zooplus

INTRODUCING ZOOPLUS A.G.
Zooplus A.G. [ZO1G.DE - Market Capitalisation € 794.5 million][1] is a specialised online realtor of petcare products which is well positioned to benefit from the favourable tailwinds in the Petcare Industry.

Founded in 1999, Zooplus has been operating for more than 19 years and is today's leading online retailer for pet supplies in Europe. Zooplus already ranks as the second largest retailer in terms of sales in the overall European market, which includes both offline and online sales. The company sells around 8,000 products for the most popular types of pets. The product range includes pet food, accessories, and toys in all price categories. Zooplus customers not only enjoy an extensive product range with fast and free delivery, but also benefit from a variety of interactive content and community offers. Zooplus AG has already successfully launched its business model in 30 European countries. This makes Zooplus the only genuinely pan-European online retailer for pet supplies. Since its initial public offering in 2008, the company's sales have risen from € 80million to a total of €1,342million in the 2018 financial year.

ONLINE ADVANTAGE
Zooplus currently has ~4%-5% of the European petcare market, and it is expected that this share will grow over time due to increasing online purchasing by consumers. Online retail in petcare currently represents ~10%-12% of petcare sales in Europe, of which Zooplus captures ~50%. It is highly likely that online share of petcare sales in Europe grows to be over 15% to 20%. If Zooplus retains or grows market share within online retail it should be able to claim ~10% to ~15% of overall sales in Europe.

FACTORS AFFECTING OFFLINE TO ONLINE PETCARE PURCHASES
Compared to the US, which has ~30% of consumers utilising public transport for short term errands, the European number is ~70%.[2] In addition, due to the relative density of cities in key markets, housing shortages, and population inflows, Europeans increasingly display cost-conscious behaviour with many aspects of their consumer goods purchases. Such pressures have allowed for the proliferation of hard discount retailers such as ALDI and Lidl, which have taken significant market share from traditional grocery channel retailers. Pet care products are typically non-perishable, and as such it is generally preferable to buy in bulk. However, since European consumers typically perform errands by public transport, the possibility of increasing consumption basket size becomes impractical through physical retail channels. Online retailers solve this problem by delivering direct to the consumer's door. This enables consumers to increase consumption basket size. Given that Zooplus offers attractive pricing on bulk products the recurring value proposition to consumers increases.

DIFFERENTIATION vs. PEERS
A common concern about Zooplus is whether its value proposition is adequate in the world of Amazon. Amazon is a known generalist, providing the world's largest assortment of online products in many different categories. This makes them a very tough competitor, given that many consumers in Europe and the Americas start their product searches on the site. Zooplus, on the other hand, specialises in pet care products, meaning that its value will be derived from superior understanding of the pet care ecosystem and the competition. While the threat of large generalist online players like Amazon is not to be dismissed at there are a few reasons which make us believe that it is mitigated in the case of pet care. Zooplus can co-exist with Amazon in Europe and maintain its position as a specialist online category killer.

[1] As at 07/10/2019, when Share Price was €110.00.
[2] CityLab, *9 Reasons the US Ended up so much more car-dependent than Europe,* available at: https://www.citylab.com/transportation/2014/02/9-reasons-us-ended-so-much-more-car-dependent-europe/8226/

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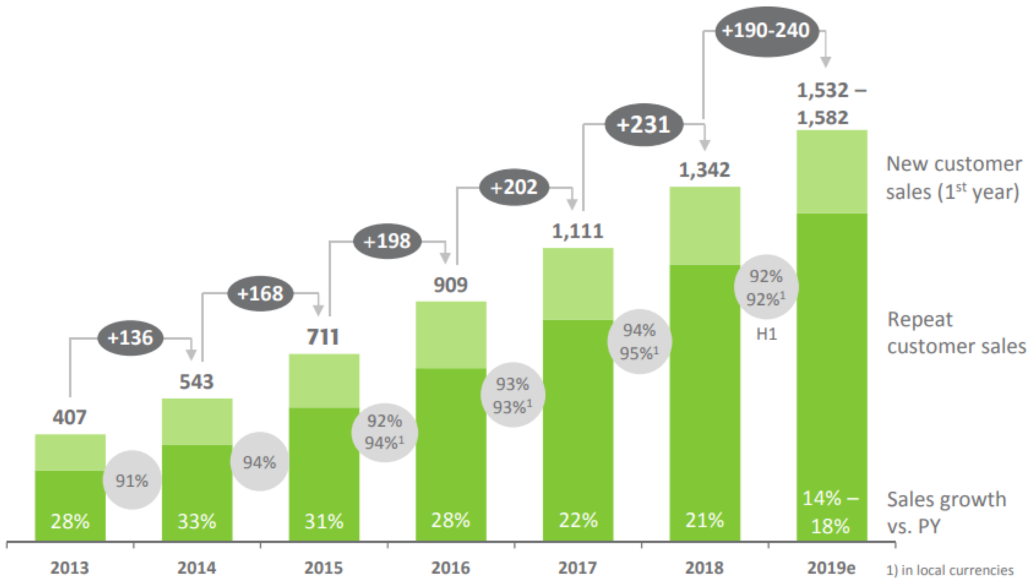
#1 - EMOTIVE FACTOR IN PETCARE PURCHASING

Petcare is a highly emotional area of purchase. As discussed, the "pet humanisation" trend in developed markets is set to continue for the years to come. Purchases of pet products are increasingly more emotional and trust-based. Consumers now value being able to use a brand they trust as a one-stop-shop for their pets' needs. We see a space for a specialised provider of petcare products alongside a generalist like Amazon, as evidenced by the success of the US company Chewy. Chewy, a specialised online pet care retailer, controls ~55% of the online pet food market in the US and has held share against an aggressive and growing Amazon for years.

