

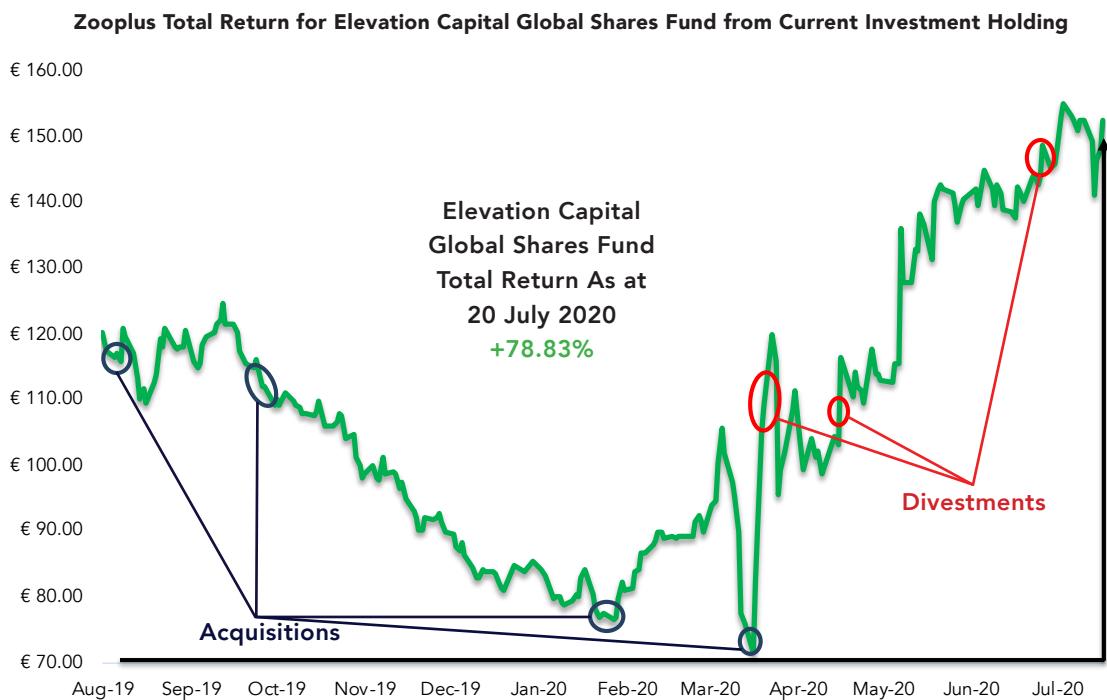
ELEVATION CAPITAL
GLOBAL SHARES
FUND

zooplus

“THE BEST FOR YOU AND YOUR PETS”



Zooplus AG (ZO1G.DE, Market Capitalisation EU € 1.09B)¹ is Europe’s leading e-commerce pet retailer for all things furry. Founded in 1999, Zooplus today ranks as the second largest pet products retailer in terms of sales in the overall European market, which includes both offline & online sales. In its own niche, it is the largest online retailer with a dominating market share of >50% currently offering its products/services to 24 countries. We previously published our initial report on Zooplus in October 2019, since then, partially due to COVID-19, and also the continuing trend of pet-humanisation (the phenomena of treating pets as humans), Zooplus has experienced an increase in its market capitalisation of +37.19%, representing a total return for the Elevation Capital Global Shares Fund of +73.83% as at 20 July 2020 utilising our cost basis and still remains a ~3.5% investment in the Fund.



[Blue & Red Circles represent acquisition and divestment dates for the Elevation Capital Global Shares Fund]

“Pet food is seen as an essential category to pet owners. It ranks exactly at the same level as catering for their (pet owners) own nutrition”

- Cornelius Patt - CEO Zooplus AG

SALES HAVE INCREASED - DURING THE PANDEMIC

There are a number of factors contributing to Zooplus' improving revenue that has grown annually at +21.23% since 2015.

Recession Proof Business Model:

Zooplus has not slowed down during the global pandemic, the opposite in-fact. As consumers were forced into their homes Zooplus experienced an uptick in sales during lock downs. This increase is not solely down to Zooplus being an online service, as traditional marketplaces (supermarkets) for pet food were still operating, but with more time on their hands consumers became exposed to Zooplus and found the service offered by Zooplus to be an appealing one. Remember - pets need to be fed everyday.

Successful Customer Acquisition Strategies:

Zooplus has experienced both an increasing number of active users which has grown to 7.647mln as at 31 December 2019, and first time buyers, adding 3.309mln new customers throughout 2019. Consumers have been won over by Zooplus' services, once they experience the one-stop-shop for all pet needs with consistent and fast delivery, they stay.

