

Pets at Home: What the sell-side missed

Revenue recognition change surfaced

In Pets at Home's (PETS.L) November '24 interim results, despite broadly positive write-ups by sell-side analysts speaking to forecasts being broadly unchanged, a subtle accounting detail surfaced by Primer helped explain why shares ended the day -17%



Shares initially down on subdued outlook

Shares were down 8% initially, reflecting management's more cautious outlook, consistent with brokers lowering outer year earnings by -8%, which both analysts and Primer flagged.

Subtle details make the difference

However, hidden deep inside the RNS was a detail that Pets at Home had changed the timing of care plan revenue recognition to better align with actual service usage, resulting in a £4.5m adjusted PBT benefit in H1, contributing to c. 8% of first-half profitability.

Primer immediately flags material change

Primer surfaced this material accounting detail within minutes of the filing's release, highlighting it within the Overview and Outlook sections of the 'Briefing', as well as highlighting not just the change, but also its reasoning and context.

We were informed of this finding by a buy-side client using Primer who noted that "this wasn't mentioned in any of the write-ups by the sell side and was a key factor behind shares ending up -17%"

Outlook

	FY25 E	YoY E
Market growth	4%	
Retail market growth	3%	
Vets market growth	5%	
Rev outperf vs market	300bps	
Consumer rev growth	7%	
Underlying PBT		modest growth
PBT growth	10%	
FCF conversion	70%	
Capex	£55m	
Dividend payout ratio	50%	
NLW & NIC cost incr	£18m	

Company said:

- Management expects 'subdued' market conditions to continue through H2 2024 due to cautious consumer behavior
- Company anticipates market growth will return to historical long-term average of approximately 4% (comprised of 3% retail and 5% veterinary services)
- Management believes current slowdown is temporary, citing historical precedent of short-lived market growth slowdowns
- Company reports it is outperforming broader market and gaining market share, particularly in veterinary services segment
- Management cites 'stable but higher pet population' as supporting factor for future market growth expectations

Primer Analysis

Profit Guidance Downgraded: The company has lowered its FY25 underlying profit before tax (PBT) outlook. Previously, they maintained guidance for FY25 Group underlying PBT of £144m (Aug '24), stating "We make no change to guidance for FY25 and remain comfortable with current analyst consensus for Group underlying PBT of £144m"; and were 'comfortable with current analyst consensus for underlying PBT, currently c£144m' (May '24). Now, they expect underlying PBT to 'grow modestly from last year', indicating a downgrade from prior guidance.

Subdued Market Conditions Prolonged: The company now acknowledges that 'pet retail market growth has been subdued for longer than we anticipated' and expects current subdued market conditions to persist through H2. Previously, they anticipated improvement, with expectations that like-for-like sales would 'improve' in future quarters as 'comparatives ease' (Aug '24) and that industry growth would 'progressively return closer to historic levels over the coming quarters' (May '24).

Increased Cost Headwinds in FY26: The company has identified £18m in cost increases for FY26 due to government measures, including £10m from increased National Insurance Contributions and £8m from the increased National Living Wage. Previously, they highlighted cost headwinds for FY25, noting a £16m unmitigated cost from a 9.8% increase in National Living Wage (May '24); 'The 9.8% increase in National Living Wage, a c£16m unmitigated cost headwind to the business'.

What's new

Market Conditions: Management reports 'unusually subdued' market

- Management describes market conditions as 'unusually subdued'
- Company reports outperforming broader market

Subdued market persistence: Management reports that 'pet retail market growth has been subdued for longer than we anticipated' and expects current subdued market conditions to persist through H2. Previously, they anticipated improvement, with expectations that like-for-like sales would 'improve' in future quarters as 'comparatives ease' (Aug '24) and that industry growth would 'progressively return closer to historic levels over the coming quarters' (May '24).

Care Plan Revenue Recognition:

- Changed revenue recognition for care plans to better align with actual service usage, resulting in a £4.5m underlying PBT impact in H1. This is a new development.

New revenue recognition approach: Management introduced a change in revenue recognition for care plans to 'better align care plan revenue recognition across the contractual period' resulting in a £4.5m underlying PBT impact in H1. This is a new development.

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