-53%*	*-54%*	*-54%*	*-54%*	*-55%*	*-55%*	*-54%*	*-54%*
Std. Dev.	*[%]*	*2%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*0%*	*0%*
SG&A	[BRL mn]										
Average	*[%]*	*-33%*	*-31%*	*-29%*	*-29%*	*-29%*	*-29%*	*-29%*	*-30%*	*-30%*	*-30%*
Std. Dev.	*[%]*	*3%*	*3%*	*1%*	*1%*	*1%*	*1%*	*0%*	*0%*	*0%*	*0%*
D&A	[BRL mn]										
Average	*[%]*	*-7%*	*-7%*	*-8%*	*-8%*	*-8%*	*-7%*	*-7%*	*-6%*	*-8%*	*-5%*
Std. Dev.	*[%]*	*3%*	*3%*	*4%*	*4%*	*4%*	*5%*	*6%*	*5%*	*5%*	*5%*

Recommendation	Simulations	Results
BUY	10,259	68%
HOLD	1,595	11%
SELL	3146	21%

Mean Price
BRL 30.2



Source: Team 7

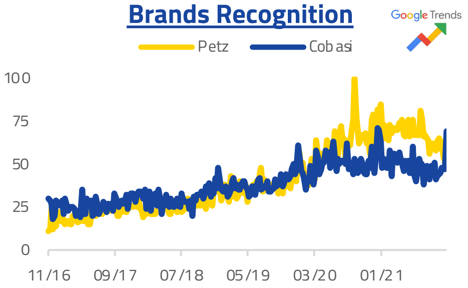
Appendix U – "What if?" Analysis

Source: Diário Oficial; Team 7

We understand that in a highly pulverized sector, the possibility of a merger between the two most prominent players is exceptionally high, given that both today represent only 11.5% of the market share (in this case, CADE won't be barrier). Thus, we decided to simulate a merger between Petz and Cobasi as a brainstorming exercise.

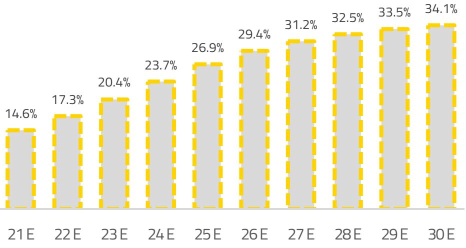
Together the brands would have 292 stores, with exceptional bargaining power with suppliers and high capillarity in the state of São Paulo, which would help facilitate the national expansion plan, with an opening of 60-80 stores per year. In addition, we see many synergies in this merger, a cost-cutting of Cobasi's veterinary services, implementation of private label at Cobasi, as well as cuts with SG&A.

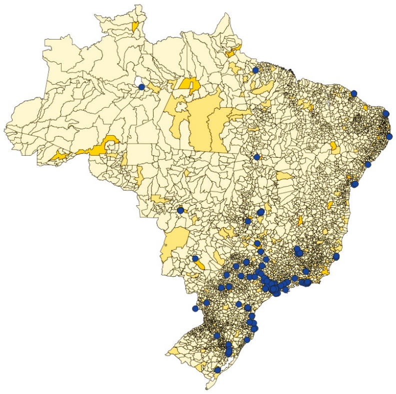
Therefore, we made some assumptions to project the merger. First, we considered that both brands should be maintained independently, given the relevance of both in the national scenario. The second point was to assume a 100% stock merger, given that this is the most likely scenario to occur, with the Cobasi's management staying in the NewCo. Finally, we thought that Cobasi should grow at the same pace as Petz in this expansion across the country.


Brands Recognition

Scenario: Transaction's Assumptions 100-0				
Premium per Share	**20%**	**25%**	**30%**	**35%**
Petz EBIT	165,726	165,726	165,726	165,726
Cobasi EBIT	162,706	162,706	162,706	162,706
Synergies	206,947	206,947	206,947	206,947
Pro Forma EBIT	**535,379**	**535,379**	**535,379**	**535,379**
Net Interest Expense	-71,100	-74,655	-78,210	-81,765
Pro Forma EBT	**464,279**	**460,724**	**457,169**	**453,614**
Income Tax Expenses	-157,855	-156,646	-155,437	-154,229
Pro Forma Net Income	**306,424**	**304,078**	**301,731**	**299,385**
Petz Net Income	**103,530**	**103,530**	**103,530**	**103,530**
Petz Shares O/S	393,991	393,991	393,991	393,991
Cobasi Diluted Share O/S	36,328	37,842	39,356	40,869
Pro Forma Shares O/S	**430,319**	**431,833**	**433,347**	**434,861**
Petz EPS	0.3	0.3	0.3	0.3
Pro Forma EPS	0.7	0.7	0.7	0.7
A/D - $	0.4	0.4	0.4	0.4
A/D - %	**171.0%**	**168.0%**	**165.0%**	**162.0%**
	Accretive	*Accretive*	*Accretive*	*Accretive*

