



Pet Valu Reports Third Quarter 2024 Results

November 5, 2024

Grows Revenue by 5%, Increases Adjusted EBITDA⁽¹⁾ by 13%, and Narrows 2024 Outlook

MARKHAM, ON, Nov. 5, 2024 /CNW/ - Pet Valu Holdings Ltd. ("Pet Valu" or the "Company") (TSX: PET), the leading Canadian specialty retailer of pet food and pet-related supplies, today announced its financial results for the third quarter ended September 28, 2024.



Third Quarter Highlights

- System-wide sales⁽²⁾ were \$358.2 million, an increase of 0.3% versus Q3 2023. Same-store sales growth⁽²⁾ was -2.5%.
- Revenue was \$276.0 million, up 5.2% versus Q3 2023.
- Adjusted EBITDA was \$64.6 million, up 13.0% versus Q3 2023, representing 23.4% of revenue. Operating income was \$40.4 million, up 8.0% versus Q3 2023.
- Net income was \$23.2 million, up from \$18.0 million in Q3 2023.
- Adjusted Net Income⁽¹⁾ was \$29.9 million or \$0.41 per diluted share, compared to \$28.2 million or \$0.39 per diluted share, respectively, in Q3 2023.
- Opened 6 new stores and ended the quarter with 805 stores across the network.
- Officially opened the new Metro Vancouver Region ("MVR") distribution centre.
- The Board of Directors of the Company declared a dividend of \$0.11 per common share.

2024 Outlook

- The Company expects revenue between \$1.08 and \$1.10 billion, supported by approximately 40 new store openings and flat same-store sales growth, Adjusted EBITDA between \$243 and \$246 million, and Adjusted Net Income per Diluted Share⁽³⁾ between \$1.50 and \$1.53.

"Third quarter performance tells a story of continued resilience and responsible execution as we delivered 5% revenue growth and 13% Adjusted EBITDA growth in a constrained demand environment," said Richard Maltsbarger, Chief Executive Officer of Pet Valu. "We also reached an important milestone in our supply chain transformation with the successful transition and start-up of our new Surrey DC, unlocking incremental capacity and productivity in Western Canada.

"As we ramp up for the holidays, our merchandising and marketing teams have crafted an exciting slate of events delivering value and expertise to devoted pet lovers when they need it most," continued Mr. Maltsbarger. "Supported by hundreds of local stores, a sharpened digital platform and an enhanced supply chain network, our curated offering of competitively priced premium products will help inspire magical holiday moments with pets."

Financial Results for the Third Quarter Fiscal 2024

All comparative figures below are for the 13-week period ended September 28, 2024, compared to the 13-week period ended September 30, 2023.

Revenue was \$276.0 million in Q3 2024, an increase of \$13.7 million, or 5.2%, compared to \$262.3 million in Q3 2023. The increase in revenue was mostly driven by growth in franchise and other revenues and partially offset by a decline in retail sales.

Same-store sales growth was -2.5% in Q3 2024 primarily driven by a 4.1% decrease in same-store transaction growth⁽²⁾ partially offset by a 1.7% increase in same-store average spend per transaction growth⁽²⁾. This is compared to same-store sales growth of 4.2% in Q3 2023, which primarily consisted of 4.0% increase in same-store average spend per transaction growth and a 0.2% increase in same-store transaction growth.

Gross profit increased by \$2.1 million, or 2.4%, to \$89.4 million in Q3 2024, compared to \$87.3 million in Q3 2023. Gross profit margin was 32.4% in Q3 2024, compared to 33.3% in Q3 2023. Excluding costs related to the supply chain transformation of 1.1% in Q3 2024 and 1.8% in Q3 2023, the gross profit margin was 33.5% and 35.1% in Q3 2024 and Q3 2023, respectively, and decreased by 1.6%. The decrease was primarily driven by: (i) higher distribution and occupancy costs from the new Greater Toronto Area ("GTA") and MVR distribution centres; (ii) higher wholesale merchandise sales; and (iii) the unfavourable impact of the weaker Canadian dollar on non-domestic sourced products primarily denominated in U.S. dollars; partially offset by (iv) the allocation of promotional funding.

