



Hardline & Broadline Retail

1Q10 Proprietary Pet Supply Retailer and Vendor Survey

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Please refer to
Appendix - Important
Disclosures and
Analyst Certification.

Action

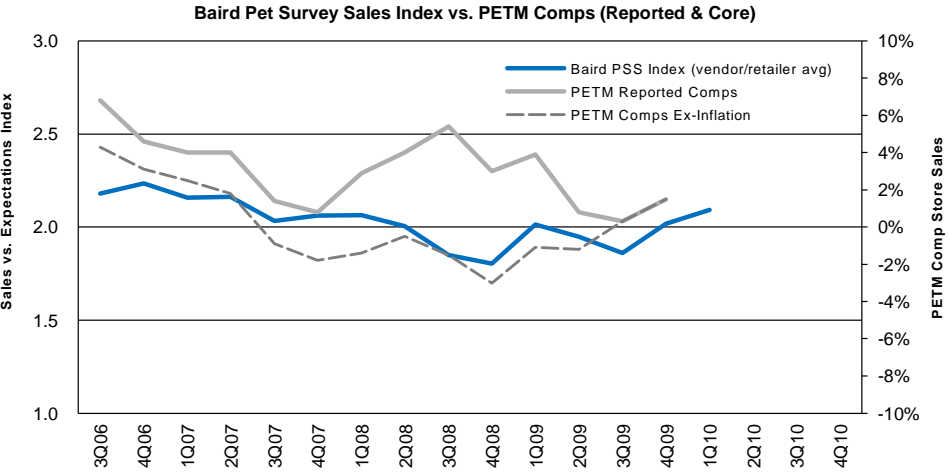
Pet Supply Retailer/Vendor Survey results suggest improved trends on tap. Both our retailer and vendor surveys showed a sequential increase in the percentage of respondents experiencing better-than-expected sales trends in 1Q, which points to sequential improvement in PETM core comps (ex inflation). Additionally, results suggested a slightly better pace of hardgood sales within the quarter and the potential for modest inflation in the back half of 2010.

Summary

- Based on feedback from 84 pet retailers and pet product manufacturers and/or distributors, our key 1Q takeaways are as follows:
 - **Trends appear to have improved modestly in 1Q vs. 4Q.** Both our retailer and vendor surveys showed a sequential increase in the percentage of respondents experiencing better-than-expected sales trends in 1Q (retailers: 35% vs. 30% in our 4Q survey; vendors: 55% vs. 41%), though the percentage of respondents citing below-expectation sales remained relatively consistent with 4Q (retailers: 37% vs. 37%; vendors: 20% vs. 22%).
 - **Pet Survey Sales (PSS) Index points to sequential improvement in PETM core (ex inflation) comps in 1Q.** Specifically, our PSS Index rose to 2.09 in 1Q vs. 4Q's 2.02. Readings over 2.00 indicate more "above expectation" responses than "below expectation" ones. While not explicitly meant to be a direct indicator of sales trends at PetSmart, we think it is certainly worth noting that over the past three years we have seen a 74% correlation between the Baird PSS Index and core (ex inflation) comp store sales trends at PETM.
 - **Indications of emerging recovery in hardgoods demand.** Among our retailer respondents, 69% noted flat-to-positive y/y sales growth in hardgoods during 1Q vs. 58% in our 4Q survey. Furthermore, 77% said the rate of hardgood sales was similar-or-better in 1Q vs. 4Q, which compares favorably to 67% for 4Q vs. 3Q.
 - **Other notable takeaways** include: (1) a generally more positive tone from our vendors vs. our retailer contacts; (2) nearly half (49%) of our retailers calling out April as weaker than expected; and (3) an increase in the number of vendors who plan to raise prices over the next three months (23% vs. 12% in our prior survey).
 - **Additional survey data and analysis (including vendor and retailer "feedback from the field" and comments on PETM's hardgoods reset efforts) available upon request.** For a complete copy of our 1Q10 Pet Supply Retailer and/or Vendor Survey please contact your Baird salesperson.

