

SMART YIELD

INCOME FUND

Finding Efficient Frontiers



PETCO, INC.

INVEST/STAY CONNECTED

INITIAL REPORT MARCH 26, 2023

LAST UPDATED MARCH 26, 2023

Common Shares; Recommendation: Hold, target \$6.50

Petco, Inc. (WOOF) operates over 1,500 pet retail locations in the U.S., Mexico, and Puerto Rico. The company has over 24 million members in its' rewards program now known as Vital Care (formerly Petco Pals). The company was brought public in early 2021 at \$18 per share and opened higher and briefly went above \$30. Since then, the shares have performed poorly and recently moved to a fresh low after disappointing guidance and earnings just a few days ago (March 21, 2023).

The primary source of the disappointment has been the loss of momentum in same store sales growth and the projection of higher interest costs for 2023. Same store sales growth was as high as 18% in 2021 and fell to 5.3% in 2022. The company enjoyed over 20% growth in EBITDA to \$591 million, in 2021 as well. 2023 "adjusted" EPS is projected to be down 20% + by the company due to a 50 million area increase in interest expense, and EBITDA is expected to remain close to unchanged. The companies' consumer, which includes millennials, seems to have been slowed by inflation in 2022 as well.

Management initiatives include incorporating veterinary centers and services, store owned brands, and partnerships with other pet companies such as Freshpet.

Our initiation of coverage is based on the potential, unique asset and the close to 10% EBITDA margin. Also, we are expecting a \$200-300 mm reduction in debt over the next 2 years. However, we caution that retailers that are not growing can attain very low multiples in the current environment. Our price target is based on an enterprise value of 5.5 X projected 2024 EBITDA, and 8 X projected 2024 free cash flow per share.

Possible opportunities include activist investors or success on management initiatives. However, at this time, unfortunately, we do not see any catalyst for improvement.

COMPANY STATS \$

Shares Out	273 mm
Equity Market Cap	2,113 mm
Total Debt	1,427 mm
Current Rewards Members	25.1 mm
2023 Revenues Est.	6,217 mm
2023 Cash Flow Est.	155 mm
Current EV.	3,540 mm
2023 EBITDA Est.	532 mm
EV/EBITDA	6.6 X
2023 GAAP EPS Est.	.29

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BROXTON CAPITAL ADVISORS Petco as of 1/28/2023

Sunday, March 26, 2023

share price \$7.74

PROJECTIONS IN MMs 2023 2024 2025

Income Statement

Revenue	6,217	6,528	6,854
Gross Profit	2,518	2,676	2,810
Operating Income	272	319	335
Pre-Tax Income	135	199	230
Net Income	78	125	148
EPS	\$0.29	\$0.46	\$0.54
Co. Formula Non-GAAP EPS	0.58	0.75	0.94
Revenue growth	3.00%	5%	5%
EBITDA (adj)	532	579	595
Interest	142	125	110
Capitalized Expense	240	240	240
Cash Flow	155	219	250
Equity Dividends	0	0	0
Cash Flow Dividend Coverage	NA	NA	NA
Retained Cash Flow	155	219	250
Retained Cash Flow Sum	155	374	623

Valuations

Cash Flow Yield Vs. Equity	7.4%	10.3%	11.8%
EV/EBITDA	6.6	6.1	6.0
P.E Ratio	27.0	16.9	14.3
Enterprise Value	3,540		
Net Total Debt	1,427		
Equity Market Cap	2,113	2,113	2,113