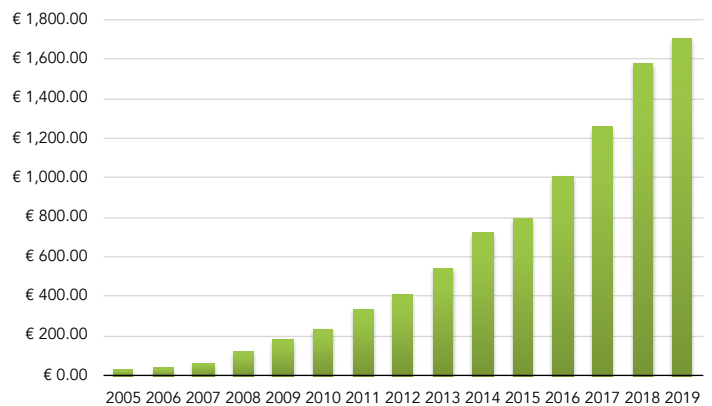
Impressive Retention Rate:

Zooplus has maintained a customer retention rate of +90% since 2014. This success is attributable to its product diversity, consumer trust and loyalty programs. Furthermore, due to the nature of pet products and the quality of products supplied by Zooplus, the company experiences a close to 0% order return rate.

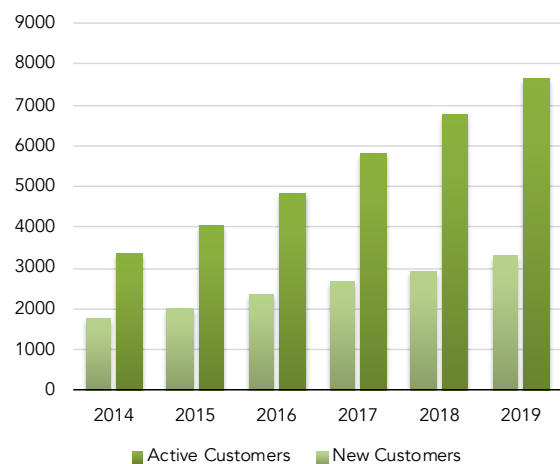
Geographic Diversity:

Zooplus began operations in Germany. Not wanting to be overly exposed to one market, the company has expanded its offering across Europe setting up distribution hubs throughout the continent which enables an agile supply chain promoting speed of delivery to pet owners.

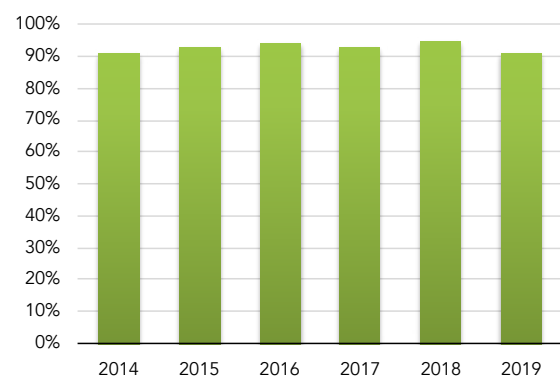
Zooplus Revenue (EUR mln)



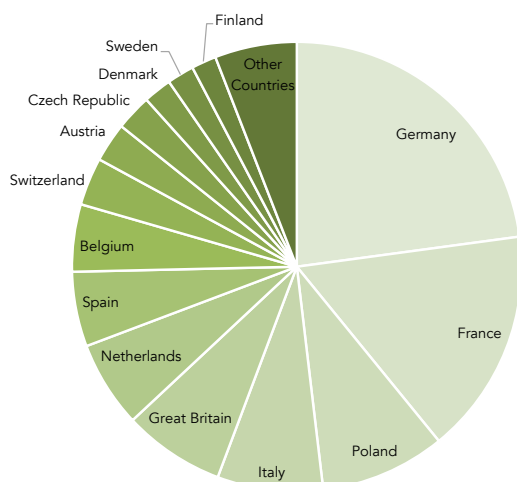
Zooplus Active & New Customers (000's)



Zooplus Sales Retention Rate (%)



Zooplus Geographic Revenue Distribution



WHY ZOPLUS IS BETTER THAN THE COMPETITION

E-commerce retail is a competitive marketplace, finding ways to differentiate from competitors to develop unique selling points is the only way to retain and grow market share. With generalists like Amazon make it an increasingly competitive landscape for companies like Zooplus, there are still a number of reasons why we believe Zooplus is well positioned to dominate the online pet care sector in Europe.

Loyalty Program:

Zooplus is committed to returning value to its customers. Loyalty programs, when employed properly, improve customer retention and often results in larger spends per customer. Zooplus currently offers three loyalty programs which are detailed later in this report. By collecting data on its users, Zooplus understands its customers better, enabling Zooplus to employ a more targeted and personalised approach to each customer using machine learning to tailor each customers shopping experience.