Valuation	Petz	Cobasi	Adjustments	NewCo.
EBITDA 21E	255,242	201,361	132,583	585,783
EV/EBITDA 21E	34x	33x	-	-
Enterprise Value	**8,797,614**	**6,581,499**	**-**	**20,753,577**
Net Debt 20' + M&A	1,342,640	141,606	-	1,484,246
Equity Value	**10,140,254**	**6,439,893**	**-**	**22,237,823**
Price per Share (BRL/ share)	25.7	222.1	-	52.4


New Co. Market Share

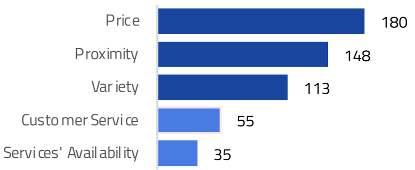

New Co. Stores Distribution

Appendix V – Field Research Highlights

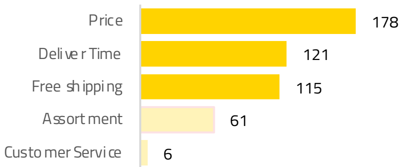
Source: Team 7

Seeking to understand consumer preferences, we conducted a field research with 336 respondents from 15 Brazilian states. Respondents were asked about the average monthly cost per pet, and a median spending range was found to be BRL 200- BRL 300 per month. In addition, we asked respondents to choose two out of five priority purchase factors for physical and online. In general, price and speed mattered most to the consumer in both cases. However, when we segment the results by spending ranges, it is possible to observe a reduction in the importance of price and an increase in the importance of speed and assortment. Thus, we can observe that, with the growth of the premium products market, logistics will be essential to win over this consumer, giving a potential advantage to larger scale players.

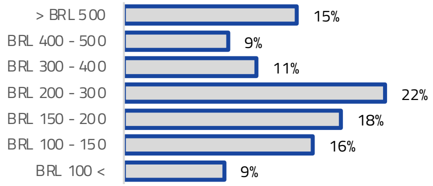
Customers' Priorities (Physical)



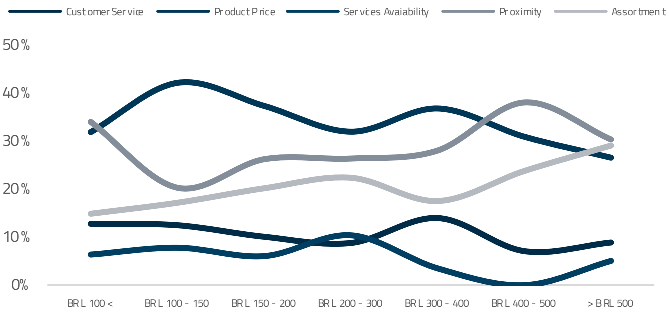
Customers' Priorities (Online)



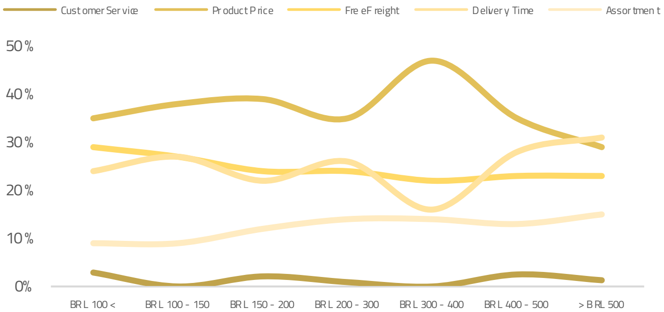
Average Spending per pet



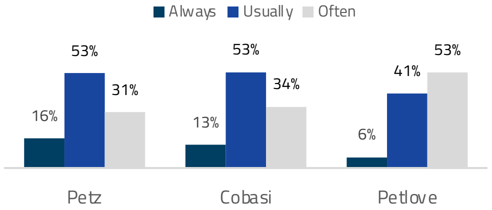
Physical Customers' Priority per Spending (Physical)



Physical Customers' Priority per Spending (Online)



How often do you choose your store of preference?



What is your second choice when you don't buy on your preference store?

Second Option

Preference Store	Petz	Cobasi	Petlove
Petz	N.A	23%	14%
Cobasi	43%	N.A	11%
Petlove	35%	29%	N.A

In addition, we used field research to test consumer loyalty to each brand. We asked the respondent's store of preference and then whether the consumer always chooses the mentioned establishment. We saw that the customers who prefer Petz are the most loyal, 16.4% said they always buy at the store, against 12.8% for Cobasi and 5.9% for Petlove. Furthermore, we saw that when Petz is not the first option, it is the second in most cases, both for Cobasi and Petlove. We believe that this result shows that there is difficulty in keeping the customer, but that among the big players, Petz is superior in this aspect.