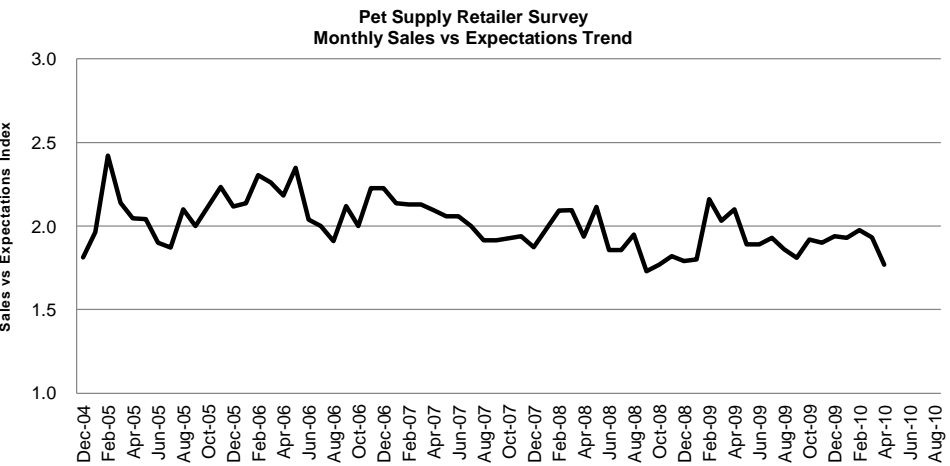
Details

Baird Pet Survey Sales Index Points to Sequential Lift in 1Q Core Comp



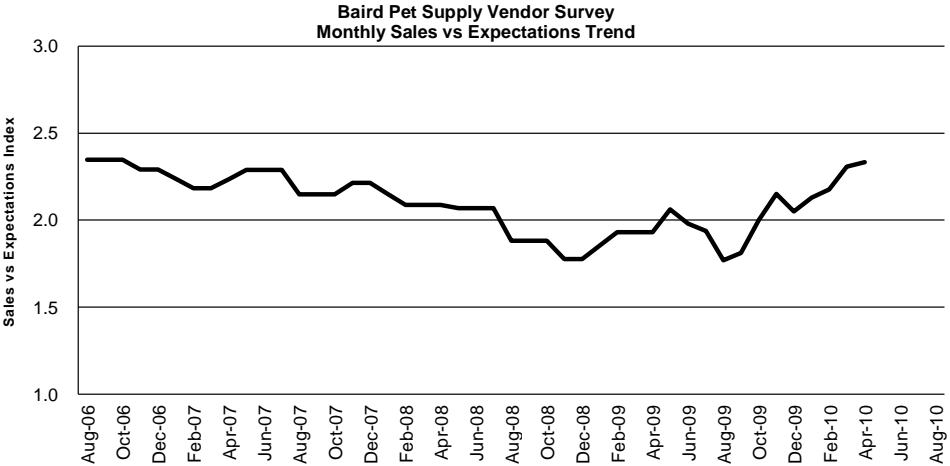
Source: Company Reports, Baird estimates and proprietary research

Baird Pet Supply Retailer Sales Index



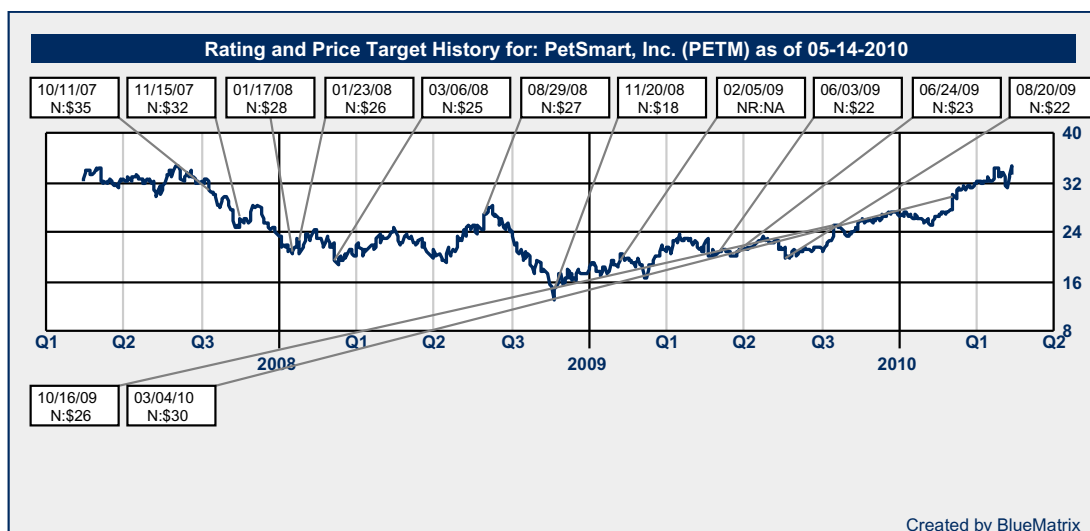
Source: Company Reports, Baird estimates and proprietary research

Baird Pet Supply Vendor Sales Index



Source: Company Reports, Baird estimates and proprietary research

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