Selling, general and administrative ("SG&A") expenses were \$49.0 million in Q3 2024, a decrease of \$0.9 million, or 1.8%, compared to \$49.9 million in Q3 2023. SG&A expenses represented 17.8% and 19.0% of total revenue for Q3 2024 and Q3 2023, respectively. The decrease of \$0.9 million in SG&A expenses was primarily due to: (i) higher gain on sale of assets for re-franchised stores; (ii) lower real estate related expenses; and (iii) lower technology expenditures on project-based implementation costs associated with new information technology systems; partially offset by (iv) increased compensation costs as a result of share-based compensation.

Adjusted EBITDA increased by \$7.4 million, or 13.0%, to \$64.6 million in Q3 2024, compared to \$57.2 million in Q3 2023. The increase is explained by higher EBITDA⁽¹⁾ of \$8.8 million partially offset by \$1.4 million of net lower adjustments from EBITDA for Q3 2024 compared to Q3 2023 including the share of loss from an investment in associate in Q3 2023, lower information technology transformation costs, gain on foreign exchange; and higher business transformation, share-based compensation, and other professional fees. Adjusted EBITDA as a percentage of revenue⁽³⁾ was 23.4% and 21.8% in Q3 2024 and Q3 2023, respectively.

Net interest expense was \$8.3 million in Q3 2024, an increase of \$0.2 million, or 2.4%, compared to \$8.1 million in Q3 2023. The increase was primarily driven by higher interest expense on lease liabilities resulting primarily from the new MVR distribution centre; partially offset by lower interest expense on the 2021 Term Facility (as herein defined) resulting from lower debt outstanding and lower interest rates compared to Q3 2023.

Income taxes were \$9.0 million in Q3 2024 compared to \$7.9 million in Q3 2023, an increase of \$1.1 million year over year. The increase in income taxes was primarily the result of higher taxable earnings in Q3 2024. The effective income tax rate was 27.9% in Q3 2024 compared to 30.4% in Q3 2023. The Q3 2024 and Q3 2023 effective tax rate was higher than the blended statutory rate of 26.5% due to non-deductible expenses and, in addition for Q3 2023, due to the impairment of an investment in associate.

Net income increased by \$5.2 million to \$23.2 million in Q3 2024, compared to \$18.0 million in Q3 2023. The increase in net income is primarily explained by the higher operating income partially offset by higher income taxes and net interest expense, as described above, and by the impairment related to an investment in associate included in Q3 2023.

Adjusted Net Income increased by \$1.7 million to \$29.9 million in Q3 2024, compared to \$28.2 million in Q3 2023. Adjusted Net Income as a percentage of revenue⁽³⁾ was 10.8% in Q3 2024 and in Q3 2023, respectively. The year over year change results from the factors described above and the adjustment for the duplicative depreciation expense on property and equipment and right-of-use assets, and interest expense on lease liabilities related to the supply chain transformation initiatives in Q3 2024.

Adjusted Net Income per Diluted Share increased by \$0.02 to \$0.41 in Q3 2024, compared to \$0.39 in Q3 2023. The 5.1% year over year increase results primarily from the changes in Adjusted Net Income and the factors described above.

Cash at the end of the third quarter totaled \$35.4 million.

Free Cash Flow⁽¹⁾ amounted to \$30.8 million in Q3 2024 compared to \$18.1 million in Q3 2023, an increase of \$12.7 million primarily driven by an increase in cash from operating activities and a decrease in cash used for investing activities; partially offset by an increase in payments of principal and interest on lease liabilities due to the timing of quarter end in Q3 2023, the new GTA and MVR distribution centres and store network expansion.

Inventory at the end of Q3 2024 was \$134.8 million compared to \$122.1 million at the end of Q4 2023, an increase of \$12.7 million primarily to support the growth of our store network, and due to timing of purchases.

Dividends

On November 4, 2024, the Board of Directors of the Company declared a dividend of \$0.11 per common share payable on December 16, 2024 to holders of common shares of record as at the close of business on November 29, 2024.

Outlook

Factoring in YTD 2024 performance, together with market conditions and actions planned in the fourth quarter, the Company expects to achieve the following for full year 2024:

- Revenue between \$1.08 and \$1.10 billion, supported by approximately 40 new store openings, higher wholesale merchandise sales penetration with Chico franchisees, and approximately flat same-store sales growth;
- Adjusted EBITDA between \$243 and \$246 million, supported by operating expense leverage, partially offset by pricing investment;
- Adjusted Net Income per Diluted Share between \$1.50 and \$1.53, which incorporates approximately \$20 million pre-tax, or \$0.20 per diluted share, of incremental depreciation and lease liability interest expense associated with the new GTA and MVR distribution centres;
- Business transformation costs of approximately \$17 million pre-tax, information technology costs of approximately \$7 million pre-tax, and share-based compensation of approximately \$10 million pre-tax, all of which are excluded from Adjusted EBITDA and Adjusted Net Income per Diluted Share; and
- Net Capital Expenditures⁽¹⁾ of approximately \$50 million, roughly half of which is attributable to investments in the Company's supply chain transformation.

