Pet Valu Reports Second Quarter 2022 Results

August 9, 2022

Revenue up 25%; Adjusted EBITDA (1) grew 23%
Raises full-year outlook following strong performance in first half of 2022

MARKHAM, ON, Aug. 9, 2022 /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 second quarter ended July 2, 2022.

Second Quarter Highlights

- System-wide sales(2) were $312.5 million, an increase of 35.0% versus the prior year. Excluding Chico(3), system-wide sales grew 24.4%, and same-store sales(2) grew 21.2%, with both basket and traffic growth contributing.
- Revenue was $227.7 million, an increase of 25.0% versus the prior year. Excluding Chico, revenue grew 23.6%, in-line with system-wide sales growth.
- Adjusted EBITDA(1) was $52.1 million, up 23.0%, representing 22.9% of revenue.
- Operating income was $39.3 million, up 48.0% versus the prior year.
- Net income was $25.3 million, down from $44.3 million in the prior year.
- Adjusted Net Income(1) was $28.1 million or $0.39 per diluted share, up 222.7% and 225.0%, respectively, versus the prior year.
- Opened 13 new stores and ended the quarter with 717 stores across the network.
- The Board of Directors declared a dividend of $0.06 per common share.

2022 Outlook

- The Company now expects 2022 revenue between $912 and $928 million, driven by same-store sales growth between 13% and 15% and 35-45 new store openings, Adjusted EBITDA between $203 and $207 million and Adjusted Net Income per Diluted Share(1) between $1.47 and $1.51.

"Pet Valu delivered very strong performance in the second quarter, underscored by robust industry growth together with the growing appeal of our brand within the Canadian marketplace," said Richard Maltsbarger, President and Chief Executive Officer. "Impressive top-line results were once again hallmarks in the quarter, on top of the strong growth seen last year, with system-wide sales now up almost 75% from pre-pandemic levels in Q2 2019.

"Following strong performance in the first half of the year, we have raised our 2022 outlook," continued Mr. Maltsbarger. "With a staples-oriented product mix together with the value offered through our broad proprietary brand portfolio and frequent buyers loyalty program, we believe we are well positioned to continue taking market share through our multi-faceted growth agenda in today's challenging macro environment."

Financial Results for the Second Quarter Fiscal 2022

All comparative figures below are for the 13-week period ended July 2, 2022, compared to the 13-week period ended July 3, 2021.

Revenue increased by 25.0% to $227.7 million, compared to $182.2 million in the second quarter last year. The current quarter includes $2.5 million of franchise and other revenues from the acquisition of Chico. The increase in revenue was driven by growth in retail sales, as well as franchise and other revenues.

Same-store sales growth was 21.2% in Q2 2022 primarily driven by a 19.3% increase in same-store transactions and a 1.5% increase in same-store average spend per transaction. This is compared to same-store sales growth of 28.4% in Q2 2021 primarily consisted of a 25.6% increase in same-store transactions and a 2.2% increase in same-store average spend per transaction. Same-store transactions and same-store average spend per transaction in Q2 2021 were impacted by a shift in consumer behaviour associated with COVID-19 restrictions.

Gross profit increased by $18.2 million, or 27.1%, to $85.4 million in Q2 2022, compared to $67.2 million in Q2 2021. Gross profit margin was 37.5% in Q2 2022 compared to 36.9% in Q2 2021. The gross profit margin increase was primarily driven by: (i) leverage gained on fixed costs due to higher revenue; (ii) the acquisition of Chico; partially offset by (iii) higher wholesale merchandise sales due to recovery from pandemic operating restrictions in Ontario in Q2 2021 and increased franchise penetration; and (iv) slightly lower product margins as price adjustments were more than offset by higher costs including incremental freight costs.

