



Pets
at Home

Vets for **Pets**

Investment Analysis Report

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Introduction

Each member's main research area and company's basic information



Pets at Home

- Founded in 1991 
- Providing pet food, supplies and services 
- Covering dogs, cats, fish and small animals

(Pets at Home, 2023)

The **biggest** specialized pet supply retail company in UK

(Thermoscreens, n.d.)

- 457 pet care centres
- 7.7 million VIP members
- Developing business expansion actively in FY23



“We are all for pets.”

(Pets at Home, 2023)



Environment Analysis

Porter's Five Forces Frameworks, SWOT Matrix,
ESG Frameworks



🐾 Environment analysis | Porter's Five Forces



- Bargaining power of suppliers & customers

Large number of suppliers

*There are 360 active suppliers for Pets at Home, they are found all over the world (Pets at Home, 2023).

*Partner with platform to make suppliers switching easier (Ress, 2022).

Switching costs are low for suppliers to be replaced by Pets at Home.

Suppliers have **weak** power

Easy access to other products

*Consumers generally buy goods more than one store (World Economic Forum, 2021).

*Consumers buy the same type of goods through the Internet (Venkatakrisnan and Loganathan, 2018).

Consumers can easily buy goods from other stores and even online platforms.

Customers have **strong** power

- Threat of new entrant & competitive rivalry

Economies of scale

*Firms operating at the least efficient scale have a cost advantage (Kenton, 2022). And it takes time for new brands to be accepted (Deqing et al., 2023).

Pets at Home has formed economies of scale, New online entrants can not replace the old model in the short term.

The UK's fastest growing retailer

*Not only the UK's biggest pet retailer, also online sales were nearly twice that of the second online retailer (Thermoscreens, n.d.; Statista. 2022).

As a retailer, Pets at Home has been successful in both offline popularity and online sales.

The potential of new entrants into the industry is difficult;
The intensity of competitive rivalry is not serious.

- Threat of substitute products

Automated grocery store

*Cashier-free shop or automated grocery store has been implemented by technology (Makeuseof, 2020). Staff costs are lower (Petsathomeplc, n.d.). And the location is even more unrestricted (Denuwara, Maijala and Hakovirta, 2021).

The new offline retail store model is more economically feasible.

E-commerce live broadcasting

*Compared to past online sales, new technologies enable real-time communication (Vimos, n.d.). And new live stream that cheaper than social advertising (Restream team, 2023).

Online live stream can shorten the distance from marketing to transaction.

Threat of substitute products, offline and online, is more effective with the development of technology.

🐾 Company analysis | SWOT Matrix

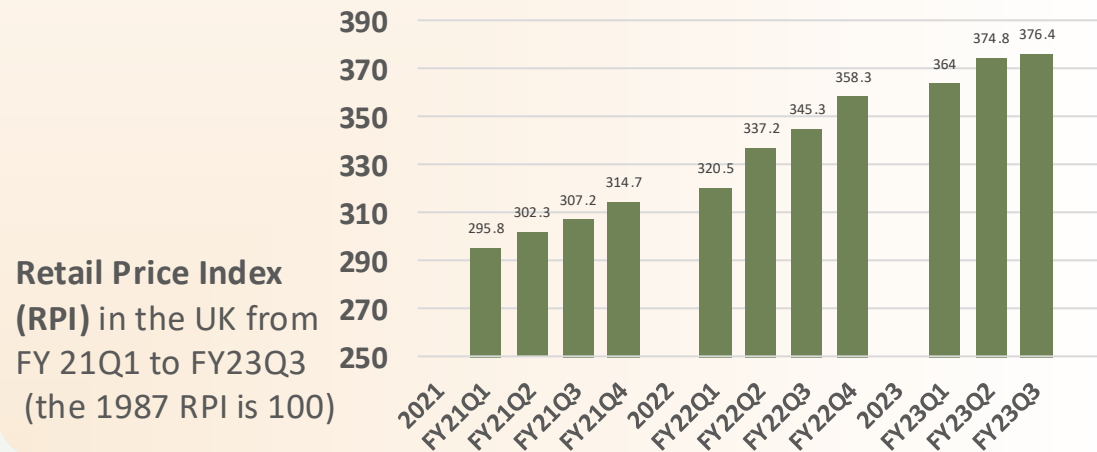
- Threats & Opportunities



Controllable Threats

*New technology is starting to disrupt the traditional retail business model (McKinsey&Company, 2022).

*The UK RPI annual inflation rate is still rising (Statista,2023).

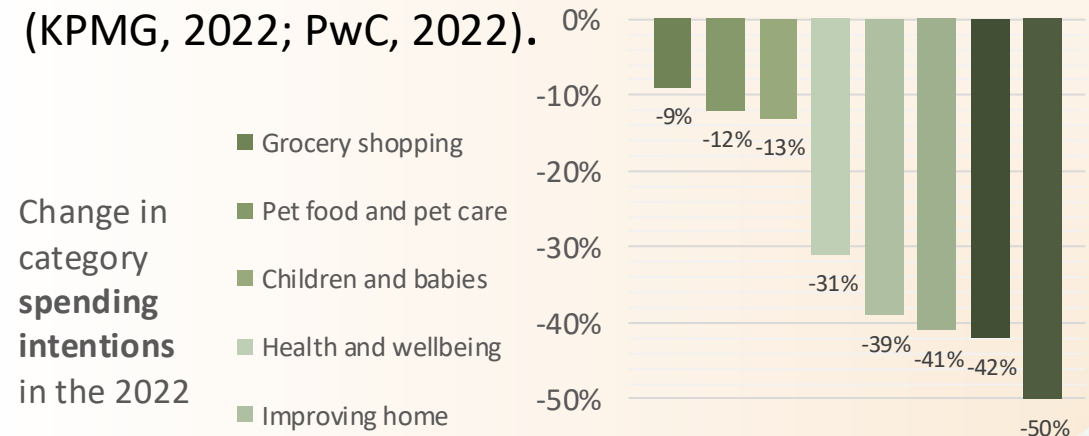


New technology & inflation

Predictable Opportunities

*Britain has entered an aging society, and the elderly have a high demand for pets (SCAS, 2023; Statista,2023).

