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## PET VALU REPORTS 2008 YEAR END FINANCIAL RESULTS

All financial results expressed in U.S. dollars unless otherwise indicated

**Markham, Ontario, March 23, 2009.** Pet Valu, Inc. ("Pet Valu") announced today unaudited fourth quarter results for fiscal 2009. On a consolidated basis, net income for the quarter ended January 3, 2009 was \$4.3 million or \$0.42 per diluted share as compared to net income of \$4.7 million or \$0.46 per diluted share for the fourth quarter of fiscal 2007. Excluding non-comparable items and losses or gains on foreign exchange, net income was \$5.6 million or \$0.55 per diluted share as compared to net income of \$4.7 million or \$0.45 per diluted share for the fourth quarter of fiscal 2007. Non-comparable items in the fourth quarter of fiscal 2008 included legal and other costs related to the Company's actions in response to an expression of interest to acquire the Company and a reduction to the valuation allowance regarding the US operations net operating loss ("NOL") carryforwards.

Net income for the fiscal year ended January 3, 2009 was \$14.7 million or \$1.44 per diluted share as compared to net income of \$12.4 million or \$1.20 per diluted share for fiscal 2007. Net income excluding non-comparable items and losses on foreign exchange for the fiscal year ended January 3, 2009 was \$17.4 million or \$1.71 per diluted share, or C\$1.82 based on the average exchange rate for fiscal 2008 of 1.067. Net income excluding non-comparable items and gains on foreign exchange for the year ended December 29, 2007 was \$11.8 million or \$1.15 per diluted share, or C\$1.24 based on the average exchange rate for fiscal 2007 of 1.075.

Earnings for Pet Valu were significantly impacted in the 2008 fourth quarter and for the 2008 fiscal year by losses related to the change in the Canadian / US exchange rate. While foreign exchange gains and losses have always been recorded by the company, the unprecedented volatility of the C\$ / US\$ exchange rate, particularly in the fourth quarter, resulted in losses that were significantly higher than recorded historically. Total foreign exchange losses were \$2.2 million (\$0.14 per diluted share) in the fourth quarter, and \$2.7 million (\$0.20 per diluted share) for fiscal 2008. Total foreign exchange gains were \$0.1 million (less than \$0.01 per diluted share) in the 2007 fourth quarter, and \$0.8 million (\$0.06 per diluted share) for fiscal year 2007. The fiscal 2008 foreign exchange losses related primarily to two factors:

- (a) Pet Valu's US operations have a U.S. dollar denominated loan outstanding to its Canadian operations that, when the Canadian operations are consolidated, resulted in a before tax foreign exchange loss of \$1.2 million for the fourth quarter, and \$1.4 million for fiscal year 2008. These losses are non-cash in nature.
- (b) Pet Valu's Canadian operations maintain U.S. dollar denominated operating loans and accounts payable used to facilitate the purchase of U.S. dollar denominated products. The balance of these liabilities fluctuates based on the volume of purchases made. The unprecedented rapid decline of the Canadian dollar, particularly in the fourth quarter, resulted in a before tax foreign exchange loss of \$1.0 million in the fourth quarter and \$1.3 million for fiscal year 2008 on these US dollar denominated liabilities.

In January 2009, Pet Valu reduced the outstanding balance on its U.S. dollar denominated bank loans significantly and implemented a policy to limit the amount of U.S. dollar denominated borrowings under its bank loans to \$1 million. As a result, foreign exchange gains/losses of this magnitude are not expected to recur in the future.

## COMPARABLE STORE SALES

Comparable store sales for the quarter ending January 3, 2009 (excluding the additional week in fiscal 2008) increased by 5.5% in Canada and by 7.4% in the United States as compared to the quarter ending December 29, 2007. During the quarter, higher margin high-quality pet product sales have continued to show strong growth and a more positive shopping experience for customers has contributed to higher sales.

## STRONG BALANCE SHEET

Pet Valu ended fiscal 2008 in a very strong financial position. In fiscal 2008, the Company reduced its Net Debt (defined as Total Debt including convertible debentures less Cash and short-term investments) from \$20.1 million at the end of fiscal 2007 to \$11.9 million at the end of fiscal 2008. We believe our low debt levels, substantial free cash flow and approximately \$11 million of availability on our credit facilities, gives Pet Valu excellent financial flexibility in the current economic environment, and provides sufficient resources to pursue our growth objectives in 2009.