⁽¹⁾ This is a non-IFRS financial measure. Non-IFRS financial measures are not recognized measures under IFRS and do not have standardized meanings prescribed by IFRS. They are therefore unlikely to be comparable to similar measures presented by other companies. Refer to "Non-IFRS and Other Financial Measures" and "Selected Consolidated Financial Information" below for a reconciliation of the non-IFRS measures (except for Net Capital Expenditures) used in this release to the most comparable IFRS measures. Also refer to the sections entitled "How We Assess the Performance of our Business", "Non-IFRS and Other Financial Measures" and "Selected Consolidated Financial Information and Industry Metrics" in the MD&A for the third quarter ended September 28, 2024, incorporated by reference herein, for further details concerning EBITDA, Adjusted EBITDA, Adjusted Net Income, Free Cash Flow, and Net Capital Expenditures including definitions and reconciliations to the relevant reported IFRS measure.

⁽²⁾ This is a supplementary financial measure. Refer to "Non-IFRS and Other Financial Measures" below and to the section entitled "How We Assess the Performance of our Business" in the MD&A for the third quarter ended September 28, 2024 for the definitions of supplementary financial measures.

⁽³⁾ This is a non-IFRS ratio. Non-IFRS ratios are not recognized measures under IFRS and do not have standardized meanings prescribed by IFRS. They are therefore unlikely to be comparable to similar measures presented by other companies. Refer to "Non-IFRS and Other Financial Measures" below and to the section entitled "How We Assess the Performance of our Business" in the MD&A for the third quarter ended September 28, 2024 for the definitions of non-IFRS ratios and each non-IFRS measure that is used as a component of such non-IFRS ratios.

Conference Call Details

A conference call to discuss the Company's third quarter results is scheduled for November 5, 2024, at 8:30 a.m. ET. To access Pet Valu's conference call, please dial 1-833-950-0062 (ID: 638652). A live webcast of the call will also be available through the Events & Presentations section of the Company's website at <https://investors.petvalu.com/>.

For those unable to participate, a playback will be available shortly after the conclusion of the call by dialing 1-866-813-9403 (ID: 921635) and will be accessible until November 12, 2024. The webcast will also be archived and available through the Events & Presentations section of the Company's website at <https://investors.petvalu.com/>.

About Pet Valu

Pet Valu is Canada's leading retailer of pet food and pet-related supplies with over 800 corporate-owned or franchised locations across the country. For more than 45 years, Pet Valu has earned the trust and loyalty of pet parents by offering knowledgeable customer service, a premium product offering and engaging in-store services. Through its neighbourhood stores and digital platform, Pet Valu offers more than 10,000 competitively-priced products, including a broad assortment of premium, super premium, holistic and award-winning proprietary brands. The Company is headquartered in Markham, Ontario and its shares trade on the Toronto Stock Exchange (TSX: [PET](#)). To learn more, please visit: www.petvalu.ca.

Non-IFRS and Other Financial Measures

This press release makes reference to certain non-IFRS measures and non-IFRS ratios. These measures and ratios are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS. They are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement IFRS measures by providing further understanding of the Company's results of operations from management's perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of the Company's financial information reported under IFRS. Pet Valu uses non-IFRS measures, including "EBITDA", "Adjusted EBITDA", "Adjusted Net Income", "Free Cash Flow" and "Net Capital Expenditures", and non-IFRS ratios, including "Adjusted EBITDA as a percentage of revenue", "Adjusted Net Income as a percentage of revenue", and "Adjusted Net Income per Diluted Share". This press release also makes reference to certain supplementary financial measures that are commonly used in the retail industry, including "System-wide sales", "Same-store sales", "Same-store sales growth", and "Same-store average spend per transaction growth". These non-IFRS measures, non-IFRS ratios and supplementary financial measures are used to provide investors with supplemental measures of Pet Valu's operating performance and thus highlight trends in its core business that may not otherwise be apparent when relying solely on IFRS financial measures. The Company also believes that securities analysts, investors and

other interested parties frequently use non-IFRS measures, non-IFRS ratios and these supplementary financial measures in the evaluation of issuers. Management uses non-IFRS measures, non-IFRS ratios and supplementary financial measures in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and to determine components of management compensation. Refer to the MD&A for the third quarter ended September 28, 2024 for further information on non-IFRS measures, non-IFRS ratios (including each non-IFRS measure that is used as a component of such non-IFRS ratios) and supplementary measures, including for their definition and, for non-IFRS measures, a reconciliation to the most comparable IFRS measure.