Selling, general and administrative ("SG&A") expenses increased by 13.4% to $46.1 million, compared to $40.6 million in the second quarter last year. SG&A expenses were 20.2% of revenue compared to 22.3% of revenue in the second quarter last year. The increase of $5.5 million in SG&A expenses was primarily due to: (i) increased compensation costs as a result of headcount investments; (ii) higher advertising expenses; (iii) additional insurance from public company requirements; (iv) higher technology and telecommunication costs to continue the modernization of our technology infrastructure and expand our omni-channel capabilities; (v) lower gain on sale of corporate-owned stores; (vi) higher depreciation and amortization; partially offset by (vii) lower professional fees as Q2 2021 included fees to support the preparation of the initial public offering (the "Offering") and separation activities.

Adjusted EBITDA was $52.1 million, or 22.9% of revenue, compared to $42.3 million, or 23.2% of revenue, in the second quarter last year.

Net interest expense was $4.6 million in Q2 2022, a decrease of $15.4 million, or 77.2%, compared to $20.0 million in Q2 2021. The decrease was primarily driven by: (i) lower interest expense on the 2021 Term Facility (as defined in the Company's Management Discussion and Analysis for the second quarter ended July 2, 2022 ("the MD&A")) resulting from lower interest rates and lower total debt outstanding compared to the 2016 Term Loan (as defined in the MD&A) which was repaid at the end of Q2 2021; and (ii) lower amortization of deferred financing costs. The decrease in net interest expense is also attributable to the prior year write off of $5.7 million of unamortized deferred financing costs as debt extinguishment costs upon repayment of the 2016 Credit Agreement (as defined in the MD&A) at the end of Q2 2021.

Income taxes were $9.5 million in Q2 2022 compared to $5.2 million in Q2 2021, an increase of $4.3 million year over year. The increase in income taxes was primarily the result of higher taxable earnings in Q2 2022. The effective income tax rate was 27.3% in Q2 2022 compared to 10.5% in Q2 2021. The Q2 2022 effective tax rate is higher than the blended statutory rate of 26.5% primarily because of non-deductible expenses. The Q2 2021 effective tax rate is lower than the blended statutory rate of 26.5% primarily due to favourable tax treatments of foreign exchange gains related to the repayment of the 2016 Term Loans (as defined in the MD&A).

Net income was $25.3 million, a decrease of $19.0 million from net income of $44.3 million in the second quarter last year. In addition to the factors described above, the change in net income is also explained by a higher gain on foreign exchange of $42.3 million in Q2 2021 from the repayment of the 2016 Term Loans and from the settlement of a foreign exchange forward contract.

Adjusted Net Income increased by $19.4 million to $28.1 million in Q2 2022, compared to $8.7 million in Q2 2021. Adjusted Net Income as a percentage of revenue was 12.3% in Q2 2022 and 4.8% in Q2 2021.

Adjusted Net Income per Diluted Share was $0.39 compared to $0.12 in the second quarter last year.

Cash and cash equivalents at the end of the second quarter totaled $39.5 million.

Free Cash Flow[(1)] amounted to $20.4 million in Q2 2022. This compares to Free Cash Flow of $18.9 million in Q2 2021.

Inventory at end of the second quarter of 2022 was $116.8 million compared to $91.7 million at the end of Fiscal 2021, an increase of $25.1 million primarily due to higher demand, inflation in product cost, a heightened level of safety stock and accelerated purchase of seasonal goods in light of global supply chain challenges, and initial load-ins to support proprietary brand launches at Chico.

[(1)] This is a Non-IFRS financial measure. Non-IFRS financial measures are not standardized financial measures under IFRS and might not be comparable to similar financial measures disclosed by other issuers. Refer to "Non-IFRS Measures and Supplementary Financial Measures" and "Selected Consolidated Financial Information" below, including for a reconciliation of the non-IFRS measures 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 Measures and Supplementary Financial Measures" and "Selected Consolidated Financial Information and Industry Metrics" in the MD&A, incorporated by reference herein, for further details concerning Adjusted EBITDA, Adjusted Net Income, Adjusted Net Income per Diluted Share and Free Cash Flow including definitions and reconciliations to the relevant reported IFRS measure

[(2)] 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.