*Even in the recession, pets are the second option that can't be given up (KPMG, 2022; PwC, 2022).



Consumer needs & preferences

Company analysis | SWOT Matrix

- Weaknesses & Strengths



Temporary weakness

* For the traditional business model, Pets at Home will gradually become less competitive, and it is difficult to transform quickly (Pets at Home, 2023; Ideas into Business, 2021).

* For lack of own brand products, consumers usually choose the brand of the product, and Pets at Home has few items under its own brand (Zhang, 2010).

Traditional model & branding

Obvious strengths

* For high brand communication, the number of pets stores in the UK market is largest (Pets at Home, 2023). For British pet lovers, the store is a household name.

* For steady financial development, the company's like-for-like revenue (comparable-store sales) grew 7.9% (Pets at Home, 2023).

Widespread stores & growing

Environmental

The tCO2e emissions have reduced by 41% since 2016.

*Over 7 million pouches for complete recycling
Pet Pouch Recycling Scheme
*100% renewable to the main energy contracts



Social

Pets at Home Foundation, the largest grant giver to pet rescues in the UK.

*Over 450 centres small pet adoption centres building a forever loving home
*£30 million supporting to pets and people for community partnerships



Governance

1st Place Winner of *HR Impact award* at *Personnel Today* awards 2022.

*More than 90% of office and retail colleagues diversity and inclusion training
*10,300 colleagues receiving an award of free shares at a 20% discount option price



Reducing costs and improving reputation for enterprises, and sustainability has a key source of sustainable growth and competitive advantage.

(Mckinsey, 2019; Pets at Home, 2023; United Nations, 2023)



Financial Analysis

Profitability, liquidity, working capital policy, capital structure policy and market position





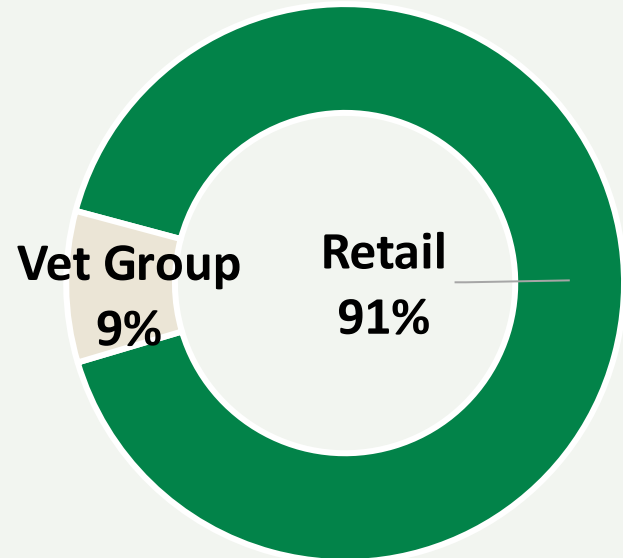
Two main businesses

Retail

A wide range of pet products is available both online and in the stores, which offer far more to the pet owner than just a place to buy food and accessories.

Vet Group

Provide a comprehensive range of small animal veterinary services through a network of general practices which handle all aspects of general veterinary care, as well as offering round-the-clock veterinary telehealth advice and triage.



Gross margin 47.59%

Net margin 7.98%

- The company's revenue for the 52 week period ended 30 March 2023 is £1,404.2m. The revenue from retail sector for the 52 week period ended 30 March 2023 is £1278.7m.

Competitors



Similarly
business model

Same industry - **retail**



Pet supplies, services, and products for various companion animals (Petco, 2023).

A leading British retailer sells food, clothing and homeware (M&S, 2023).

General merchandise, groceries, and discount stores retail (Walmart, 2023).

grocery and convenience store retail (SPAR, 2023).