## RESULTS

(in thousands of U.S. dollars, except EPS)

	14 Weeks ended Jan. 3, 2009	13 Weeks ended Dec. 29, 2007	53 Weeks ended Jan. 3, 2009	52 Weeks ended Dec. 29, 2007
No. of Stores (end of period)	355	343	355	343
Sales and Revenue	\$47,369	\$46,937	\$181,011	\$162,993
EBITDA <sup>(1)</sup>	\$5,761	\$7,818	\$23,796	\$21,918
EBITDA excluding non-comparable items <sup>(1)</sup>	\$6,754	\$7,992	\$26,144	\$22,092
Loss (Gain) on foreign exchange	\$2,248	(\$65)	\$2,693	(\$779)
Net Income	\$4,333	\$4,718	\$14,731	\$12,382
Net Income excluding non-comparable items <sup>(2)</sup>	\$4,121	\$4,704	\$15,421	\$12,368
Basic EPS	\$0.46	\$0.55	\$1.59	\$1.42
Diluted EPS	\$0.42	\$0.46	\$1.44	\$1.20
Basic EPS excluding non-comparable items <sup>(3)</sup>	\$0.43	\$0.55	\$1.66	\$1.42
Diluted EPS excluding non-comparable items <sup>(3)</sup>	\$0.40	\$0.46	\$1.51	\$1.20
Non-comparable items:				
Shareholder proxy costs	(\$54)	-	\$795	-
Strategic alternative related costs	\$1,048	-	\$1,553	-
Executive employment related payment	-	\$640	-	\$640
Promotion fund allowance reversal	-	(\$466)	-	(\$466)
Future tax recovery on NOLs	(\$874)	(\$125)	(\$874)	(\$125)
Applicable tax on non-comparable items	(\$331)	(\$63)	(\$785)	(\$63)

## CANADIAN OPERATIONS

(in thousands of U.S. dollars)

	14 Weeks ended	13 Weeks ended	53 Weeks ended	52 Weeks ended
	Jan. 3, 2009	Dec. 29, 2007	Jan. 3, 2009	Dec. 29, 2007
No. of Stores (end of period)	293	281	293	281
Sales and Revenue	\$36,643	\$37,525	\$143,086	\$127,078
EBITDA <sup>(1)</sup>	\$4,604	\$6,831	\$20,941	\$19,485
EBITDA excluding non-comparable items <sup>(1)</sup>	\$5,597	\$7,005	\$23,289	\$19,659
Loss (Gain) on foreign exchange	\$2,248	(\$65)	\$2,693	(\$779)
Net Income	\$2,306	\$3,633	\$11,092	\$10,036
Net Income excluding non-comparable items <sup>(2)</sup>	\$2,968	\$3,744	\$12,656	\$10,147
Non-comparable items:				
Shareholder proxy costs	(\$54)	-	\$795	-
Strategic alternative related costs	\$1,048	-	\$1,553	-
Executive employment related payment	-	\$640	-	\$640
Promotion fund allowance reversal	-	(\$466)	-	(\$466)
Applicable tax on non-comparable items	(\$331)	(\$63)	(\$785)	(\$63)

## U.S. OPERATIONS

(in thousands of U.S. dollars)

	14 Weeks ended	13 Weeks ended	53 Weeks ended	52 Weeks ended
	Jan. 3, 2009	Dec. 29, 2007	Jan. 3, 2009	Dec. 29, 2007
No. of Stores (end of period)	62	62	62	62
Sales and Revenue	\$10,726	\$9,412	\$37,925	\$35,915
EBITDA <sup>(1)</sup>	\$1,157	\$987	\$2,855	\$2,433
Net Income	\$2,027	\$1,085	\$3,639	\$2,346
Net Income excluding non-comparable items <sup>(2)</sup>	\$1,153	\$960	\$2,765	\$2,221
Non-comparable items:				
Future tax recovery on NOLs	(\$874)	(\$125)	(\$874)	(\$125)

## KEY ACCOMPLISHMENTS

During fiscal 2008, the Company pursued key priorities intended to improve results from operations, liquidity, capital resources and cash flow.