Forward-Looking Information

Some of the information contained in this press release is forward-looking information. Forward-looking information is provided as at the date of this press release and is based on management's opinions, estimates and assumptions in light of its experience and perception of historical trends, current trends, current conditions and expected future developments, as well as other factors that management believes appropriate and reasonable in the circumstances. Such forward-looking information is intended to provide information about management's current expectations and plans, and may not be appropriate for other purposes. Pet Valu does not undertake to update any such forward-looking information whether as a result of new information, future events or otherwise, except as required under applicable Canadian securities laws. Actual results and the timing of events may differ materially from those anticipated in the forward-looking information as a result of various factors. Particularly, information regarding our expectations of future results, targets, performance achievements, prospects or opportunities, including the information under the headings "2024 Outlook" and "Outlook" in this press release, is "future-oriented financial information" or a "financial outlook" within the meaning of applicable securities legislation, which is based on the factors and assumptions, and subject to the risks, as set out herein and in the Company's annual information form dated March 4, 2024 ("AIF"). In some cases, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "targets", "expects" or "does not expect", "is expected", "an opportunity exists", "budget", "scheduled", "estimates", "outlook", "forecasts", "projection", "prospects", "strategy", "intends", "anticipates", "does not anticipate", "believes", "continue", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "should", "might", "will", "will be taken", "occur" or "be achieved". In addition, any statements that refer to expectations, intentions, projections or other characterizations of future events or circumstances contain forward-looking information.

Many factors could cause our actual results, level of activity, performance or achievements, future events or developments, or outlook to differ materially from those expressed or implied by the forward-looking information, including, without limitation, the factors discussed in the "Risk Factors" section of the AIF. A copy of the AIF and the Company's other publicly filed documents can be accessed under the Company's profile on SEDAR+ at www.sedarplus.ca.

The Company cautions that the list of risk factors and uncertainties described in the AIF is not exhaustive and other factors could also adversely affect its results. Readers are urged to consider the risks, uncertainties and assumptions carefully in evaluating forward-looking information and are cautioned not to place undue reliance on such information.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

Condensed Interim Consolidated Statements of Income and Comprehensive Income

(Unaudited, expressed in thousands of Canadian dollars, except per share amounts)

	Quarters Ended		Year to Date Ended	
	September 28, 2024 13 weeks	September 30, 2023 13 weeks	September 28, 2024 39 weeks	September 30, 2023 39 weeks
Revenue:				
Retail sales	\$ 99,962	\$ 106,708	\$ 300,428	\$ 311,739
Franchise and other revenues	176,068	155,586	501,616	457,220
Total revenue	276,030	262,294	802,044	768,959
Cost of sales	186,651	174,977	537,621	502,323
Gross profit	89,379	87,317	264,423	266,636
Selling, general and administrative expenses	49,023	49,947	156,972	154,175
Total operating income	40,356	37,370	107,451	112,461
Interest expenses, net	8,326	8,128	25,551	22,190
(Gain) loss on foreign exchange	(100)	246	571	444
Other loss	—	3,160	—	4,718
Income before income taxes	32,130	25,836	81,329	85,109

Income tax expense	8,972	7,860	22,814	24,326
Net income	23,158	17,976	58,515	60,783

Other comprehensive income, net of tax:

Currency translation adjustments that may be reclassified to net income, net of tax	—	(25)	—	18
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Comprehensive income for the period attributable to the shareholders of the Company \$	23,158 \$	17,951 \$	58,515 \$	60,801
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Basic net income per share attributable to the common shareholders	\$ 0.32	\$ 0.25	\$ 0.82	0.85
Diluted net income per share attributable to the common shareholders	\$ 0.32	\$ 0.25	\$ 0.81	0.84