**Main
business**

**Gross
margin**

39.62%

36.95%

24.09%

19.85%

**Net
margin**

1.05%

3.24%

1.83%

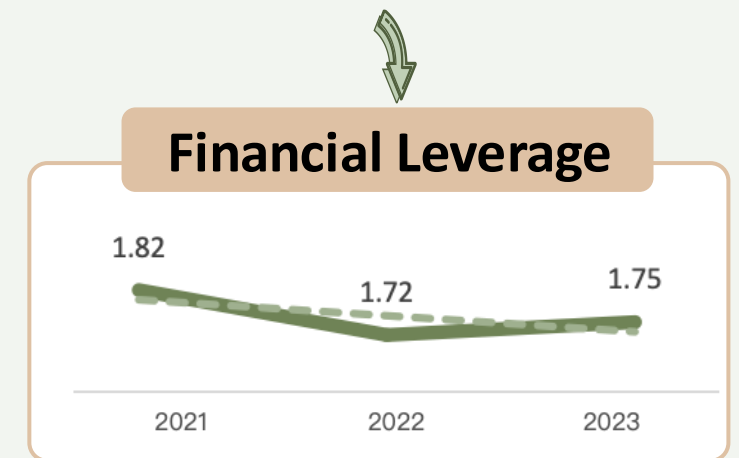
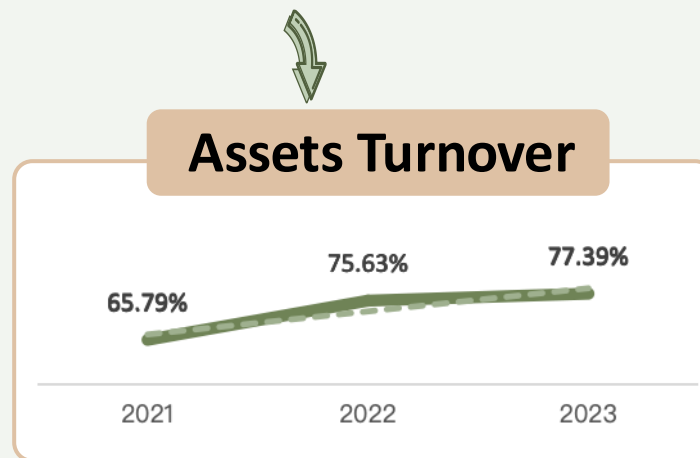
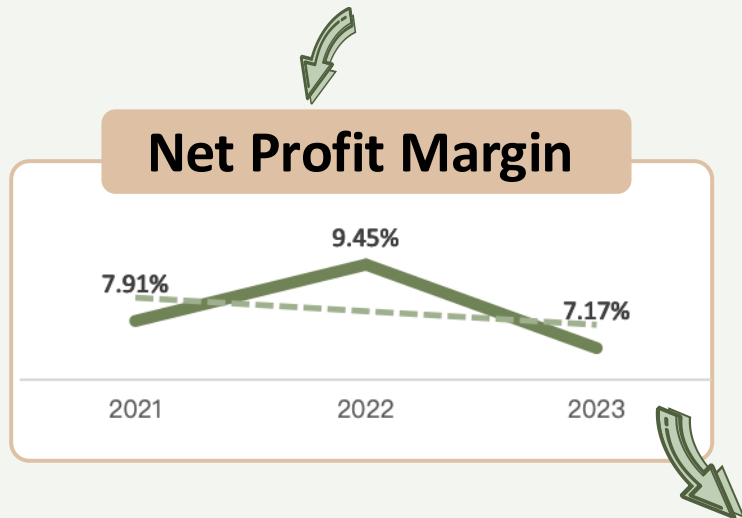
-0.37%

* Ratios comes from <https://uk.finance.yahoo.com/> and <https://www.macrotrends.net>

🐾 Profitability | Dupont analysis

Pets at Home	2021	2022	2023
ROE	9.48%	12.29%	9.71%


$$\text{ROE} = \frac{\text{Net Income}}{\text{Revenue}} \times \frac{\text{Revenue}}{\text{Average Total Assets}} \times \frac{\text{Average Total Assets}}{\text{Total Equity}}$$



- *The net profit margin fluctuates significantly in the three factors, while the rest two factors are relatively stable.*

🐾 Profitability | Dupont analysis - Net Profit Margin



- 2021-2022—**Increase:** 

The pet industry has experienced significant **growth** and witnessed an **upsurge in people's expenditure on pets** following the conclusion of the epidemic (Bacevicius, 2022).

- ***Pets at Home's revenue and net income rose significantly***


(From the income statement)

(Pets at Home, 2022)

	Note	53 week period ended 31 March 2022			52 week period ended 25 March 2021 (restated) ¹		
		Underlying trading £m	Non-underlying items (note 3) £m	Total £m	Underlying trading £m	Non-underlying items (note 3) £m	Total £m
Revenue	2	1,317.8	–	1,317.8	1,142.8	–	1,142.8
Cost of sales		(670.6)	0.1	(670.5)	(583.2)	0.6	(582.6)
Impairment gains/(losses) on receivables	3	0.7	–	0.7	(0.8)	–	(0.8)
Profit for the period		105.8	18.7	124.5	61.6	28.8	90.4

Profitability | Dupont analysis - Net Profit Margin



● 2022-2023—**Decrease:** 

● **From the income statement**

Revenue increased but expenses of non-underlying items in operating profit also increased:

- I. Building a **new distribution centre** which is due to become fully operational in summer 2023.
- II. As part of the transition, has incurred **operational and payroll costs** which it has classed as non-underlying. The items are split out as follows:

(Pets at Home, 2023)

	52 week period ended 30 March 2023 £m	53 week period ended 31 March 2022 (reclassified) ¹ £m
Non-underlying items		
Provisions for voluntary redundancies for colleagues at existing Distribution Centres	2.1	—
Provisions for retention bonuses for colleagues at existing Distribution Centres	1.8	—
Pre-opening costs for new Distribution Centre	4.0	—
Dual running costs of operating new and existing Distribution Centres	0.4	—
Project management costs of opening new Distribution Centre	0.7	—
Depreciation of property plant and equipment (dual running costs)	0.4	—
Depreciation of right-of-use assets (dual running costs)	0.7	—
Group restructure costs	2.7	—
Aborted transaction costs	0.1	—
Costs associated with the purchase of Joint Venture veterinary practices	—	(0.1)
Profit on disposal of subsidiary	—	(19.2)