Emotive Factor in Pet Care Purchasing:

Petcare is a highly emotional area of purchase. As previously 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 pet care 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.

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.

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.

Assortment & 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, where consumers seek increasingly higher quality, premium, products for their pets.

Fragmented 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.

Shareholder Stability:

Zooplus management hold around ~5.00% of Zooplus’ ordinary shares and continue to actively manage the company. 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.

AGILE SUPPLY CHAIN

One of Zooplus's largest strengths is its pan-European, technology driven logistics network which when faced with an increase in demand as people sought alternative ways to purchase pet-food & pet products during the pandemic, enabled Zooplus to service its customers with negligible disruption. Zooplus currently delivers to 24 countries in Europe and is attempting to capture an increased market share in all 24 countries year-on-year. A highly functional supply chain is a cost saver for Zooplus. In Q1 2020, logistics and fulfillment as a percentage of sales was 17.99%, compared with Q1 2019 when it was 18.70%. Zooplus recognises that minimising its variable costs is a key to its path to profitability. To achieve this, the company has added additional capacity in transportation. During the pandemic, Zooplus was able to successfully shift inventories within the network to ensure timely product availability for customers. Zooplus currently offers free shipping on standard orders above €49, to maintain its margins the company is taking steps to ensure its delivery service is efficient and inventory levels are constantly monitored in its distribution hubs.

3 PILLARS OF LOYALTY AT ZOOPLUS

Vital to Zooplus' future growth is developing and maintaining a bond with its customers. Consumers who are loyal and trust Zooplus will return to the platform boosting revenue retention and word-of-mouth marketing. The three main tools that work for Zooplus to develop this loyalty are:

SaverPlan

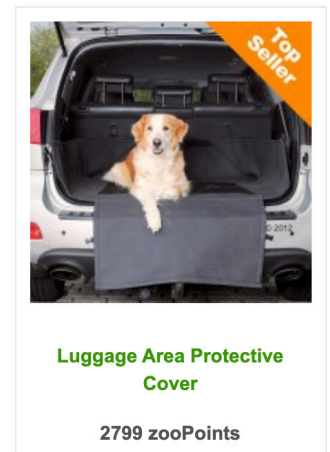
A scheme that provides consumers with the opportunity to lock in a permanent discount for all orders against a paid membership. 45% of all sales are made by people that have been subscribing to SaverPlan. Similar to Amazon and Costco, having a paid membership that comes with discounts is an offer which is appealing to consumers, and for Zooplus it means that once you have someone locked into a subscription and the user starts to accumulate savings, they are reluctant to opt for another service and begin this process again. Paid subscribers also spend more per order, converting users to a paid subscription is therefore highly accretive for Zooplus and the company is focusing its efforts on marketing to present this offer to its customers.

zooPoints

Zooplus' in-house loyalty program that is free for every customer. Every €1 purchase is equivalent to 1 zooPoint. These zooPoints can be accumulated and once enough are earned, they can be transferred into a "free" purchase from the rewards section of Zooplus' website. For the consumer, this means every purchase is an "investment", which induces additional sales and loyalty to the company making repeat purchases more likely.

Zooplus App

Zooplus began servicing a desktop orientated market. By the end of 2017, there were 465 million unique mobile subscribers in Europe (~85% of the population)² highlighting the paradigm shift that has occurred since 1999. The proliferation of smartphone usage has made apps crucial not only to business operation but also customer engagement. Zooplus' app allows the company to communicate directly with its customers via notifications with offers, receive reviews and add another point of sale to consumers. In 2020, 14% of all sales were completed through the company's app, a +40% increase from 2019 levels.



+ 2X zooPoints

2X ZOOPOINTS
only on the App!

Get the App ▶

EUROPEAN PETCARE INDUSTRY OUTLOOK

In 2019, the estimated number of EU households owning at least one pet animal was 85 million³ representing ~25% of all households. The way pets are viewed in the household has changed as a result of dynamic social, demographic and economic factors. The days of pets eating scraps off the floor & sleeping outside for many pet owners is no longer a reality, our furry friends enrich our lives and are rightfully highly valued. Pet owners are today more reluctant to accept traditional pet foods, demanding healthy ingredients that are tailored to the breed of their pet. Demographic changes to pet ownership are also a contributing factor to the changing structure of the industry, baby boomers account for 32% of pets owned in the USA while Millennials & Gen-Z account for 62% of ownership⁴ (we see similar trends occurring in Europe). As younger consumers mature they are embracing pet ownership and pet-loving lifestyles to a far greater extent than their elders. The growth of the industry should be sustained over the long-term as owning a pet, and pampering it, further becomes a normalised social behaviour. This industry reorientation gives us further optimism of Zooplus' future growth opportunities, as the tech savvy youth continue to adopt pets at increasing rates, the likelihood of using an online platform as a consistent one-stop-shop for all things pet related is high.



