Pet Valu Reports First Quarter 2023 Results

May 9, 2023

Delivers Robust Same-Store Sales Growth[1] of 9.4% and Reaffirms 2023 Outlook

MARKHAM, ON, May 9, 2023 /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 first quarter ended April 1, 2023.

First Quarter Highlights

- System-wide sales[1] were $339.6 million, an increase of 18.8% versus the prior year, or 12.6% excluding Chico[2]. Same-store sales growth was 9.4%.
- Revenue was $250.3 million, up 17.4% versus last year. Excluding Chico, revenue grew 16.1%.
- Adjusted EBITDA[3] was $48.8 million, up 4.3% versus the prior year, representing 19.5% of revenue. Operating income was $34.9 million, down 0.8% versus the prior year.
- Net income was $18.7 million, down from $22.6 million in the prior year.
- Adjusted Net Income[3] was $23.0 million or $0.32 per diluted share, compared to $24.8 million or $0.35 per diluted share, respectively, in the prior year.
- Opened 7 new stores and ended the quarter with 751 stores across the network.
- The Board of Directors of the Company declared a dividend of $0.10 per common share.

2023 Outlook

- The Company expects 2023 revenue between $1,050 and $1,075 million, driven by same-store sales growth between 7% and 10% and 40-50 new store openings, Adjusted EBITDA between $230 and $237 million and Adjusted Net Income per Diluted Share[3] between $1.60 and $1.66.

"Our business is off to a great start in 2023, with strong top-line growth and margins in the first quarter performing in-line with our expectations," said Richard Maltsbarger, President and Chief Executive Officer of Pet Valu. "Exceptional execution from merchandising teams helped to navigate significant foreign exchange headwinds, while improving supply chain conditions enabled our best fill rates to our corporate and franchise stores in five years, all while achieving a key milestone with the opening of our 750th store.

"We are excited for our growth potential in 2023, and are reaffirming our full year outlook," continued Mr. Maltsbarger. "Our teams remain steadfast in their focus on our strategic priorities, which are anchored in delivering long-term, profitable growth."

Financial Results for the First Quarter Fiscal 2023

All comparative figures below are for the 13-week period ended April 1, 2023, compared to the 13-week period ended April 2, 2022.

Revenue was $250.3 million in Q1 2023, an increase of $37.0 million, or 17.4%, compared to $213.3 million in Q1 2022. The current quarter includes $3.6 million of franchise and other revenues from Chico compared to $0.8 million in the comparative quarter given the timing of the acquisition. The increase in revenue was driven by growth in retail sales, as well as franchise and other revenues.

Same-store sales growth was 9.4% in Q1 2023 primarily driven by a 3.0% increase in same-store transactions and a 6.3% increase in same-store average spend per transaction. Same-store sales growth in Q1 2023 included a negative impact of approximately 1.2% due to the timing of New Year's day. This is compared to same-store sales growth of 22.8% in Q1 2022, which primarily consisted of an 18.4% increase in same-store transactions and a 3.7% increase in same-store average spend per transaction. Q1 2022 same-store sales growth was elevated given the comparative period, Q1 2021, was impacted by a shift in consumer behaviour associated with COVID-19 restrictions.

Gross profit increased by $10.1 million, or 13.1%, to $87.2 million in Q1 2023, compared to $77.1 million in Q1 2022. Gross profit margin was 34.8% in Q1 2023, compared to 36.1% in Q1 2022. The gross profit margin decrease was primarily driven by: (i) the unfavourable impact of the weaker Canadian dollar on non-domestic sourced products primarily denominated in U.S. dollars; (ii) higher wholesale merchandise sales due to increased franchise penetration and improved fill rates to franchisees; partially offset by (iii) favourable product margins due to lower freight costs; and (iv) the acquisition of Chico.

Selling, general and administrative ("SG&A") expenses were $52.3 million in Q1 2023, an increase of $10.4 million, or 24.9%, compared to $41.9 million in Q1 2022. SG&A expenses represented 20.9% and 19.7% of total revenue for Q1 2023 and Q1 2022, respectively. The $10.4 million increase in SG&A expenses was primarily due to: (i) increased compensation costs as a result of headcount and salary investments; (ii) higher technology costs to modernize our systems including our warehousing and omni-channel capabilities; (iii) higher advertising expenses; (iv) higher depreciation and amortization from store growth and investments and other assets; partially offset by (v) lower professional fees.

Adjusted EBITDA increased by $2.0 million, or 4.3%, to $48.8 million in Q1 2023, compared to $46.8 million in Q1 2022. Adjusted EBITDA excludes $2.3 million of higher costs from business transformation, investment in associate including the derecognition of the related call option in Q1 2023, other professional fees, information technology transformation, share-based compensation, and loss (gain) on foreign exchange. Adjusted EBITDA was also impacted by lower EBITDA of $0.3 million in Q1 2023 compared to Q1 2022. Adjusted EBITDA as a percentage of revenue was 19.5% and 21.9% in Q1 2023 and Q1 2022, respectively.