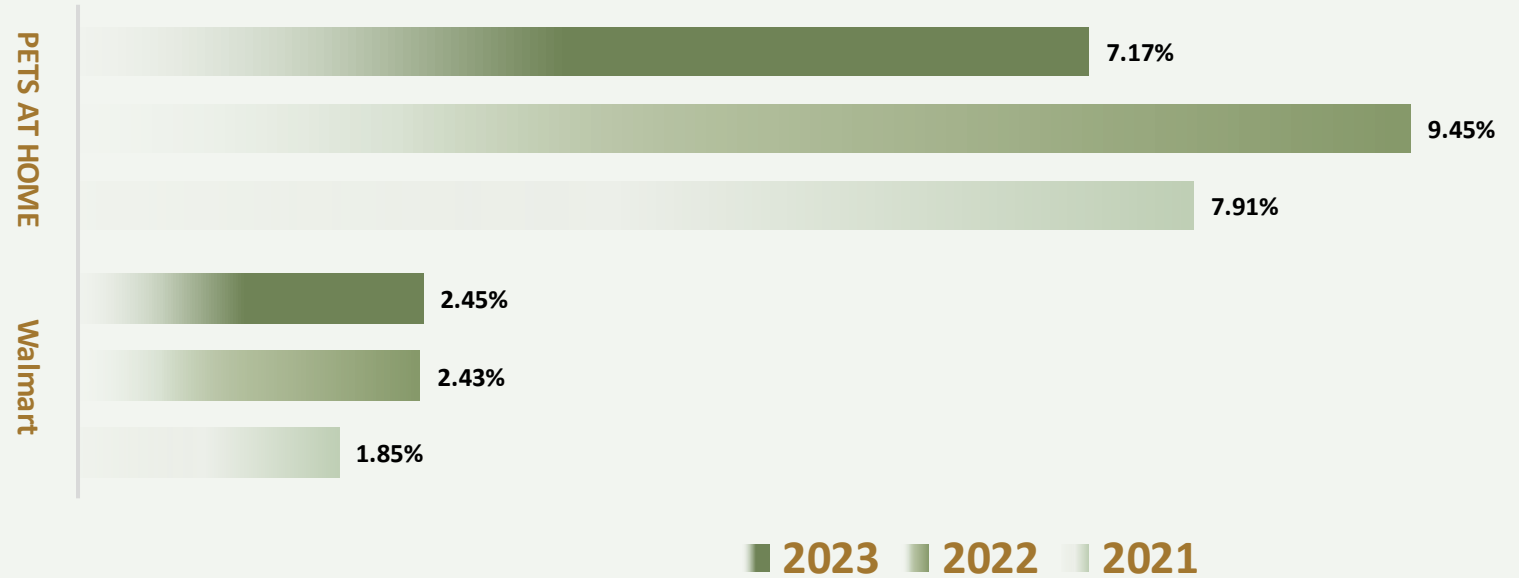
● From the cash flow statement

- I. It can also be seen that Pets at Home **purchased** a large amount of **property, plant and equipment and other intangible assets** to *build the new distribution centre*.
- II. The expense on property, plant and equipment and other intangible assets is **£20.2m** more than that in 2022.

Cash flows from investing activities		
Proceeds from the sale of property, plant and equipment	-	0.3
Interest received	2.7	0.3
Costs to acquire right-of-use assets	(1.9)	(0.3)
Acquisition of subsidiaries, net of cash acquired	(0.5)	(1.7)
Disposal of subsidiaries, net of cash disposed	0.4	0.6
Disposal of subsidiaries, net of cash disposed (non-underlying)	-	19.2
Acquisition of property, plant and equipment and other intangible assets	(75.7)	(55.5)
Net cash used in investing activities	(75.0)	(37.1)

In the same retail sector,
Pets at Home has a
*much larger net
profit margin*
than *Walmart*.

NET PROFIT MARGIN IN LAST 3 YEARS



Average Net Profit Margin (3Y)

Pets at Home

8.18%



Walmart

2.24%



The average quick ratio and current ratio in the retail industry are lower than in other industries, usually lower than 1

● Current ratio

Retail industry tend to have a lower current ratio than other industry because:

few trade receivables / a high level of trade payables / usually very tight cash control

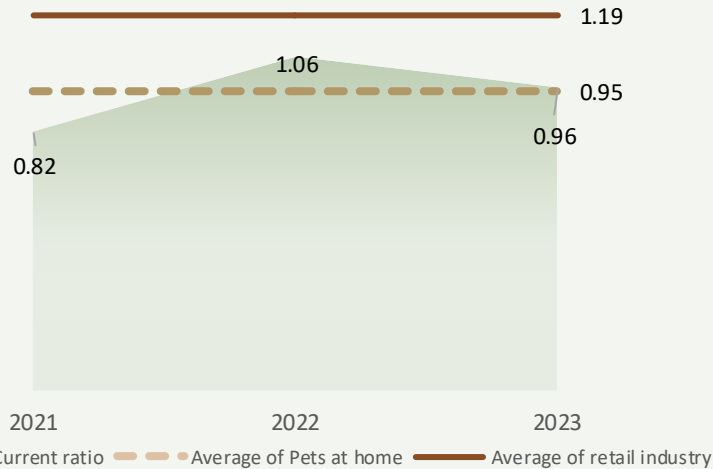
● Quick ratio

The extensive use of cash sales will result in more cash and fewer receivables, but as the return on non-investing activities is low, **to maximise the benefits**, companies will reduce their idle cash holdings by **investing activities**

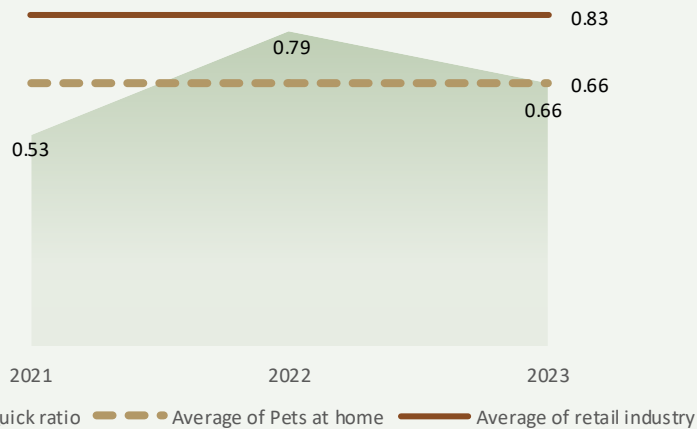
Less quick assets → *quick ratio < 1*

not mean the short-term solvency is weak

* Industry level comes from <https://www.cfajournal.org/average-current-ratio-retail-industry/>



Current ratio



Quick ratio

Working capital policy



Pets at Home	2021	2022	2023
Receivables collection period (days)	15.75	14.87	13.46
Inventory holding period (days)	52.44	46.00	53.72
Payables payment period (days)	132.25	122.37	129.35
Operating cycle (days)	68.18	60.87	67.18
Cash conversion cycle (days)	-64.07	-61.50	-62.17

➤ For Working capital policy, **Walmart** and **Petco** are selected as comparable companies:

Walmart was chosen because it is the largest **retail chain** in the world.