[(3)] 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, Canada.

Dividends

On August 8, 2022, the Board of Directors of the Company declared a dividend of $0.06 per common share payable on September 15, 2022 to holders of common shares of record as at the close of business on August 31, 2022.

Outlook

The following information, except for same-store sales growth, includes the impact of Chico, which was acquired on February 25, 2022. Based on strong performance in the first half of the year, and expectations for the balance of the year, the Company now expects to achieve the following for the full year 2022:

- Revenue between $912 and $928 million, supported by same-store sales growth of between 13% and 15%, and 35 to 45 new store openings;
- Adjusted EBITDA between $203 and $207 million, which incorporates a full year of public company costs, as well as incremental investments in labour as well as storage and throughput capacity, disclosed in late 2021;
- Adjusted Net Income per Diluted Share between $1.47 and $1.51;
- Information technology expenses of approximately $8 million and share-based compensation of approximately $7 million, both of which are excluded from Adjusted EBITDA and Adjusted Net Income per Diluted Share; and
- Net Capital Expenditures[(4)]between $35 and $40 million, including approximately $15 million in advanced payments and leasehold improvements related to the build-out of the new distribution centre in the Greater Toronto Area.

Due to the impact of various forms of government mandated operating restrictions imposed in early 2021, the Company expects year-over-year growth to ease in the second half of 2022, compared to year-over-year growth in the first half of the year. The relative distribution of revenue by quarter is expected to be more representative of pre-pandemic years, such as 2019.

[(4)] Net Capital Expenditures represents purchase of property and equipment, purchase of intangible assets, proceeds on disposal of property and equipment and tenant allowances.

Conference Call Details

A conference call to discuss the Company's second quarter results is scheduled for August 9, 2022, at 8:30 a.m. ET. To access Pet Valu's conference call, please dial 1-888-350-3870, (access code: 5518274). 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 1-800-770-2030 (ID: 5518274#) and will be accessible until August 16, 2022. 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.

Basis of Presentation - Carve-out Financial Information

Prior to the Offering, the Company was not operating as a stand-alone entity and as a result, the financial information for periods prior to June 30, 2021 are presented on a carve-out basis that includes only legal entities representing the Canadian operations of Pet Valu Holdings Ltd. (referred to as the "Group", prior to the distribution of its U.S. operations to its shareholder). For more information, see the Company's unaudited condensed consolidated financial statements and related MD&A for the 13-week and 26-week periods ended July 2, 2022 and July 3, 2021, respectively.

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" and "Free Cash Flow". 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 second quarter ended July 2, 2022 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. 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 securities laws in Canada. 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 heading "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 ("AIF") dated March 8, 2022. 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

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**	
	July 2, 2022	**July 3, 2021**	**July 2, 2022**	**July 3, 2021**
	13 weeks	**13 weeks**	**26 weeks**	**26 weeks**
Revenue:				
Retail sales	$ 97,055	$ 82,161	$ 190,130	$ 161,805
Franchise and other revenues	130,621	100,021	250,799	190,449
Total revenue	227,676	182,182	440,929	352,254
Cost of sales	142,305	115,022	278,478	225,431
Gross profit	85,371	67,160	162,451	126,823
Selling, general and administrative expenses	46,062	40,603	87,981	77,644
Total operating income	39,309	26,557	74,470	49,179
Interest expenses, net	4,560	19,981	8,541	37,978
Loss (gain) on foreign exchange	120	(42,936)	99	(43,034)
Other income	(152)	—	(124)	—
Income before income taxes	34,781	49,512	65,954	54,235
Income taxes expense	9,503	5,218	18,055	6,532
Net income	25,278	44,294	47,899	47,703
Less:				
Net income attributable to non-controlling interests	—	1,649	—	3,430
Net income attributable to the shareholders of the Company	25,278	42,645	47,899	44,273
Other comprehensive income, net of tax:				
Currency translation adjustments reclassified to net income	—	(29,665)	—	(29,665)