Net interest expense was $6.9 million in Q1 2023, an increase of $2.9 million, or 73.5%, compared to $4.0 million in Q1 2022. The increase was primarily driven by higher interest expense on the 2021 Term Facility (as defined in the Company's management' discussion and analysis ("MD&A") for the first quarter ended April 1, 2023) resulting from higher interest rates compared to Q1 2022.

Income taxes were $7.5 million in Q1 2023 compared to $8.6 million in Q1 2022, a decrease of $1.1 million year over year. The decrease in income taxes was primarily the result of lower taxable earnings in Q1 2023. The effective income tax rate was 28.6% in Q1 2023 compared to 27.4% in Q1 2022. The Q1 2023 and Q1 2022 effective tax rate is higher than the blended statutory rate of 26.5% primarily because of the loss on the derecognition of the call option related to an investment in associate and non-deductible expenses.

Net income decreased by $3.9 million to $18.7 million in Q1 2023, compared to $22.6 million in Q1 2022. The decrease in net income is primarily explained by the loss on the derecognition of the call option related to an investment in associate, higher net interest expense, as described above, and partially offset by the lower income taxes, as described above.

Adjusted Net Income decreased by $1.9 million to $23.0 million in Q1 2023, compared to $24.8 million in Q1 2022. Adjusted Net Income as a percentage of revenue was 9.2% in Q1 2023 and 11.6% in Q1 2022. The 2.5% year over year decrease results from the factors described above.

Adjusted Net Income per Diluted Share decreased by $0.03 to $0.32 in Q1 2023, compared to $0.35 in Q1 2022. The 8.6% year over year decrease results primarily from the factors described above.

Cash at the end of the first quarter totaled $12.3 million.

Free Cash Flow[(3)] amounted to $(16.7) million in Q1 2023 compared to $(15.1) million in Q1 2022, a decrease of $1.6 million mostly driven by an increase in repayment of principal on lease liabilities due to the timing of year-end in Q4 2022, lower cash provided by operating activities, partially offset by lower use of cash in investing activities.

Inventory at end of Q1 2023 was $140.1 million compared to $118.4 million at the end of Q4 2022, an increase of $21.7 million primarily due to growth in revenue, improved vendor fill rates and timing of receipts resulting from global supply chain improvements.

Dividends

On May 8, 2023, the Board of Directors of the Company declared a dividend of $0.10 per common share payable on June 15, 2023 to holders of common shares of record as at the close of business on May 31, 2023.

Outlook

For the full year 2023, the Company expects:

- Revenue between $1,050 and $1,075 million, supported by same-store sales growth of between 7% and 10%, and 40 to 50 new store openings;
- Gross profit margin slightly below the Company's historical range of 35% to 36%, as the Company faces unfavourable foreign exchange rates and incurs approximately 80 basis points of cost associated with its supply chain transformation;
- Adjusted EBITDA between $230 and $237 million, which incorporates expense leverage on investments made in 2022, partially offset by the unfavourable foreign exchange rates;
- Adjusted Net Income per Diluted Share between $1.60 and $1.66;
- Business transformation costs of approximately $13 million, Information Technology costs of approximately $7 million, and share-based compensation of approximately $8 million, all of which are excluded from Adjusted EBITDA and Adjusted Net Income per Diluted Share; and
- Net Capital Expenditures[3] of approximately $60 million, roughly half of which is attributable to investments in the Company's supply chain transformation.

[1] This is a supplementary financial measure. Refer to "Non-IFRS Measures and Supplementary Financial Measures" below and to the section entitled "How We Assess the Performance of our Business in the MD&A for the definitions of supplementary financial measures.

[2] On February 25, 2022, the Company acquired all of the issued and outstanding shares of Les Franchises Chico Inc. and 9353-0145 Quebec Inc. (collectively referred to as "Chico"), a franchisor of pet specialty stores in Quebec.

[3] 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 "How We Assess the Performance of our Business" in the MD&A for the fiscal year ended December 31, 2022 for the definitions of Non-IFRS financial measures.

Conference Call Details

A conference call to discuss the Company's first quarter results is scheduled for May 9, 2023, at 8:30 a.m. ET. To access Pet Valu's conference call, please dial 1-833-950-0062 (ID: 686748). 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 1-226-828-7578 (ID: 261296) and will be accessible until May 16, 2023. 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 700 corporate-owned or franchised locations across the country. For more than 40 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. Pet Valu's neighbourhood stores offer more than 7,000 competitively-priced products, including a broad assortment of premium, super premium, holistic and award-winning proprietary brands. To learn more, please visit: www.petvalu.com.