Petco is one of the leading companies in the **retail business of pet goods**.

Working capital policy - Operating cycle



Average (2021-2023)			
Company name	Petco	Walmart	Pets at Home
Inventory holding period (days)	65.32	41.58	50.72
Operating cycle (days)	68.26	6.45	65.41

➤ **Inventory management capability:** Walmart > *Pets at Home* > Petco

Walmart has adopted a **Just-In-Time supply chain**, and the management capability is **better** than Pets at Home, But compared to the same business model company, Pets at Home in recent years has **focused on improving delivery speed** and inventory management capabilities **better** than Petco.

➤ **Operating efficiency:** Walmart > *Pets at Home* > Petco

Because the receivables collection period of the three is not much different, the ranking of the operating cycle is the same as above.

🐾 Working capital policy - Cash conversion cycle



Average (2021-2023)			
Company name	Petco	Walmart	Pets at Home
Operating cycle (days)	68.26	6.45	65.41
Cash conversion cycle (days)	29.3	4.67	-62.58

➤ **Cash conversion capability:** *Pets at Home* > Walmart > Petco

Operating cycle = Inventory Period + Accounts Receivable Period

Cash conversion cycle = Inventory Period + Accounts Receivable Period - **Payables payment period**

➤ **Pets at Home has a long payables payment period represents:** 

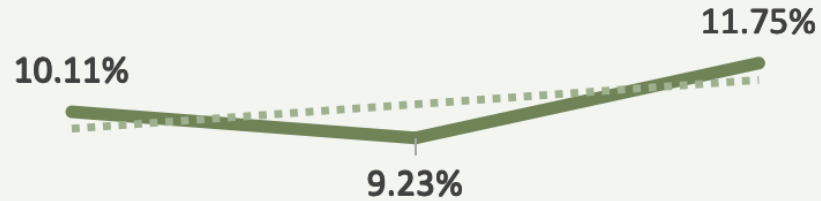
Good relationships with suppliers / Strong bargain power / Good credit

Pets at Home used the money to **invest** in pet medical and care companies to expand and refine its business (Pets at Home, 2023).

🐾 Capital structure policy



	Average (2021-2023)	
Company name	Marks & Spencer	Pets at Home
Debt-to-Equity Ratio	129.10%	10.36%

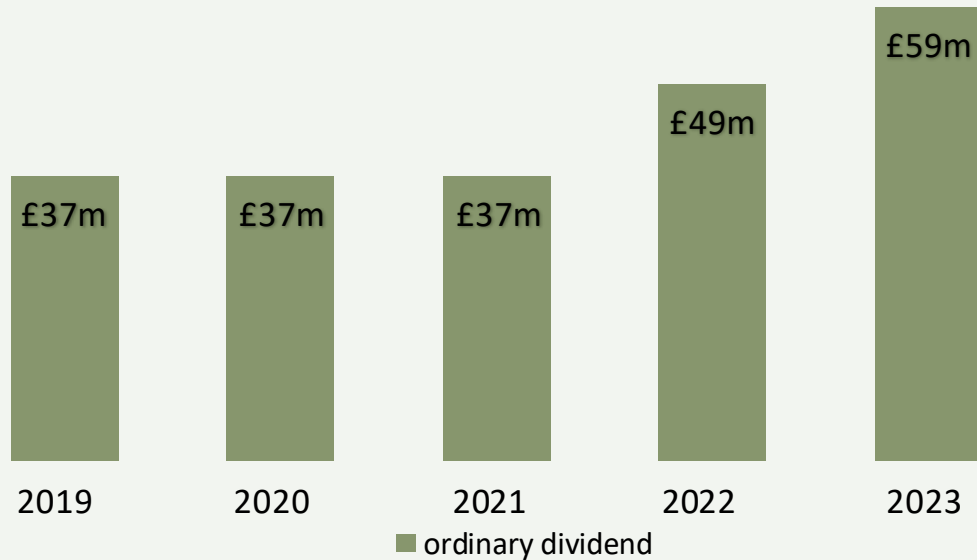


PETSATHOME	Debt-to-Equity Ratio
2021	10.11%
2022	9.23%
2023	11.75%

- The Debt-to-Equity Ratio of Pets at Home in the past three years has been **relatively stable**.
- Compared with Marks & Spencer (**equity value is similar**), Pets at Home's debt-to-equity Ratio is **more than 10 times smaller**, indicating the company prefers **Equity financing**.