Currency translation adjustments that may be reclassified to net income, net of tax	5	11,455	3	21,070
Comprehensive income for the period attributable to the shareholders of the Company	$ 25,283	$ 24,435	$ 47,902	$ 35,678
Basic net income per share attributable to the common shareholders	$ 0.36	$ 0.61	$ 0.68	$ 0.63
Diluted net income per share attributable to the common shareholders	$ 0.35	$ 0.60	$ 0.67	$ 0.62

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

	Quarters Ended		**Year to Date Ended**	
	July 2, 2022	**July 3, 2021**	**July 2, 2022**	**July 3, 2021**
	13 weeks	**13 weeks**	**26 weeks**	**26 weeks**
Reconciliation of net income to Adjusted EBITDA:				
Net income	$ 25,278	$ 44,294	$ 47,899	$ 47,703
Depreciation and amortization	9,270	8,554	18,146	16,643
Interest expenses, net	4,560	19,981	8,541	37,978
Income taxes expense	9,503	5,218	18,055	6,532
EBITDA	**48,611**	**78,047**	**92,641**	**108,856**
Adjustments to EBITDA:				
Management fees(1)	—	439	—	679
Information technology transformation costs(2)	1,007	1,305	2,077	2,557
IPO readiness and separation costs(3)	—	2,191	—	3,520
Business transformation costs(4)	381	1,100	381	1,719
Other professional fees(5)	348	275	996	1,463
Share-based compensation(6)	1,492	1,882	2,519	2,556
Loss (gain) on foreign exchange(7)	120	(42,936)	99	(43,034)
Share of loss from associate	92	—	120	—
Adjusted EBITDA	**$ 52,051**	**$ 42,303**	**$ 98,833**	**$ 78,316**
Adjusted EBITDA as a percentage of revenue	**22.9 %**	**23.2 %**	**22.4 %**	**22.2 %**

Notes:

(1) Represents management fees paid to entities affiliated with Roark Capital Management, LLC ("Roark"). Concurrent with the closing of the Offering, the Company terminated the management agreement with Roark.

(2) 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.

(3) Represents expenses incurred related to the following: (i) consulting, legal and accounting fees for projects and process improvements incurred in the preparation of the Offering and the legal restructuring to separate the Company from the Group; and (ii) retention bonuses for certain key management personnel in connection with the Offering.

(4) For Fiscal 2022, represents expenses associated to supply chain transformation initiatives including the new distribution centre. For Fiscal 2021, predominately represents severance, recruitment, and consulting expenses associated to the strategic reorganization in the senior leadership team and key functional departments as part of the Company's separation from the Group.

(5) 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.

(6) Represents share-based compensation in respect of our amended and restated share option plan, long-term incentive plan, and deferred share unit plan.

(7) Represents foreign exchange gains and losses.

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

	Quarters Ended		**Year to Date Ended**	
	July 2, 2022	**July 3, 2021**	**July 2, 2022**	**July 3, 2021**
	13 weeks	**13 weeks**	**26 weeks**	**26 weeks**

Reconciliation of net income to Adjusted Net Income:				
Net income	$ 25,278	$ 44,294	$ 47,899	$ 47,703
Adjustments to net income:				
Management fees(1)	—	439	—	679
Information technology transformation costs(2)	1,007	1,305	2,077	2,557
IPO readiness and separation costs(3)	—	2,191	—	3,520
Business transformation costs(4)	381	1,100	381	1,719
Other professional fees(5)	348	275	996	1,463
Share-based compensation(6)	1,492	1,882	2,519	2,556
Loss (gain) on foreign exchange(7)	120	(42,936)	99	(43,034)
Share of loss from associate	92	—	120	—
Tax effect of adjustments to net income	(663)	145	(1,217)	(1,176)
Adjusted Net Income	**$ 28,055**	**$ 8,695**	**$ 52,874**	**$ 15,987**
Adjusted Net Income as a percentage of revenue	**12.3 %**	**4.8 %**	**12.0 %**	**4.5 %**
Adjusted Net Income per Diluted Share	**$ 0.39**	**$ 0.12**	**$ 0.74**	**$ 0.22**