Zooplus A.G. Sales by New and Recurring Customers



Source: Zooplus AG, Investor & Analyst Presentation, 14 August 2019.

#2 - BULK-BUYING LOGISTICS

The consumer preference to bulk-purchase items like pet food creates a "heavy" problem for generalists like Amazon, where packages are randomly stacked in distribution centres without reference to product category or weight. This creates an advantage for wholly owned scale operators like Zooplus which specialise in handling particular categories of goods such as large quantities of pet food.

#3 - A MANUFACTURER'S BEST FRIEND

Another advantage over Amazon is the relative ease for pet food manufacturers of working with Zooplus compared to Amazon in terms of integrating operating and logistics systems, and the treatment of premium offerings. Amazon's large scale and very low dependence on petcare as a product category might mean that Amazon is unable to adequately cater to the operational and brand needs of the manufacturer, leading to hesitancy by manufacturers to grow their brands on Amazon. Since Zooplus is specialised in petcare products, the number of manufacturers that Zooplus must deal with is smaller and consequentially the attention given to each one larger.

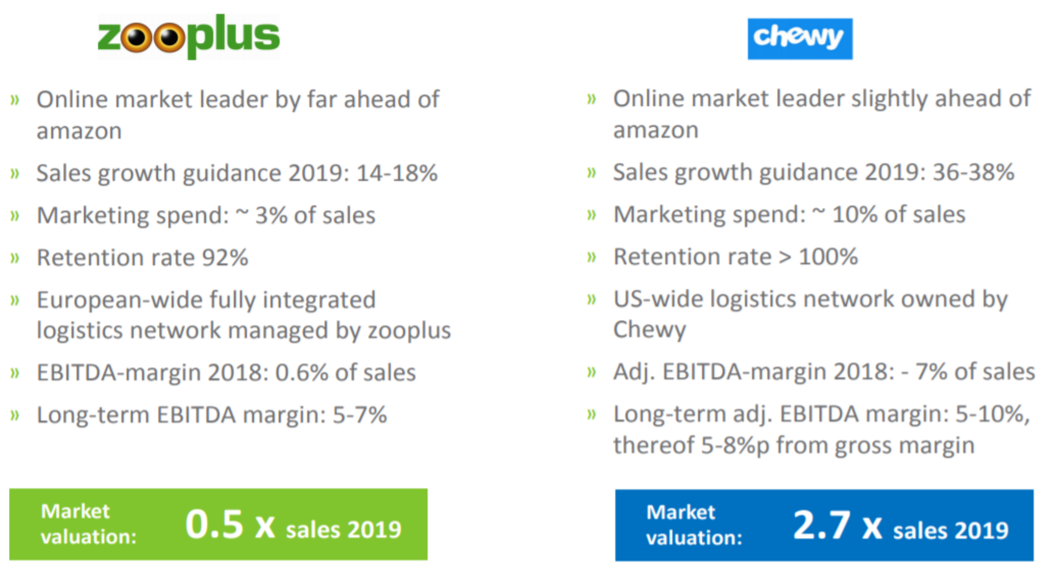
#4 - ASSORTMENT AND PREMIUM OFFERINGS

The overlap of products available on Zooplus and Amazon is limited to mass consumption brands and accessories. This creates a niche for online purchase of premium brands on the Zooplus platform. Several brands have reservations with listing premium products on Amazon due to the price cuts from recommended retail price that generally take place on the platform. The premium brands in pet care products see this as brand destruction and instead are inclined to list their products on Zooplus, which is more accommodating of manufacturers due to its specialisation and adaptability. This ability to sell premium products plays into the secular "pet humanisation" trend for pets, where consumers seek increasingly higher quality, premium, products for their pets.

#5 - FRAGMANTED COMPETITION
Other online competitors are fragmented and together hold less than 20% of market share for online pet care retail in Europe. Zooplus itself has over 50% market share for online petcare products, and given its incumbent competitive advantages, we do not see this receding in the medium term.

#6 - SHAREHOLDER STABILITY
Founder Cornelius Patt holds around ~4.7% of Zooplus' ordinary shares and continues to actively manage the company. In addition, Ruane, Cunniff & Goldfarb, very knowledgeable value investors based in New York, have continued to hold their 9% position which they established in 2010. The founder-led direction and long-term investment orientation of larger shareholders help the company maintain focus on building long-term, lasting value for all shareholders.

VALUATION + SUMMARY
A directly comparable peer to Zooplus is Chewy, the premier online pet care retailer of the US which listed on the 14 of June 2019 as CHWY.K on the New York Stock Exchange (NYSE). The slide below details the valuation gap between Zooplus and Chewy, despite a similar EBITDA margin profile and relative market dominance of Zooplus in Europe, versus Chewy in the US. *If Zooplus were to reach the multiple of sales currently demanded by Chewy, it would be worth north of €4B, around 500% greater than its current market valuation.* We are not, however, premising our investment on such an assumption.



Source: Zooplus AG, Investor & Analyst Presentation, 14 August 2019.

Zooplus today delivers investors positive EBITDA and, in our opinion, is perfectly positioned to benefit from the continuing consumer trend to online purchasing. In addition, scale advantages accrued to the firm result in cash savings which are profitably deployed in growing the platform or improving the company's private label proposition. The company specialises in online pet care retail, which gives it a strong value proposition relative to other online and offline competitors in European pet care retail. Finally, the company's long-term orientation, thanks to a strong founder presence and long-term shareholders, provides the company the managerial stability needed to ensure the company's long-term focus and growth of market share in European petcare retail.

This summary report was written in October 2019.