Debt Ratios

EBITDA/Interest Coverage ratio	3.7	4.6	5.4
Net Debt/EBITDA	2.7	2.5	2.4

Liquidity

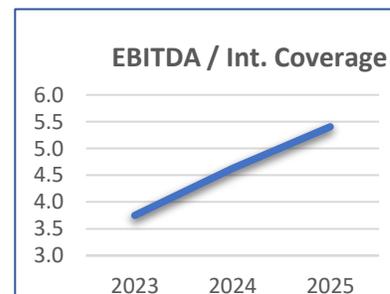
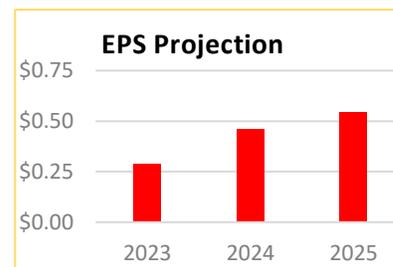
	Sep. 30 2022
Cash	201 mm
Borrowing Availability est.	300 mm +
Total Current Assets	1,015
Total Current Liabilities	1,012

Current Ratio 100%

Debt

Borrowings	1,628
Borrowings Net	1,427

NOTES:



Disclosures

Previous reports are available upon request. Smart Yield Fund targets a mix of different security classes that contain the risk of loss. Investors should carefully consider the Fund's investment objectives and risk factors before investing. Investing involves risk, including possible loss of principal. Investors should consider the loss of principle and targeted returns are not guaranteed. Individual investors in Smart Yield are generally required to be accredited investors. Smart Yield is a fund operated through individual accounts creating the composite. Smart Yield Fund is a new product with an inception date of September 30, 2020, and as such does not have historical data. Asset Mix Projections on page 2 and 6, Smart Yield Portfolio Metrics on page 5 are estimated or targets of the fund. Asset class mix and targets may change based on the direction of the managers. Portfolio allocation projected annual return and beta assumption for each asset class on pages 7-10 are estimated. Beta for the fund and each asset class is estimated versus the S&P 500. The average beta for the entire fund is projected to be .32. Beta is a measure of the fund's volatility in relation to S&P 500 Index. This index has a beta of 1.0. The fund targets a total gross return before fees and expenses of 9.24%. The fund projects a blended return based on income securities and capital gains. Smart Yield attempts to continuously improve the value of investment portfolios by investing in corporate bonds, convertible bonds, other types of bonds (investment grade and sub-investment grade, [which may also have limited liquidity]), dividend paying equities, non-dividend paying equities, ETFs, including leveraged ETFs, and other securities. Fixed income risks include interest-rate and credit risk. Typically, when interest rates rise, there is a corresponding decline in bond values. Credit risk refers to the possibility that the bond issuer will not be able to make principal and interest payments. All securities types mentioned in this brochure have the risk of loss. Long term strategies purchase securities which are underpriced according to our appraisal methodologies. Broxton uses regression analysis to obtain an average appraisal value for an individual company and places a priority on the securities of companies with improving financial performance and or additional catalysts that provide for increases in earnings and valuation. We use financial modeling, technical analysis, proprietary and third-party research. Smart Yield does not have any capitalization (market size), sector or industry allocation mandates. Asset class allocation percentages may be changed without notice. Broxton deploys technical analysis and momentum as indicators of movement for shorter term strategies, that may not involve deep fundamental analysis. Shorting (selling and then buying) of securities can be used for hedging and as a long term or short-term strategy. We exit positions in accordance with our discipline, this includes when valuation targets are clearly exceeded, or financial performance falls below our projections. Since Smart Yield returns will be calculated using a composite of accounts, the average account will not match the composite return and the return could be higher or lower. Broxton offers Smart Yield for other investment managers. Any commentary is solely the opinion of the Broxton Capital Advisors. It refers to securities we hold in our portfolio and sometimes ones we are considering but does not represent a complete list of positions held at Broxton Capital Advisors. A complete list covering the last twelve months will be furnished upon request. Price targets are mentioned for information purposes only. Nothing contained herein constitutes a recommendation to purchase or sell securities at any designated price or time. Targeted performance does not guarantee future results. 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Also, from time-to-time we may also discuss and display, charts, graphs, formulas which are not intended to be used by themselves to determine which securities to buy or sell, or when to buy or sell them. Such charts and graphs offer limited information and should not be used on their own to make investment decisions.

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