Reconciliation of Net Income to EBITDA and Adjusted EBITDA

(Unaudited, in thousands of Canadian dollars unless otherwise noted)

	Quarters Ended		Year to Date Ended	
	September 28, 2024	September 30, 2023	September 28, 2024	September 30, 2023
	13 weeks	13 weeks	39 weeks	39 weeks
Reconciliation of net income to Adjusted EBITDA:				
Net income	\$ 23,158	\$ 17,976	\$ 58,515	\$ 60,783
Depreciation and amortization	16,531	14,187	49,129	35,719
Interest expenses, net	8,326	8,128	25,551	22,190
Income tax expense	8,972	7,860	22,814	24,326
EBITDA	56,987	48,151	156,009	143,018
Adjustments to EBITDA:				
Information technology transformation costs ⁽¹⁾	681	1,294	5,154	2,445
Business transformation costs ⁽²⁾	4,643	3,124	9,152	5,652
Other professional fees ⁽³⁾	239	167	997	516
Share-based compensation ⁽⁴⁾	2,149	1,025	7,027	2,989
(Gain) loss on foreign exchange ⁽⁵⁾	(100)	246	571	444
Investment in associate ⁽⁶⁾	—	3,160	—	4,718
Adjusted EBITDA	\$ 64,599	\$ 57,167	\$ 178,910	\$ 159,782
Adjusted EBITDA as a percentage of revenue	23.4 %	21.8 %	22.3 %	20.8 %

Notes:

- (1) Represents discrete, project-based implementation costs associated with new information technology systems and discrete Software-as-a-Service ("SaaS") arrangements for transformational initiatives supporting merchandise planning, inventory and order management, e-commerce and omni-channel capabilities, customer relationship management and other key processes.
- (2) Represents expenses associated with supply chain transformation initiatives such as duplicative warehousing and distribution costs, implementation costs associated with new information technology systems and other transition costs incurred during the transition to a new distribution centre. The expenses included in cost of sales in Q3 2024 and YTD 2024 were \$2.3 million and \$4.4 million, respectively (Q3 2023 and YTD 2023 – \$2.1 million and \$2.6 million, respectively). The expenses included in selling, general, and administrative expenses in Q3 2024 and YTD 2024 were \$1.2 million and \$3.4 million, respectively (Q3 2023 and YTD 2023 – \$1.0 million and \$3.1 million, respectively). Additionally, business transformation costs include \$1.1 million and \$1.4 million of expenses predominantly related to a reorganization in the senior leadership team in Q3 2024 and YTD 2024, respectively (Q3 2023 and YTD 2023 - \$nil, respectively).
- (3) Professional fees primarily incurred with respect to: (i) the Canada Revenue Agency's ("CRA") examination of the Company's Canadian tax filings related to the 2016, 2018 and 2019 fiscal years; and (ii) professional fees incurred with respect to the secondary offerings of the Company's common shares completed on June 1, 2023 (the "2023 Secondary Offering") and May 15, 2024 (the "2024 Secondary Offering").
- (4) Represents share-based compensation in respect of our amended and restated share option plan, long-term incentive plan, and deferred share unit plan.
- (5) Represents foreign exchange gains and losses.
- (6) Represents the Company's share of loss from associate of \$3.2 million and \$3.4 million for Q3 2023 and YTD 2023, respectively and loss on the fair value of the related call option of \$nil and \$1.3 million for Q3 2023 and YTD 2023, respectively.

Reconciliation of Net Income to Adjusted Net Income

(Unaudited, in thousands of Canadian dollars unless otherwise noted)

	Quarters Ended		Year to Date Ended	
	September 28, 2024	September 30, 2023	September 28, 2024	September 30, 2023
	13 weeks	13 weeks	39 weeks	39 weeks
Reconciliation of net income to Adjusted Net Income:				
Net income	\$ 23,158	\$ 17,976	\$ 58,515	\$ 60,783
Adjustments to net income:				
Information technology transformation costs ⁽¹⁾	681	1,294	5,154	2,445
Business transformation costs ⁽²⁾	5,677	6,704	15,474	9,232
Other professional fees ⁽³⁾	239	167	997	516
Share-based compensation ⁽⁴⁾	2,149	1,025	7,027	2,989
(Gain) loss on foreign exchange ⁽⁵⁾	(100)	246	571	444
Investment in associate ⁽⁶⁾	—	3,160	—	4,718
Tax effect of adjustments to net income	(1,875)	(2,350)	(6,594)	(3,685)
Adjusted Net Income	\$ 29,929	\$ 28,222	\$ 81,144	\$ 77,442
Adjusted Net Income as a percentage of revenue	10.8 %	10.8 %	10.1 %	10.1 %
Adjusted Net Income per Diluted Share	\$ 0.41	\$ 0.39	\$ 1.12	\$ 1.07