### Reniching

The Company's reniching program contributed to the strong results reflected in the Company's consolidated financial statements for fiscal 2008. As an integral part of this program, the Company continued to pursue a long-term objective of shifting its product offering to higher-margin, high-quality pet products, which include pet specialty brands and private label products featuring a wellness-focused approach to pet nutrition. This reniching program has improved and is expected to continue to improve operating profits and enhance the image of the Company as a specialty retailer.

### Acquisition

On August 22, 2008, the Company completed the purchase of a 15 store pet food and supply business known as BERRYS or BERRYS...YOUR PETSCHOICE. These stores are all located in eastern Ontario. The purchase price of C\$2.4 million was financed using Pet Valu's existing bank operating line. The Berrys operations and the anticipated operating synergies are expected to incrementally contribute an approximate C\$600,000 to Pet Valu's consolidated income before income taxes during the first 12 months of inclusion within the Pet Valu group of stores.

### **Inventory Investment**

The Company's inventory buying system is designed to take advantage of opportunities, including those in relation to cost inflation. As a result, the Company's warehouse inventory levels have increased by approximately C\$0.4 million during the fourth quarter and C\$7.3 million in fiscal 2008. These increases are in addition to fiscal 2007 increases of approximately C\$1.6 million. The Company believes that recent declines in various commodity prices will slow the rate of any cost increases in fiscal 2009 and will likely result in a reduction of these inventories in fiscal 2009.

### **Development of Canadian Corporate Store Programs**

During the year, the Company dedicated an increasing amount of effort to the operation of its Canadian company-owned stores by developing and implementing programs designed to increase sales and operating profitability. These programs included more product and sales training for corporate store staff and an incentive program for corporate store managers. These programs have contributed to an increase in comparable store sales of 7.8% for company-owned stores in Canada, in 2008.

### **Amendment of Bank Credit Agreement**

During the third quarter, the Company entered into an agreement with its principal bank to amend its existing credit agreement dated as of July 14, 2006 ("Credit Agreement"). The amendment increased the revolving line of credit in the Credit Agreement from a maximum of C\$15 million to a maximum of C\$20 million. In addition, the amendment created a new C\$5 million term loan that bears interest at prime plus 1% and is repayable in 24 equal monthly installments. The amendment did not materially change any other terms contained in the Credit Agreement.

### **Repayment of 10% Non-convertible Debentures**

In accordance with a debenture holder agreement dated July 24, 2006, the scheduled repayment of principal and accrued interest for the 10% non-convertible debentures created under this agreement was made on July 24, 2008 by cash payments to the debenture holders. The amount of the payments was C\$8,877,836, consisting of principal repayments of C\$8,820,000 and accrued interest of C\$57,836. These payments were financed from the new bank term loan, the Company's bank operating line and funds provided from operations.

## **OUTLOOK**

The Company is pursuing several initiatives to improve earnings during 2009, as well as to address the impacts and opportunities associated with the current recession.

### **Strategies Addressing Current Economic Conditions**

The Company has developed specific programs to address recession-based impacts, including rent reductions and the moderation of wage increases. Strategies accommodating consumer trade-downs are being pursued; however, there is little evidence at this point of trade-down activity in relation to changing pets' diets. Rather, our experience suggests that the vast majority of pet owners will forego most postponable or discretionary expenditures before they will change their pet's diet.

### **Pursuit of Expansion Strategies**

Pet Valu expects to continue with expansion in Canada.

Acquisitions of chains of pet product specialty stores will continue to be assessed as an alternative to greenfield expansion where the extent of synergies between Pet Valu and the potential acquisition would validate a reasonable transaction.

## **Franchising**

Over the years Pet Valu has operated both corporate and franchise stores. There are strengths in relation to both venues with strong franchisees and strong incentivized store operators in corporate stores, both creating strong returns for the Company. Thus, we repurchase underperforming franchises and recycle them into the corporate incentivized management program and we upgrade store operators at corporate stores as an ongoing process. An updated franchise program is expected to be finalized later this year in order to extend the terms of existing franchise agreements, franchise corporate stores, and improve the capacity to enter new markets at lower cost by franchising greenfield stores.

## **Initiatives to Sustain Growth in Earnings**

Improvements to the efficiency of the operation of the business are being sought through expanded automation in relation to both routine decision-making and inventory management. Improvements to productivity are being pursued through the introduction of performance management measures at all levels of staffing.

Improvements to margins are being pursued through the continuous expansion of private label lines and the introduction of more specialized products.