Notes:

(1) Represents management fees paid to entities affiliated with Roark. Concurrent with the closing of the Offering, the Company terminated the management agreement with Roark.

(2) 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.

(3) Represents expenses incurred related to the following: (i) consulting, legal and accounting fees for projects and process improvements incurred in the preparation of the Offering and the legal restructuring to separate the Company from the Group; and (ii) retention bonuses for certain key management personnel in connection with the Offering.

(4) For Fiscal 2022, represents expenses associated to supply chain transformation initiatives including the new distribution centre. For Fiscal 2021, predominately represents severance, recruitment, and consulting expenses associated to the strategic reorganization in the senior leadership team and key functional departments as part of the Company's separation from the Group.

(5) 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.

(6) Represents share-based compensation in respect of our amended and restated share option plan, long-term incentive plan, and deferred share unit plan.

(7) Represents foreign exchange gains and losses.

Condensed Interim Consolidated Statements of Cash Flows
(Unaudited, in thousands of Canadian dollars)

	Quarters ended		**Year to Date ended**	
	July 2, 2022	**July 3, 2021**	**July 2, 2022**	**July 3, 2021**
	13 weeks	**13 weeks**	**26 weeks**	**26 weeks**
Cash provided by (used in):				
Operating activities:				
Net income for the period	$ 25,278	$ 44,294	$ 47,899	$ 47,703
Adjustments for items not affecting cash:				
Depreciation and amortization	9,270	8,554	18,146	16,643
Deferred franchise fees	(46)	116	(94)	329
Gain on disposal of property and equipment	(34)	(297)	(42)	(428)
Loss (gain) on sale of right-of-use assets	122	(137)	160	(176)
Loss (gain) on foreign exchange	120	(42,936)	99	(43,034)
Gain on financial instruments	(244)	—	(244)	—
Share-based compensation expense	1,492	22	2,519	22
Share of loss from associate	92	—	120	—
Interest expenses, net	4,560	19,981	8,541	37,978
Income taxes expense	9,503	5,218	18,055	6,532
Income taxes paid	(6,248)	(2,464)	(25,573)	(7,679)
Security deposits paid	(5,073)	—	(5,073)	—
Change in non-cash operating working capital:				
Accounts receivable	(3,964)	(1,965)	(3,679)	(4,603)
Inventories	(16,319)	(1,444)	(24,556)	(8,777)
Prepaid expenses	(1,167)	(352)	(1,837)	180
Accounts payable and accrued liabilities	15,947	3,079	8,319	(16,063)