Non-IFRS Measures and Supplementary Financial Measures

This press release makes reference to certain non-IFRS measures. These measures 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", Adjusted Net Income per Diluted Share", "Free Cash Flow" and "Net Capital Expenditures". This press release also makes reference to certain supplementary financial measures that are commonly used in the retail industry, including "System-wide stores", "System-wide sales", "Same-store sales", and "Same-store sales growth". These non-IFRS measures 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 and these supplementary financial measures in the evaluation of issuers. Management uses non-IFRS 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 first quarter ended April 1, 2023 for further information on non-IFRS measures and industry metrics, 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 of 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 "2023 Outlook" and "Outlook" in this press release, is forward-looking information, 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 6, 2023 ("AIF"). Often but not always, forward-looking information can be identified by the use of forward-looking terminology such as "may", "will", "expect", "believe", "estimate", "plan", "could", "should", "would", "outlook", "forecast", "anticipate", "foresee", "continue" or the negative of these terms or variations of them or similar terminology.

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 the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

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

Consolidated Statements of Income and Comprehensive Income
(Unaudited, expressed in thousands of Canadian dollars, except per share amounts)

	Quarters Ended	
	April 1, 2023	**April 2, 2022**
	13 weeks	**13 weeks**
Revenue:		
Retail sales	$ 102,019	$ 93,075
Franchise and other revenues	148,273	120,178
Total revenue	250,292	213,253
Cost of sales	163,078	136,173
Gross profit	87,214	77,080
Selling, general and administrative expenses	52,347	41,919
Total operating income	34,867	35,161
Interest expenses, net	6,907	3,981
Loss (gain) on foreign exchange	311	(21)
Other loss	1,425	28

Income before income taxes		26,224		31,173
Income taxes expense		7,495		8,552
Net income		18,729		22,621
Other comprehensive income, net of tax:				
Currency translation adjustments that may be reclassified to net income, net of tax		14		(2)
Comprehensive income for the period attributable to the shareholders of the Company	$	18,743	$	22,619
Basic net income per share attributable to the common shareholders	$	0.26	$	0.32
Diluted net income per share attributable to the common shareholders	$	0.26	$	0.32

Reconciliation of Net Income to EBITDA and Adjusted EBITDA
(Unaudited, in thousands of Canadian dollars unless otherwise noted)

		Quarters Ended		
		April 1, 2023		**April 2, 2022**
		13 weeks		**13 weeks**
Reconciliation of net income to Adjusted EBITDA:				
Net income	$	18,729	$	22,621
Depreciation and amortization		10,628		8,876
Interest expenses, net		6,907		3,981
Income taxes expense		7,495		8,552
EBITDA		**43,759**		**44,030**
Adjustments to EBITDA:				
Information technology transformation costs(1)		722		1,070
Business transformation costs(2)		1,580		—
Other professional fees(3)		—		648
Share-based compensation(4)		1,001		1,027
Loss (gain) on foreign exchange(5)		311		(21)
Investment in associate(6)		1,425		28
Adjusted EBITDA	**$**	**48,798**	**$**	**46,782**
Adjusted EBITDA as a percentage of revenue		**19.5 %**		**21.9 %**

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 to supply chain transformation initiatives, including the new distribution centre.

(3) Professional fees primarily incurred with respect to: (i) the CRA's examination of the Company's Canadian tax filings for the 2016 fiscal year; and (ii) acquisition and integration costs incurred in relation to Chico in the year ended December 31, 2022 ("Fiscal 2022").

(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 (Q1 2023 and Q1 2022 — $0.1 million and $0.03 million, respectively) and the loss on the derecognition of the related call option (Q1 2023 — $1.3 million).

Reconciliation of Net Income to Adjusted Net Income

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

	Quarters Year Ended	
	April 1, 2023	April 2, 2022
	13 weeks	13 weeks
Reconciliation of net income to Adjusted Net Income:		
Net income	$ 18,729	$ 22,621
Adjustments to net income:		
Information technology transformation costs(1)	722	1,070
Business transformation costs(2)	1,580	—
Other professional fees(3)	—	648
Share-based compensation(4)	1,001	1,027
Loss (gain) on foreign exchange(5)	311	(21)
Investment in associate(6)	1,425	28
Tax effect of adjustments to net income	(816)	(554)
Adjusted Net Income	**$ 22,952**	**$ 24,819**
Adjusted Net Income as a percentage of revenue	**9.2 %**	**11.6 %**
Adjusted Net Income per Diluted Share	**$ 0.32**	**$ 0.35**

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 to supply chain transformation initiatives, including the new distribution centre.

(3) Professional fees primarily incurred with respect to: (i) the CRA's examination of the Company's Canadian tax filings for the 2016 fiscal year; and (ii) acquisition and integration costs incurred in relation to Chico in Fiscal 2022.

