pets at home
Group plc

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Pets at Home Group plc: Q1 FY22 Trading Statement

Continuation of strong sales momentum

Pets at Home Group plc, the UK's leading pet care business, is pleased to provide a trading update covering the 16 week period from 26 March to 15 July 2021, compared to the 16 week period from 27 March to 16 July 2020.

Financial highlights

LFL Sales Growth[#]	FY20	FY21				FY22
	Q1	Q1	Q2	Q3	Q4	Q1
1-year LFL:						
Retail	8.2%	0.4%	12.5%	17.5%	6.1%	29.1%
Vet Group	6.2%	(9.3)%	14.2%	17.8%	16.3%	44.7%
Group	**8.0%**	**(0.7)%**	**12.7%**	**17.6%**	**6.9%**	**30.2%**
2-year LFL[##]:						
Retail	13.8%	8.6%	20.7%	25.9%	22.9%	29.6%
Vet Group	19.6%	(4.2)%	21.7%	27.2%	13.1%	25.9%
Group	**14.4%**	**7.2%**	**20.8%**	**26.0%**	**22.1%**	**29.4%**

[#]All like-for-like (LFL) sales figures are based on statutory revenue. Within the Vet Group this includes Joint Venture (JV) fee income, sales from company managed practices, and sales from our Specialist Group up until the date of disposal, 31 December 2020. [##]The start of the comparative quarter coincided almost exactly with implementation of the first national lockdown, resulting in a period that was impacted by wide-ranging operational and regulatory restrictions across both our stores and services. We are, therefore, presenting comparative numbers on both a one and two-year basis to aid meaningful comparison.

- Total Group revenue growth of 25.7% to £377.8m, with Group like-for-like[1] (LFL) revenue up 30.2%, or 29.4% on a 2-year basis, reflecting broad-based growth throughout the quarter and continued strong growth across both retail and veterinary operations.
  - Retail revenue growth of 29.1%, and LFL[1] revenue up 29.1% (29.6% on a 2-year basis) with good growth across both food and accessories, instore and online, despite the re-opening of non-essential retail and hospitality sectors during the quarter.
  - Omnichannel[2] revenue growth of 21.4%, or 107.5% on a 2-year basis. Participation of Retail revenue of 15.6% across the quarter, compared to 16.6% in the comparative period and 15.8% for FY21.
  - Vet Group LFL[1] revenue growth of 44.7%, with 2-year LFL[1] revenue growth of 25.9%. Our programme of fee adjustments fully annualised as planned during FY21, resulting in closer alignment of LFL[1] growth in Joint Venture (JV) customer sales and JV fee income in the current quarter, at 44.5% and 48.1% respectively.

    The strong performance across our veterinary operations continued through the quarter, with customer sales across First Opinion practices approximately 30% higher on a 2-year basis. The number of profitable practices continued to increase, with the balance of operating loans reducing further post year end.
- Notwithstanding an increasingly challenging cost environment, including the ongoing impact of the pandemic on operating costs, which we continue to estimate at £9m this financial year, we maintained our price competitiveness through the quarter, with good profit and cash conversion reflecting a higher

number of store transactions and strong growth in accessories sales, as well as the strong sales performance from the Vet Group.

- Based on trading year to date we now anticipate that full-year Group underlying pre-tax profit will be £130m, at the top end of the current range of analyst expectations*, representing a £42.5m (+49%) increase on the prior year.

*As at 28 July 2021, the company-compiled consensus estimate of analyst expectations for the 53-weeks FY22 full-year post IFRS-16 underlying pre-tax profit was £126m, with a range of £123m to £130m.

Strategic highlights

The UK pet care market is robust, with the ongoing increase in pet ownership, combined with the prevailing trends of pet renewal, humanisation and premiumisation, creating a long-term tailwind for growth across both the underlying market and our business. During the quarter, we continued to invest in our ecosystem and implement initiatives to drive productivity gains across our operations.

I. Continued growth across our pet care ecosystem

- The number of active VIPs increased 17% YoY to 6.6m.
- 26% of all VIPs shopped across more than one channel during the quarter, up 18% YoY.
- The number of Puppy and Kitten Club members grew 167% YoY, with our TV campaign helping to generate our strongest ever week of new sign-ups during the quarter.
- New client registrations across our First Opinion veterinary practices remained strong, averaging over 10,000 per week.
- The number of subscription plans[4] across the Group grew 24% YoY to over 1.3m, generating over £100m in annualised recurring customer sales.

II. Investing to grow the Pets at Home ecosystem

We continue to be laser-focused in the execution of our strategic priorities to become the best pet care business in the world.