THE BENEFITS OF OWNING A PET

Research shows that people who live in isolation have an increased chance of early death by 50%⁵. Owning a pet can have significant physical, emotional and social benefits, ranging from reducing blood pressure and anxiety as well as providing an added meaning to an individual's life - when another life is dependent on your well being it forces you to take better care of yourself. People who live in isolation can reduce their risk of death by 33% just by having a dog. As the world continues its transition to digital, both in schools and workplaces, people will continue to reap the benefits of having a loyal companion when social interaction subsides. It is estimated that most dog owners give their pets treats 8-10 times per day, this number is rising. People realise the importance of owning a pet, and are often inclined to treat it better than they would themselves. Nurturing and caring for another sentient being is subconsciously and consciously viewed by many as a way of improving their own life; people feel a sense of reward for doing what they believe is best for others - just ask any mother, father or grandparent.



COMPELLING VALUATION & LONG TERM PROSPECTS

Chewy is a US company that is directly comparable to Zooplus. Despite a significantly lower EBITDA margin, Chewy is currently trading at a higher multiple than Zooplus. Zooplus at the time of this report is trading at a historically low price/sales multiple, should Zooplus appreciate to its historical price/sales multiple of 0.69x this would equate to a price of EUR 200.00 (currently EUR 160.00 representing a further +25.00% return) or if the company eventually were to match the multiple of Chewy (2.8x 2021E Sales), Zooplus would be worth upwards of EUR 4.4 bln, a +284.64% increase from its market capitalisation as at 20 July 2020. We are not basing our investment decision on these assumptions, these two situations can be considered a best-case-scenario outcome. It does however provide us with confidence that Zooplus has an investable “Margin of Safety”. We believe that the company has significant upside potential and limited downside risks due to the positive tailwinds in the petcare industry supported by the fact it is trading at a discount to its major US equivalent.



- European Petcare E-Commerce Market Leader
- Sales Growth Guidance 2020: +17%
- Marketing Spend: ~2.20% of sales
- Customer Retention Rate: 94%
- European-wide fully integrated logistics network owned by Zooplus
- 2019 EBITDA Margin: +1.1%
- Historical Price to Sales 0.69x

- USA E-Commerce Petcare Market Leader
- Sales Growth Guidance 2020: +35.57%
- Marketing Spend: ~10% of sales
- Customer Retention Rate: >100%
- US-wide logistics network owned by Chewy
- 2019 EBITDA Margin: -4.6%
- Historical Price to Sales 3.94x

Current Market Valuation: 0.61x 2021E Sales

Current Market Valuation: 2.8x 2021E Sales⁶

Zooplus in the first half of 2020 has performed exceptionally. The Elevation Capital Global Shares Fund first acquired shares in the company for its portfolio during August 2019 as we expanded our exposure to the global petcare industry. Having already returned +78.83% for the Fund up to 20 July 2020, we remain confident in the company as a long-term holding for the Fund bolstered by the year-on-year improvements in revenue. Trends of pet-humanisation have and will continue as pets further integrate themselves as essential members of households while the digital acceleration of consumers to online shopping paired with Zooplus’ exclusive offerings and loyalty programs will convert more pet owners into lifetime customers for the company. Like 2008, the recent pandemic has reinforced our view that the petcare industry is recession proof, our “furry friends” need to be fed, and cared for, every day.

Any data not referenced was sourced from Zooplus Annual Reports & Earnings Conference Calls.

1 Refinitiv Eikon as at 15 July 2020.
 2 GSMA. (2018). *The Mobile Economy of Europe*. Accessed at the following link: <https://www.gsma.com/mobileeconomy/europe/>
 3 The European Pet Food Industry. (2019). *European Facts & Figures 2019*. Accessed at the following link: http://www.fediaf.org/images/FEDIAF_facts_and_figs_2019_cor-35-48.pdf
 4 Forbes. (2018). *The Biggest Trends in the Pet Industry*. Accessed at the following link: <https://www.forbes.com/sites/richardkestenbaum/2018/11/27/the-biggest-trends-in-the-pet-industry/#b69daebf099a>
 5 Elanco. (2018) Annual Report. Accessed at the following link: https://s1.q4cdn.com/466533431/files/doc_financials/annual/2018-Annual-Report-Final.pdf
 6 UBS. (2020). Chewy Inc Pet Parents Drive Increased Online Adoption. Accessed through Refinitiv Eikon.

This summary report was written in July 2020.

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