(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 (Q1 2023 and Q1 2022 — $0.1 million and $0.03 million, respectively) and the loss on the derecognition of the related call option (Q1 2023 — $1.3 million).

Consolidated Statements of Cash Flows

(Unaudited, in thousands of Canadian dollars)

	Quarters Ended	
	April 1, 2023	April 2, 2022
	13 weeks	13 weeks
Cash provided by (used in):		

Operating activities:				
Net income for the period	$	18,729	$	22,621
Adjustments for items not affecting cash:				
Depreciation and amortization		10,628		8,876
Deferred franchise fees		83		(48)
Gain on disposal of property and equipment		(137)		(8)
Loss on sale of right-of-use assets		355		38
Loss (gain) on foreign exchange		311		(21)
Loss on financial instruments		1,302		—
Share-based compensation expense		1,001		1,027
Share of loss from associate		123		28
Interest expenses, net		6,907		3,981
Income taxes expense		7,495		8,552
Income taxes paid		(24,410)		(19,325)
Change in non-cash operating working capital:				
Accounts receivable		648		285
Inventories		(21,704)		(8,237)
Prepaid expenses		2,921		(670)
Accounts payable and accrued liabilities		955		(7,628)
Net cash provided by operating activities		5,207		9,471
Financing activities:				
Proceeds from exercise of share options		608		587
Repayment of 2021 Term Facility		(32,438)		(2,218)
Interest paid on long-term debt		(1,773)		(2,955)
Repayment of principal on lease liabilities		(17,879)		(11,769)
Interest paid on lease liabilities		(3,204)		(2,907)
Standby letter of credit commitment fees		(316)		(314)
Net cash used in financing activities		(55,002)		(19,576)
Investing activities:				
Business acquisition, net of cash acquired		—		(12,829)
Purchases of property and equipment		(10,718)		(5,120)
Purchase of intangible assets		(543)		(613)
Proceeds on disposal of property and equipment		283		62
Right-of-use asset initial direct costs		(468)		(340)
Tenant allowances		427		498
Notes receivable		66		190
Lease receivables		7,213		6,522
Interest received on lease receivables and other		2,975		1,912
Net cash used in investing activities		(765)		(9,718)
Effect of exchange rate on cash		(224)		(17)
Net decrease in cash		(50,784)		(19,840)
Cash, beginning of period		63,034		50,068
Cash, end of period	$	12,250	$	30,228

Free Cash Flows
(Unaudited, expressed in thousands of Canadian dollars)

	Quarters Ended	
	April 1, 2023	**April 2, 2022**
	13 weeks	**13 weeks**

Cash provided by operating activities	$	5,207	$	9,471
Cash used in investing activities		(765)		(9,718)
Repayment of principal on lease liabilities		(17,879)		(11,769)
Interest paid on lease liabilities		(3,204)		(2,907)
Notes receivable		(66)		(190)
Free Cash Flow	**$**	**(16,707)**	**$**	**(15,113)**

Consolidated Statements of Financial Position
(Unaudited, expressed in thousands of Canadian dollars)

		As at April 1, 2023		As at December 31, 2022
Assets				
Current assets:				
Cash	$	12,250	$	63,034
Accounts and other receivables		22,243		22,965
Inventories, net		140,114		118,410
Income taxes recoverable		1,775		—
Prepaid expenses and other assets		15,125		22,262
Current portion of lease receivables		30,537		29,827
Total current assets		222,044		256,498
Non-current assets:				
Long-term lease receivables		143,419		141,187
Right-of-use assets, net		83,170		82,242
Property and equipment, net		94,993		91,774
Intangible assets, net		52,102		52,280
Goodwill		97,574		97,574
Deferred tax assets		6,652		6,652
Investment in associate		3,293		4,708
Other assets		7,194		7,261
Total non-current assets		488,397		483,678
Total assets	$	710,441	$	740,176
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities	$	109,469	$	103,782
Income taxes payable		—		15,141
Current portion of deferred franchise fees		1,239		1,197
Current portion of lease liabilities		47,063		51,335
Current portion of long-term debt		17,750		17,750

Total current liabilities		175,521		189,205
Non-current liabilities:				
Long-term deferred franchise fees		4,092		4,017
Long-term lease liabilities		218,865		215,966
Long-term debt		287,920		320,063
Deferred tax liabilities		8,246		8,250
Other liabilities		2,654		2,299
Total non-current liabilities		521,777		550,595
Total liabilities		697,298		739,800
Shareholders' equity:				
Common shares		317,018		316,208
Contributed surplus		4,424		4,107
Deficit		(308,154)		(319,780)
Currency translation reserve		(145)		(159)
Total shareholders' equity		13,143		376
Total liabilities and shareholders' equity	$	710,441	$	740,176

SOURCE Pet Valu Canada Inc.