Net cash provided by operating activities	33,289	31,669	42,760	28,627
Financing activities:				
Issuance of common shares, net of transaction costs	—	295,210	—	295,210
Proceeds from exercise of share options	3,596	—	4,183	—
Dividends paid on common shares	(8,440)	—	(8,440)	—
Proceeds of 2021 Term Facility	—	355,000	—	355,000
Repayment of 2021 Term Facility	(2,220)	—	(4,438)	—
Proceeds of 2021 Revolving Credit Facility	—	40,000	—	40,000
Repayment of 2016 Term Loans	—	(676,717)	—	(680,424)
Interest paid on long-term debt	(4,216)	(13,800)	(7,171)	(36,415)
Repayment of principal on lease liabilities	(12,046)	(11,620)	(23,815)	(23,806)
Interest paid on lease liabilities	(2,911)	(2,881)	(5,818)	(5,761)
Financing costs	—	(5,672)	—	(6,589)
Standby letter of credit commitment fees	—	(613)	(314)	(4,303)
Net distributions	—	(2,007)	—	(16,983)
Net cash used in financing activities	(26,237)	(23,100)	(45,813)	(84,071)
Investing activities:				
Business acquisition, net of cash	—	—	(12,829)	—
Purchases of property and equipment	(4,532)	(6,120)	(9,652)	(10,280)
Purchase of intangible assets	(1,360)	(925)	(1,973)	(1,133)
Proceeds on disposal of property and equipment	713	1,639	775	2,203
Right-of-use asset initial direct costs	(278)	(457)	(618)	(837)
Tenant allowances	57	—	555	271
Notes receivable	108	161	298	221
Lease receivables	6,707	5,901	13,229	11,632
Interest received on lease receivables and other	1,903	1,676	3,815	3,357
Investment in associate	(1,134)	—	(1,134)	—
Net cash provided by (used in) investing activities	2,184	1,875	(7,534)	5,434
Effect of exchange rate on cash	3	(16)	(14)	11
Net increase (decrease) in cash	9,239	10,428	(10,601)	(49,999)
Cash, beginning of period	30,228	11,054	50,068	71,481
Cash, end of period	$ 39,467	$ 21,482	$ 39,467	$ 21,482

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

	Quarters Ended		Year to Date Ended	
	July 2, 2022	**July 3, 2021**	**July 2, 2022**	**July 3, 2021**
	13 weeks	**13 weeks**	**26 weeks**	**26 weeks**
Cash provided by operating activities	$ 33,289	$ 31,669	$ 42,760	$ 28,627
Cash provided by (used in) investing activities	2,184	1,875	(7,534)	5,434
Repayment of principal on lease liabilities	(12,046)	(11,620)	(23,815)	(23,806)
Interest paid on lease liabilities	(2,911)	(2,881)	(5,818)	(5,761)
Notes receivables	(108)	(161)	(298)	(221)
Free Cash Flow	**$ 20,408**	**$ 18,882**	**$ 5,295**	**$ 4,273**

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

	As at July 2, 2022	**As at January 1, 2022**
Assets		
Current assets:		
Cash	$ 39,467	$ 50,068
Accounts and other receivables	19,621	14,398
Inventories, net	116,773	91,699
Prepaid expenses and other assets	14,130	10,432
Current portion of lease receivables	27,517	26,621
Total current assets	217,508	193,218
Non-current assets:		

Lease receivables		125,007		121,936
Right-of-use assets, net		83,987		80,757
Property and equipment, net		63,791		62,067
Intangible assets, net		52,072		37,359
Goodwill		98,061		92,938
Deferred tax assets		5,565		5,601
Investment in associate		3,500		2,179
Other assets		7,902		3,118
Total non-current assets		439,885		405,955
Total assets	$	657,393	$	599,173
Liabilities and Shareholders' Deficit				
Current liabilities:				
Accounts payable and accrued liabilities	$	100,718	$	86,977
Income taxes payable		6,704		13,553
Current portion of deferred franchise fees		1,148		1,032
Current portion of lease liabilities		48,795		41,960
Current portion of long-term debt		13,312		8,875
Total current liabilities		170,677		152,397
Non-current liabilities:				
Long-term deferred franchise fees		3,472		3,183
Long-term lease liabilities		196,760		196,954
Long-term debt		328,345		336,621
Deferred tax liabilities		6,973		4,540
Other liabilities		600		—
Total non-current liabilities		536,150		541,298
Total liabilities		706,827		693,695
Shareholders' deficit:				
Common shares		311,680		307,497
Contributed surplus		3,222		1,779
Deficit		(364,160)		(403,619)
Currency translation reserve		(176)		(179)
Total shareholders' deficit		(49,434)		(94,522)
Total liabilities and shareholders' deficit	$	657,393	$	599,173

SOURCE Pet Valu Canada Inc.