Notes:

- (1) Represents discrete, project-based implementation costs associated with new information technology systems and discrete SaaS arrangements for transformational initiatives supporting merchandise planning, inventory and order management, e-commerce and omni-channel capabilities, customer relationship management and other key processes.
- (2) Represents expenses associated with supply chain transformation initiatives such as duplicative warehousing and distribution costs, implementation costs associated with new information technology systems, and other transition costs incurred during the transition to a new distribution centre. This also includes duplicative depreciation expense on property and equipment and right-of-use assets, and interest expense on lease liabilities. The expenses included in cost of sales in Q3 2024 and YTD 2024 were \$3.1 million and \$8.4 million, respectively (Q3 2023 and YTD 2023 – \$4.6 million and \$5.1 million, respectively). The expenses included in selling, general, and administrative expenses in Q3 2024 and YTD 2024 were \$1.2 million and \$3.4 million, respectively (Q3 2023 and YTD 2023 – \$1.0 million and \$3.1 million, respectively). The interest expense on the lease liability in Q3 2024 and YTD 2024 was \$0.3 million and \$2.3 million, respectively (Q3 2023 and YTD 2023 – \$1.0 million, respectively). Additionally, business transformation costs include \$1.1 million and \$1.4 million of expenses predominantly related to a reorganization in the senior leadership team in Q3 2024 and YTD 2024, respectively (Q3 2023 and YTD 2023 - \$nil, respectively).
- (3) Professional fees primarily incurred with respect to: (i) the CRA's examination of the Company's Canadian tax filings related to the 2016, 2018, and 2019 fiscal years; and (ii) professional fees incurred with respect to the 2023 Secondary Offering and 2024 Secondary Offering.
- (4) Represents share-based compensation in respect of our amended and restated share option plan, long-term incentive plan, and deferred share unit plan.
- (5) Represents foreign exchange gains and losses.
- (6) Represents the Company's share of loss from associate of \$3.2 million and \$3.4 million for Q3 2023 and YTD 2023, respectively and loss on the fair value of the related call option of \$nil and \$1.3 million for Q3 2023 and YTD 2023, respectively.

Condensed Interim Consolidated Statements of Cash Flows

(Unaudited, in thousands of Canadian dollars)

	Quarters Ended		Year to Date Ended	
	September 28, 2024	September 30, 2023	September 28, 2024	September 30, 2023
	13 weeks	13 weeks	39 weeks	39 weeks
Cash provided by (used in):				
Operating activities:				
Net income for the period	\$ 23,158	\$ 17,976	\$ 58,515	\$ 60,783
Adjustments for items not affecting cash:				
Depreciation and amortization	16,531	14,187	49,129	35,719
Deferred franchise fees	181	74	88	137
Gain on disposal of property and equipment	(1,200)	(1,017)	(2,810)	(1,321)
Loss on sale of right-of-use assets	(180)	155	(32)	689
(Gain) loss on foreign exchange	(100)	246	571	444
Loss on financial instruments	—	—	—	1,302
Share-based compensation expense	2,149	1,025	7,027	2,989
Share of loss from associate	—	3,160	—	3,416
Interest expenses, net	8,326	8,128	25,551	22,190
Income tax expense	8,972	7,860	22,814	24,326