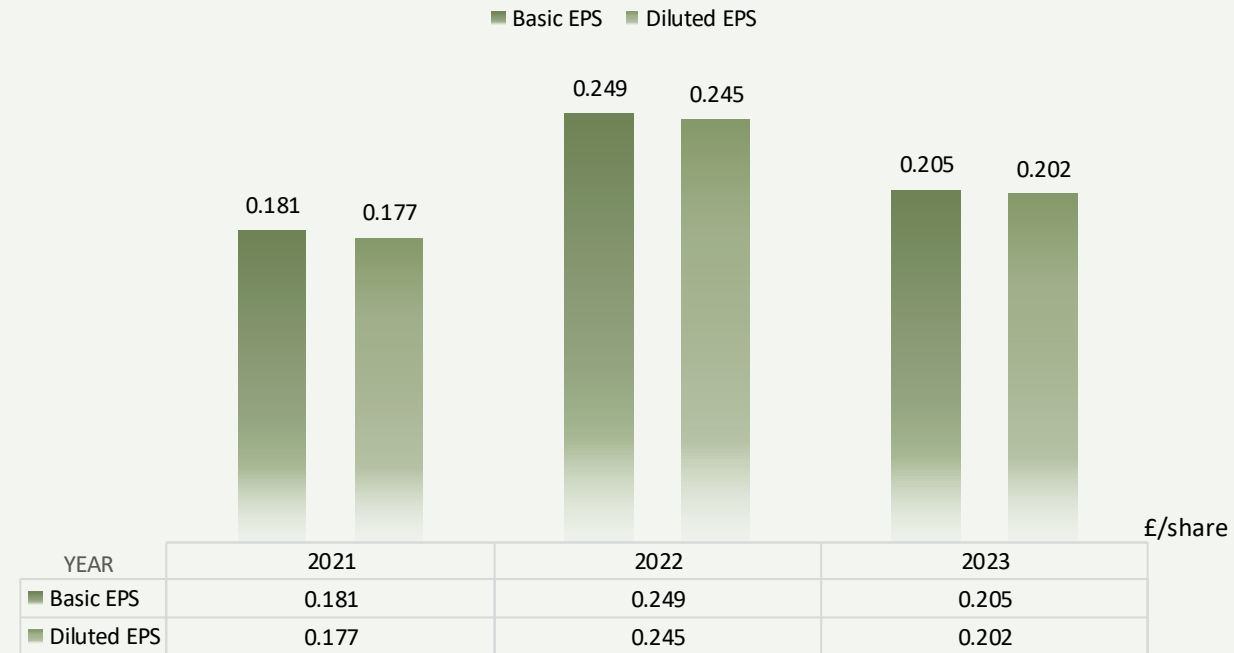
reduce reliance on debt / maintain high financial conservatism

more easily respond to uncertain market conditions / maintain stable operations / more flexibility for future development



- Over **£250m** returned to **shareholders** in the last 5 years.
- Surplus earning: Further **£50m** share **buy back** announced for FY24.

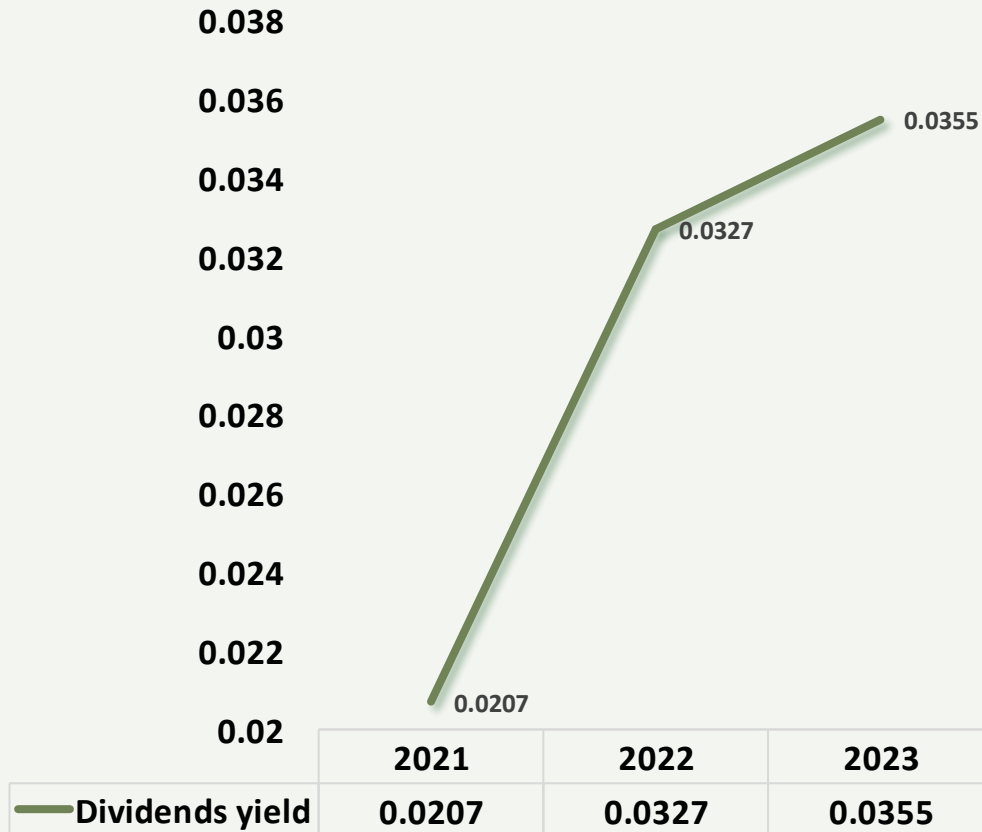
Basic EPS and Diluted EPS for Pets at Home



- **Shareholder Value Maximization:**
Ensures stable value, minimizing share price volatility for investors' confidence.

Dividend Yield +71.5%

in the past 3 years



➤ **Market Perception:**

A substantial increase reflects robust financial health, instilling heightened confidence among stakeholders.

➤ **Competitive Advantage:**

Superior yield establishes a competitive advantage, attracting investors seeking reliable income opportunities.

➤ **Stakeholder Commitment:**

Demonstrates a commitment to shareholder well-being by sharing profits consistently and predictably.

$$\text{Dividend cover} = (\text{EPS} / \text{Dividends per share})$$

$$\frac{\text{Earning}}{\text{Share}} \times \frac{\text{Share}}{\text{Dividend}} = 2$$

- Company has enough capital for **expansion** as company left **half** of the earning in retained earning, and distributed **half** of the earning in dividend ensuring **steady dividend** to shareholders.



Multiples Valuation

Comparing EPS, PE & EV/EBITDA with competitors
and cash flow analysis



🐾 Relative Valuation - Compare with competitors



Pets at Home **VS** SPAR



	P/E	EPS
SPAR	18.62	0.01
Pet at home	17.9	0.2

	SPAR	Pet at home
EV/EBITDA	3.44	7.44

- Even though Pets at Home's **EV/EBITDA** is *twice* that of SPAR
- There are still combined effect and investor attraction from **P/E** and **EPS**:

A **lower P/E ratio and higher EPS** enhances the attractiveness of Pets at Home, attractive as they may **represent better value for the price paid per share**.