Falling rental rates in relation to commercial properties are expected to reduce operating costs as the leases for several warehouses are renewed during the third quarter of 2009 at lower rates or otherwise negotiated for new facilities.

## **REVIEW OF STRATEGIC ALTERNATIVES**

As previously disclosed, the Company commenced a review of its alternatives to enhance shareholder value with the advice and assistance of its financial advisor, TD Securities Inc., and its legal advisors after receiving an unsolicited approach from a potential acquirer. The Company's board of directors has established a special committee of directors to supervise the review process and to make recommendations to the Company's board of directors. There can be no assurance that any definitive transaction proposal will result from this process, or that any transaction, if proposed will be completed.

## **CONFERENCE CALL**

Pet Valu, Inc. will host a conference call on March 25, 2009 at 10:00 a.m. (EDT) to discuss its financial results for its fourth quarter of fiscal 2008 and to answer questions from participants concerning those results. The discussion will be led by the Company's Chief Executive Officer, Geoffrey Holt and its Chief Financial Officer, Dale Winkworth. To access via tele-conference please dial 416-642-5213 along with the passcode number of 5827994, if calling within the Greater Toronto Area, and toll free at 1-866-321-8231 (along with passcode), if calling outside the GTA. A playback of the event will be made available for seven days after the event. To access the playback of the event, please dial 647-436-0148 along with the passcode number of 5827994, if calling within the GTA, and toll free at 1-888-203-1112 (along with passcode) if outside the GTA.

## **NON-GAAP FINANCIAL MEASURES**

- (1) EBITDA is not a recognized measure under GAAP. As this measure does not have a standardized meaning prescribed by GAAP, the Company's method of calculating EBITDA may differ from other companies. The Company believes that EBITDA is a useful supplemental measure as it provides investors with an indication of cash available prior to debt service, capital expenditures and income taxes.
- (2) Net Income excluding non-comparable items is not a recognized measure under GAAP. As this measure does not have a standardized meaning prescribed by GAAP, it is unlikely to be comparable to similar measures presented by other companies. The Company believes that earnings excluding non-comparable items is a useful supplemental measure. It is used by the Company to assess its underlying performance from continuing operations and to provide a more useful comparison by eliminating non-recurring items.
- (3) EPS excluding non-comparable items is not a recognized measure under GAAP. As this measure does not have a standardized meaning prescribed by GAAP, it is unlikely to be comparable to similar measures presented by other companies. The Company believes that earnings excluding non-comparable items is a useful supplemental measure. It is used by the Company to assess its underlying performance from continuing operations and to provide a more useful comparison by eliminating non-recurring items

## **FORWARD-LOOKING STATEMENTS**

Certain information in this news release is forward-looking and is subject to important risks and uncertainties. Forward-looking information includes information concerning the Company's future financial performance, business strategy, plans, goals, objectives, business prospects and opportunities. The forward-looking information reflects predictions and does not in any way reflect a guarantee. Factors which could cause actual results or events to differ materially from current expectations include, among other things: the ability of the Company to successfully implement its strategic initiatives and whether such strategic initiatives will yield the expected benefits; competitive conditions in the businesses in which the Company participates; changes in consumer spending; the outcome of legal proceedings as they arise; general economic conditions and normal business uncertainty; the availability of suitable store locations; customer preferences towards product offerings; adverse climate changes; the occurrence of a pandemic or other catastrophic event which could create shortages of labour, products or services required to operate the business profitably; fluctuations in foreign currency exchange rates; changes in the Company's relationship with its merchandise and service suppliers; interest rate fluctuations and other changes in borrowing costs; the outcome of strategic alternatives being considered by the Company's board of directors; and changes in laws, rules and regulations applicable to the Company or the markets in which the Company operates. The Company cautions that this is not an exhaustive list of factors that may affect the forward-looking information in this news release. Potential investors and readers are urged to give careful consideration to all of these factors in evaluating any forward-looking information and are cautioned not to place undue reliance on such information. While the Company believes that its forecasts and assumptions are reasonable, results or events predicted in this forward-looking information may differ materially from actual results or events.

## **COMPANY PROFILE**

Pet Valu is a specialty retailer and wholesaler of pet food and pet-related supplies and a franchisor of pet food and pet-related supply outlets. The TSX stock symbol for Pet Valu Canada Inc., Pet Valu, Inc.'s publicly traded Canadian operating subsidiary, is PVC.

For further information, please contact:

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