- We are mobilising on “Polestar”, our digital transformation programme, and, with our first three agile squads of engineers and designers now formed and our partners on-boarded, have commenced the initial sprints to create this transition in our digital capability. “Polestar” is an agile programme which is planned to deliver customer value through defined phases over the next 18 months, starting with the development of our mobile customer app, to make shopping with us easier and more convenient, and a single customer login to enable frictionless access to all of our pet care services.
- Development of our new storage and distribution facility in Stafford commenced at the end of the quarter. Scheduled to become fully operational in Summer 2023, our design initiatives incorporate a modular approach to automation, giving maximum flexibility in stock holding and fulfilment capacity, as well as a clear focus on sustainability, targeting a BREEAM rating for the build of “Excellent” and including the use of LED lighting, solar energy, rainwater harvesting and maximising biodiversity. Consolidation of our two legacy distribution facilities will be carefully timed to minimise operational disruption.
- Our store regeneration programme continued during the quarter, with two new pet care centres in Handforth and Clacton-on-Sea featuring our latest thinking on digital functionality, multi-use event space and our services proposition. The Handforth pet care centre is also the first to incorporate our new vet operating concept, using innovation to deliver clinical working efficiencies and an enhanced client experience. We are also progressing our store rollout opportunity within Greater London, with two new sites scheduled for opening during the second half of this year.

III. Initiatives to drive productivity gains across our operations

We, like many others, are witnessing a number of inflationary pressures across the supply chain, most notably on freight rates, and are proactively mitigating these challenges through specific initiatives to increase operational efficiency across our business.

- Our programme of rent renegotiations continues, with recently negotiated reductions typically in excess of 20%.
- Our work to reduce the costs of goods not for resale (GNFR) continues and a new project to improve product availability and lower fulfilment costs commenced during the quarter.
- Our trial to deliver orders placed online from store stock, utilising our store estate more effectively as a distribution network, commenced at the end of July, and, once scaled, is expected to generate cost efficiencies relative to our existing, centrally fulfilled model.

IV. Continuing to meet our obligations as a responsible corporate citizen

Meeting our obligations as a responsible corporate citizen remains paramount and we made encouraging progress in the quarter across our three pillars of planet, pets and people.

- **Planet:** We commenced the rollout of in-store recycling units for pet food packaging during the quarter, utilising an industry-first pyrolysis process to recycle flexible, rigid and complex plastics, and plan to extend these units into the majority of our stores over the next 18 months.
- **Pets:** The Pets at Home Foundation awarded 28 grants to charities totalling £0.3m during the quarter. The Foundation recently broadened the number of charities it could support to include those which help people through pets.
- **People:** In partnership with the Prince's Trust, Pets at Home is supporting the Government's Kickstart programme to provide work opportunities to young people. We currently have 71 "kickstarters" working in a variety of roles across our business, and plan to extend this to over 200 roles this year.

Peter Pritchard, Group Chief Executive Officer, commented:

It is pleasing to note that many of the positive trends from our last financial year have accelerated in the current quarter. Key indicators point to continued growth in pet ownership, providing a supportive backdrop to long-term growth across the underlying market and our business, and we continue to see strong growth in new customers, subscription plans and veterinary clients. I remain incredibly grateful to all our colleagues and Partners across the Group for their continuous hard work and excellent customer service.

Our unique, omnichannel pet care strategy continues to deliver, with strong momentum across both sides of our business, as well as good progress against our strategic priorities, meaning we look to the future with much confidence.

\- End of announcement -

Conference call

A conference call for analysts and investors will be held at 09.00am today. To join the call in listen-only mode, please click on the following link (https://brrmedia.news/PETS_FY22Q1). Those wishing to participate in the Q&A session should email petsathome-Maitland@maitland.co.uk for details. A recording will be available at http://investors.petsathome.

Strategic Key Performance Indicators

	Q1 FY22	Q1 FY21	YoY change
Number of customer transactions (m)	20.4	15.2	*34.6%*
Customer sales[3] from services[5]	33.2%	31.8%	*141bps*
VIP customer sales[3,6] (£m)	1,002.9	798.5	*25.6%*
Customer sales[3] per colleague (£k)	63.8	48.9	*30.5%*

1. *Like-for-like growth comprises total revenue in a financial period compared to revenue achieved in a prior period, for stores, omnichannel operations, grooming salons, and vet practices that have been trading for 52 weeks or more.*
2. *Defined as orders placed online at petsathome.com and in-store using our order-in-store service, plus subscriptions to monthly flea & worm treatments via the 'Subscribe & Save' platform.*
3. *Defined as statutory Group revenue, but excluding Joint Venture fee income recognised within Vet Group revenue and including the gross customer sales made by these Joint Venture practices instead*
4. *Defined as total number of plans across Vet Group health plans, or omnichannel subscription platforms Easy Repeat and Subscribe & Save*
5. *Defined as gross customer sales made by JV vet practices, revenue from our Specialist Referral centres (up until the date of disposal on 31 December 2020) and company managed vet practices, grooming services, subscriptions, pet sales and pet insurance commissions*
6. *VIP customer sales are shown on a rolling 12 month basis rather than a year-to-date basis*

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About Pets at Home

Pets at Home Group plc is the UK's leading pet care business; our commitment is to make sure pets and their owners get the very best advice, products and care. Pet products are available online or from our 452 stores, many of which also have vet practices and grooming salons. Pets at Home also operates a UK leading small animal veterinary business, with 442 First Opinion practices located both in our stores and in standalone locations. For more information visit: http://investors.petsathome.com/

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