Indicating the potential for a ***more attractive return on investment***.

🐾 Relative Valuation - Compare with competitors



Pets at Home **VS** Walmart



	P/E	EPS	P/E*EPS
Walmart	36.1	4.2	
Pets at Home	17.9	0.2	3.6
use Walmart P/E as benchmark			7.2

	Walmart	Pet at home
EV/EBITDA	15.21	7.44

- Walmart's P/E ratio implies Pets at Home's **theoretical market value** of **7.2**
the benchmarked estimation is presently **twice** of Pets at Home's **market value**
- Pets at Home's **EV/EBITDA** is **half** that of Walmart
 - **Undervaluation Signal: an investment opportunity**

Relative Valuation - Compare with competitors



Pets at Home VS Pecto

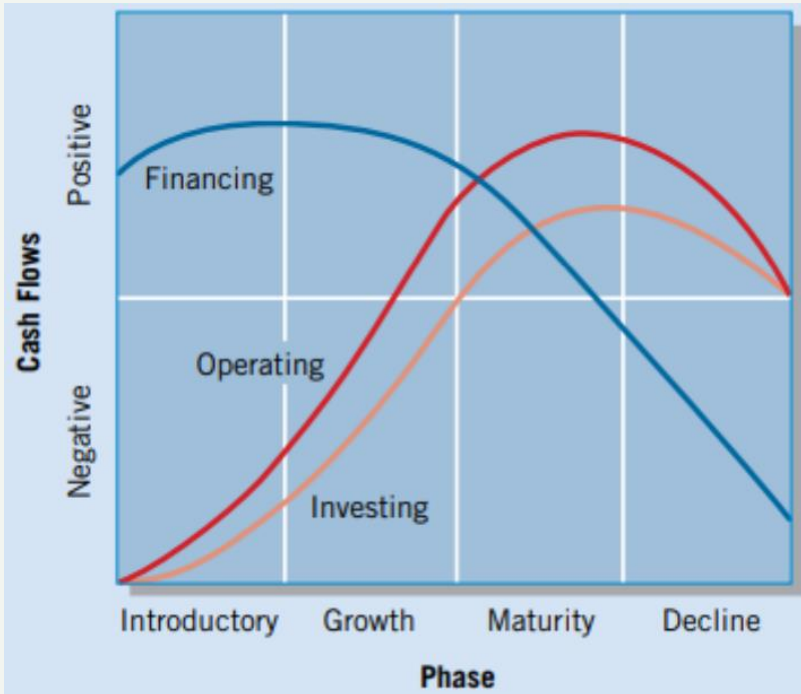


	P/E	EPS	P/E*EPS
Petco	41.5	0.24	
Pet at home	17.9	0.2	3.6
use Petco P/E as benchmark			8.4

	Petco	Pet at home
EV/EBITDA	12.16	7.44

- Petco's P/E ratio implies Pets at Home's **theoretical market value** of **8.4**
the benchmarked estimation exceeds presently **twice** of Pets at Home's **market value**
- Pets at Home's **EV/EBITDA** is **almost half** that of Pecto
- **Undervaluation Signal: an investment opportunity**

🐾 Relative Valuation - Cash flow analysis



Net cash flow from operating activities	251.2
Net cash used in investing activities	-75.0
Net cash used in financing activities	-164.2
Cash and cash equivalents at end of period	178.0

Net cash flow from operating activities and investing activities show that Pets at Home is in **growth or maturity phases**.

but the net cash used in financing activities indicate the **decline phase**.

- Pets at Home is **worth investing** in even if it may enter a **mature or decline phase**, as it continues to improve its business by **developing its veterinary business, establishing distribution centres, and building a full-process industry chain**



Limitation & Conclusion

A sound and effective investment opportunity,
and risk warning



Limitations

01

Accounting standards are not the same

IFRS: Pets at Home / SPAR / M&S

GAAP: Petco / Walmart



02

Lack of competitors in the same formula

Due to the particularity of the business, there is a lack of more than three competitors whose business is exactly the same.

03

Future impact of new business segments

Pets at Home is investing in the veterinary business, which are not fully integrated in annual report, but investors may consider the negative impact of the veterinary business.



*Stable
development*

Financial indices are stable, indicating strong competitiveness is higher than peers.

In addition, Pets at Home is the biggest specialized pet supply retail company in the UK.

*Expanding
business*

Pets at Home started to invest in its upstream and downstream industrial chain to improve its competitiveness in the pet industry.

And an explosion in ESG provides a good foundation for the future sustainability of the company.

- **Investment in Joint Venture veterinary practices are not consolidated in these financial statements**

The Group has several non-participatory shareholdings in veterinary practice companies, which are accounted for as Joint Venture arrangements. The veterinary practices were established under terms that require mutual agreement between the Group and the Joint Venture Partner, and do not give the Group power over decision making, nor joint control.

- **As a guarantor takes on certain risks**

Pets at Home is a guarantor for the lease for veterinary practices that are not located within Pets at Home stores also a guarantor to a small number of third parties where the lease has been reassigned.