Income taxes paid	(8,881)	(9,360)	(24,881)	(43,130)
Changes in non-cash operating working capital:				
Accounts receivable	979	(601)	(1,515)	(1,740)
Inventories	(1,150)	(4,261)	(12,505)	(16,541)
Prepaid expenses	10,155	(8,151)	8,023	(4,589)
Accounts payable and accrued liabilities	(3,241)	5,023	2,364	(4,544)
Net cash provided by operating activities	55,699	34,444	132,339	80,130
Financing activities:				
Proceeds from exercise of share options	3,270	5	4,089	4,349
Shares repurchased for cancellation	(2,043)	—	(2,043)	—
Dividends paid on common shares	(7,907)	(7,146)	(23,638)	(21,390)
Repayment of 2021 Term Facility	(4,437)	(4,438)	(13,312)	(41,312)
Interest paid on long-term debt	(8,493)	(3,797)	(19,805)	(7,664)
Repayment of principal on lease liabilities	(16,541)	(8,210)	(48,108)	(39,068)
Interest paid on lease liabilities	(5,865)	(4,554)	(17,494)	(11,151)
Standby letter of credit commitment fees	—	(209)	—	(872)
Net cash used in financing activities	(42,016)	(28,349)	(120,311)	(117,108)
Investing activities:				
Business acquisition, net of cash acquired	—	—	—	(3,000)
Purchases of property and equipment	(16,661)	(14,881)	(43,139)	(42,262)
Purchase of intangible assets	(254)	(714)	(1,518)	(2,689)
Proceeds on disposal of property and equipment	2,848	1,669	6,104	2,870
Right-of-use asset initial direct costs	(474)	(464)	(1,418)	(1,454)
Tenant allowances	177	537	1,046	1,185
Notes receivable	154	157	505	1,050
Lease receivables	8,890	7,692	25,829	22,269
Interest received on lease receivables and other	2,949	2,556	8,939	8,065
Repurchase of franchises	—	—	(971)	(512)
Net cash used in investing activities	(2,371)	(3,448)	(4,623)	(14,478)
Effect of exchange rate on cash	31	(113)	(419)	(237)
Net increase (decrease) in cash	11,343	2,534	6,986	(51,693)
Cash, beginning of period	24,087	8,807	28,444	63,034
Cash, end of period	\$ 35,430	\$ 11,341	\$ 35,430	\$ 11,341

Free Cash Flows

(Unaudited, expressed in thousands of Canadian dollars)

	Quarters Ended		Year to Date Ended	
	September 28,	September 30,	September 28,	September 30,
	2024	2023	2024	2023
	13 weeks	13 weeks	39 weeks	39 weeks
Cash provided by operating activities	\$ 55,699	\$ 34,444	\$ 132,339	\$ 80,130
Cash used in investing activities	(2,371)	(3,448)	(4,623)	(14,478)
Repayment of principal on lease liabilities	(16,541)	(8,210)	(48,108)	(39,068)
Interest paid on lease liabilities	(5,865)	(4,554)	(17,494)	(11,151)
Notes receivable	(154)	(157)	(505)	(1,050)
Free Cash Flow	\$ 30,768	\$ 18,075	\$ 61,609	\$ 14,383

Condensed Interim Consolidated Statements of Financial Position

(Unaudited, expressed in thousands of Canadian dollars)

	As at September 28,	As at December 30,
	2024	2023

Assets

Current assets:

Cash	\$	35,430	\$	28,444
Accounts and other receivables		29,327		27,875
Inventories, net		134,750		122,069
Income taxes recoverable		8,286		6,012
Prepaid expenses and other assets		11,380		19,403
Current portion of lease receivables		38,062		34,332
Total current assets		257,235		238,135
Non-current assets:				
Long-term lease receivables		165,579		159,101
Right-of-use assets, net		233,843		237,941
Property and equipment, net		145,324		120,493
Intangible assets, net		50,751		52,205
Goodwill		97,969		97,562
Deferred tax assets		7,230		7,230
Other assets		3,904		4,240
Total non-current assets		704,600		678,772
Total assets	\$	961,835	\$	916,907
Liabilities and shareholders' equity				
Current liabilities:				
Accounts payable and accrued liabilities	\$	102,203	\$	88,416
Provisions		343		669
Current portion of deferred franchise fees		1,427		1,344
Current portion of lease liabilities		68,479		64,068
Current portion of long-term debt		17,750		17,750
Total current liabilities		190,202		172,247
Non-current liabilities:				
Long-term deferred franchise fees		4,480		4,166
Long-term lease liabilities		385,474		379,833
Long-term debt		262,995		275,474
Deferred tax liabilities		8,864		8,864
Other liabilities		2,766		3,977
Provisions		3,536		2,626
Total non-current liabilities		668,115		674,940
Total liabilities		858,317		847,187
Shareholders' equity:				
Common shares		319,629		321,752
Contributed surplus		9,652		6,877
Deficit		(225,622)		(258,768)
Currency translation reserve		(141)		(141)
Total shareholders' equity		103,518		69,720
Total liabilities and shareholders' equity	\$	961,835	\$	916,907

SOURCE Pet Valu Canada Inc.