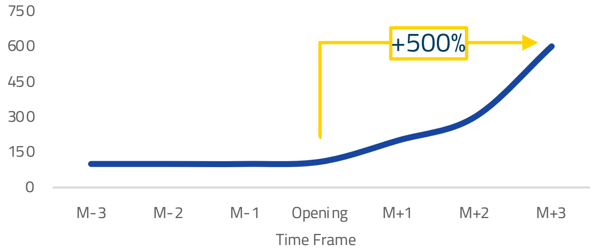
Appendix W – Multiples Comparison

Source: Refinitiv; Team 7

October 22, 2021		Market Cap	Net Debt	EV	EV / EBITDA			P / E			P/B	Revenue CAGR	EBITDA CAGR	EBITDA Margin	ROE	ROIC
	Country	Local Currency	Local Currency	Local Currency	21E	22E	23E	21E	22E	23E	LTM	21-23E	21-23E	21-23E	LTM	LTM
Brazilian Retailers																
Petz (Consensus)	Brazil	$7,291	$1,411	$8,702	30.5x	20.7x	14.1x	94.6x	62.3x	38.7x	14.2x	35.7%	47.4%	14.9%	16.9%	13.7%
Petz (Team Estimates)	Brazil	$7,291	$1,411	$8,702	34.1x	24.2x	17.2x	70.4x	55.6x	37.7x	-	31.4%	40.8%	11.9%	16.9%	13.7%
Magazine Luiza	Brazil	$82,823	$3,599	$86,422	39.7x	29.4x	21.2x	116.3x	79.0x	54.7x	11.0x	21.8%	36.8%	6.5%	10.6%	10.6%
Renner	Brazil	$30,004	$261	$30,265	18.0x	12.3x	10.0x	44.4x	26.9x	21.6x	3.2x	16.0%	34.3%	19.9%	4.3%	9.1%
Quero Quero	Brazil	$2,510	$168	$2,678	11.7x	9.2x	7.7x	26.3x	19.1x	14.7x	4.9x	24.3%	23.5%	11.6%	28.0%	21.1%
Raia Drogasil	Brazil	$35,302	$5,021	$40,323	18.5x	15.3x	12.1x	39.3x	30.9x	23.7x	7.6x	15.3%	24.0%	9.6%	17.0%	12.6%
Median					**19.7x**	**15.0x**	**11.4x**	**55.6x**	**36.4x**	**25.7x**	**9.3x**	**23.1%**	**35.5%**	**13.2%**	**16.9%**	**13.2%**
Mean					**23.2x**	**16.9x**	**12.6x**	**64.6x**	**43.4x**	**30.2x**	**9.2x**	**24.3%**	**34.3%**	**13.6%**	**15.3%**	**13.5%**
Global Pet Retailers																
Pets at Home	UK	$2,341	$401	$2,742	10.7x	10.0x	9.5x	23.0x	20.4x	19.4x	2.4x	4.4%	6.3%	21.4%	10.3%	7.5%
Central Garden & Pet	USA	$2,529	$669	$3,198	10.1x	9.0x	8.6x	18.0x	16.1x	15.0x	2.2x	2.8%	8.2%	10.2%	14.6%	12.4%
Petiq Inc	USA	$733	$443	$1,176	12.8x	10.6x	9.1x	24.0x	15.9x	11.7x	2.8x	13.1%	18.4%	11.2%	n.a.	n.a.
Pet Valu	CAD	$2,079	$587	$2,666	16.8x	15.8x	14.3x	38.1x	26.1x	23.0x	n.a.	8.7%	8.2%	21.6%	n.a.	40.8%
Chewy	USA	$27,363	($725)	$26,638	135.5x	75.9x	46.9x	964.7x	212.4x	89.4x	364.6x	23.4%	70.0%	4.0%	n.a.	n.a.
PetMed Express	USA	$548	($112)	$436	10.9x	12.8x	10.8x	23.1x	20.9x	17.4x	3.9x	0.8%	0.0%	12.4%	20.0%	68.5%
PetCo	USA	$7,153	$1,448	$8,601	15.4x	14.4x	13.8x	27.9x	26.9x	25.2x	3.3x	4.9%	5.6%	23.9%	5.9%	n.a.
Median					**12.8x**	**12.8x**	**10.8x**	**24.0x**	**20.9x**	**19.4x**	**3.0x**	**4.9%**	**8.2%**	**12.4%**	**12.5%**	**26.6%**
Mean					**30.3x**	**21.2x**	**16.1x**	**159.8x**	**48.4x**	**28.7x**	**63.2x**	**8.3%**	**16.7%**	**14.9%**	**12.7%**	**32.3%**

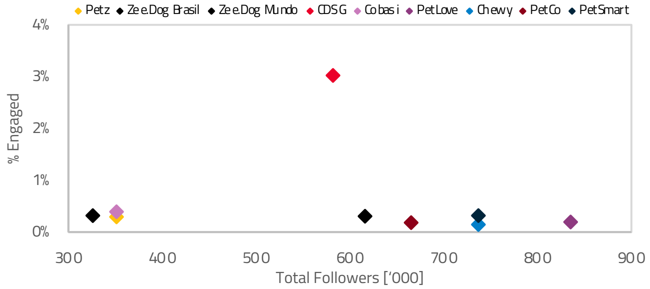
Appendix X – Impact of New Locations

Digital Sales Performance Post-Store Opening (base 100)



Source: Company's Data

Appendix Y – Brands Engagement on Instagram



Source: SocioBlade