(Pets at Home, 2023)



Reference & Appendix

Reference list and appendix of calculation



Appendix of calculation



Profitability:

Net Profit Margin=Net income/Revenue=£100.7m/£1404.2m=7.17% (2023)

Assets Turnover=Revenue/Average Total Assets=£1404.2m/£1814.5m=77.39% (2023)

Financial Leverage=Average Total Assets/Average Equity=£1814.5m/£1037.4m=174.91% (2023)

Return on Equity=Net Profit Margin × Assets Turnover × Financial Leverage=9.71% (2023)

Net Profit Margin =Net income/Revenue=£124.5m/£1317.8m=9.45% (2022)

Assets Turnover= Revenue/Average Total Assets=£1317.8m/£1742.45m=75.63% (2022)

Financial Leverage=Average Total Assets/Average Equity=£1742.45m/£1013.1m=171.99% (2022)

Return on Equity=Net Profit Margin × Assets Turnover × Financial Leverage=12.29% (2022)

Net Profit Margin =Net income/Revenue=£90.4m/£1142.8m=7.91% (2021)

Assets Turnover=Revenue/Average Total Assets=£1142.8m/£1737.1m=65.79% (2021)

Financial Leverage=Average Total Assets/Average Equity=£1737.1m/£953.75m=182.13% (2021)

Return on Equity=Net Profit Margin × Assets Turnover × Financial Leverage=9.48% (2021)



Appendix of calculation

Liquidity:

Receivables collection period = Trade receivables/Revenue *365 = £ 51.8m/ £ 1404.2m*365=13.46	(2023)
Receivables collection period = Trade receivables/Revenue *365 = £ 53.7m/ £ 1317.8m*365 = 14.87	(2022)
Receivables collection period = Trade receivables/Revenue *365 = £ 49.3m/ £ 1142.8m*365= 15.75	(2021)
Inventory holding period = Inventories/Cost of sales*365 = £ 108.6m/ £ 737.9m*365=53.72	(2023)
Inventory holding period = Inventories/Cost of sales*365= £ 84.5/ £ 670.5m*365=46.00	(2022)
Inventory holding period = Inventories/Cost of sales*365 = £ 83.7m/ £ 582.6m*365=52.44	(2021)
Payables payment period=Trade payables/cost of sales*365= £ 261.5m/ £ 737.9m*365 =129.35	(2023)
Payables payment period=Trade payables/cost of sales*365= £ 224.8m/ £ 670.5m*365=122.37	(2022)
Payables payment period=Trade payables/cost of sales*365= £ 211.1m/ £ 582.6m*365=132.25	(2021)
Operating cycle = Inventory days + TR days =53.72 +13.46=67.18	(2023)
Operating cycle = Inventory days + TR days =46.00 +14.87=60.87	(2022)
Operating cycle = Inventory days + TR days =52.44 +15.75=68.19	(2021)



Appendix of calculation

Cash conversion cycle=Inventory days+TR days-TP days=53.72 +13.46-129.35= (62.17) (2023)

Cash conversion cycle=Inventory days+TR days-TP days= 46.00 +14.87 -122.37 = (61.50) (2022)

Cash conversion cycle=Inventory days+TR days-TP days=52.44 +15.75-132.25= (64.07) (2021)

Capital structure:

Debt-to-Equity Ratio = Debt/equity = £ 120.5m/ £ 1025.1m=11.75% (2023)

Debt-to-Equity Ratio = Debt/equity = £ 96.9m/ £ 1049.7m=9.23% (2022)

Debt-to-Equity Ratio = Debt/equity = £ 98.7m/ £ 976.5m=10.11% (2021)

Fro stocks:

Basic EPS= profit after tax attributable to shareholders/weighted average numver of shares=£90.4m/£500m=0.18 (2021)

Basic EPS= profit after tax attributable to shareholders/weighted average numver of sharesg=£124.5m/£500m=0.249 (2022)

Basic EPS= profit after tax attributable to shareholders/weighted average numver of shares=£100.7/£491.9m=0.205 (2023)

Diluted EPS=profit after tax attributable to shareholders/weighted average numver of shares=90.4/511.6 =0.177 (2021)

Diluted EPS=profit after tax attributable to shareholders/weighted average numver of shares=124.5/507.4=0.245 (2022)

Diluted EPS=profit after tax attributable to shareholders/weighted average numver of shares=100.7/498.4=0.202 (2023)



Appendix of calculation

PE ratio=share price per share/EPS=3.862/0.1808=21.36 (2021)

PE ratio=share price per share/EPS=3.614/0.249=14.51 (2022)

PE ratio=share price per share/EPS=3.61/0.205=17.63 (2023)

Dividend yield=dividends per share/ share price per share=0.08/3.862=0.02 (2021)

Dividend yield=dividends per share/ share price per share=0.118/3.614=0.02 (2022)

Dividend yield=dividends per share/ share price per share=0.128/3.61=0.02 (2023)

EV/EBITDA= 1973.099/299.3=8.6 (2021)

EV/EBITDA= 1752.644/267.6=6.55 (2022)

EV/EBITDA= 1741.724/243.3=7.159 (2023)

Average EV/EBITDA=(8.6+6.55+7.159)/3=7.44



Appendix of calculation

Gross profit margin(Gross profit/sales) =£559.4m/£1142.8m =48.95%	(2021)
Gross profit margin(Gross profit/sales)=£648m/£1317.8m =49.17%	(2022)
Gross profit margin(Gross profit/sales) =£668.3m/£1404.2m =47.59%	(2023)
Net profit margin=(Net income/sales) =£90.4m/£1142.8m =7.91%	(2021)
Net profit margin=(Net income/sales) =£124.5m/£1317.8,=9.45%	(2022)
Net profit margin=(Net income/sales) =£100.7m/£1404.2m =7.17%	(2023)
Dividends cover(EPS/Dividends per share) = 0.181/0.08=2.26	(2021)
Dividends cover(EPS/Dividends per share) = 0.249/0.118=2.11	(2022)
Dividends cover(EPS/Dividends per share) = 0.245/0.128=1.58	(2023)
Average Dividends cover=(2.26+2.11+1.58)/3=2	



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Group 8

Pets at Home

presenters

Krista	202108080116	L5A-1
Ivy	202108080209	L5A-1
Lester	202108080127	L5A-1
Snow	202108080202	L5A-1

Other members

Echo	202108080118	L5A-3
Wendy	202108080212	L5A-1
Chelsea	202108080107	L5A-1

Q & A

“We are all for pets.”

(Pets at Home, 2023)