

# PETCO SECOND QUARTER 2022 EARNINGS CALL

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August 24, 2022



# SAFE HARBOR AND NON-GAAP MEASURES

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This Presentation contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 as contained in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are other than statements of historical fact, including statements regarding our fiscal year 2022 guidance, our growth plans, and execution on our transformation initiatives. Such forward-looking statements can generally be identified by the use of forward-looking terms such as “believes,” “expects,” “may,” “intends,” “will,” “shall,” “should,” “anticipates,” “opportunity,” “illustrative”, or the negative thereof or other variations thereon or comparable terminology. Although Petco believes that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct or that any forward-looking results will occur or be realized. Nothing contained in this Presentation is, or should be relied upon as, a promise or representation or warranty as to any future matter, including any matter in respect of the operations or business or financial condition of Petco. All forward-looking statements are based on expectations and assumptions about future events that may or may not be correct or necessarily take place and that are by their nature subject to significant uncertainties and contingencies, many of which are outside the control of Petco. Forward-looking statements are subject to a number of risks, uncertainties and other factors that could cause actual results or events to differ materially from the potential results or events discussed in the forward-looking statements, including, without limitation, those identified in this Presentation, as well as the following: (i) increased competition (including from multi-channel retailers and e-Commerce providers); (ii) reduced consumer demand for our products and/or services; (iii) our reliance on key vendors; (iv) our ability to attract and retain qualified employees; (v) risks arising from statutory, regulatory and/or legal developments; (vi) macroeconomic pressures in the markets in which we operate, including inflation; (vii) failure to effectively manage our costs; (viii) our reliance on our information technology systems; (ix) our ability to prevent or effectively respond to a privacy or security breach; (x) our ability to effectively manage or integrate strategic ventures, alliances or acquisitions and realize the anticipated benefits of such transactions; (xi) economic or regulatory developments that might affect our ability to provide attractive promotional financing; (xii) business interruptions and other supply chain issues; (xiii) catastrophic events, political tensions, conflicts and wars (such as the ongoing conflict in Ukraine), health crises, and pandemics, including the potential effects that the ongoing COVID-19 pandemic and/or corresponding macroeconomic uncertainty could have on our financial position, results of operations and cash flows; (xiv) our ability to maintain positive brand perception and recognition; (xv) product safety and quality concerns; (xvi) changes to labor or employment laws or regulations; (xvii) our ability to effectively manage our real estate portfolio; (xviii) constraints in the capital markets or our vendor credit terms; (xix) changes in our credit ratings; and (xx) the other risks, uncertainties and other factors identified under “Risk Factors” and elsewhere in our Securities and Exchange Commission filings. The occurrence of any such factors could significantly alter the results set forth in these statements.

Petco cautions that the foregoing list of risks, uncertainties and other factors is not complete, and forward-looking statements speak only as of the date they are made. Petco undertakes no duty to update publicly any such forward-looking statement, whether as a result of new information, future events or otherwise, except as may be required by applicable law, regulation or other competent legal authority.

Included in this Presentation are certain financial measures that are not calculated in accordance with U.S. generally accepted accounting principles (“GAAP”) that are designed to supplement, and not substitute, Petco’s financial information presented in accordance with GAAP, including, but not limited to, Adjusted EBITDA, Trailing Twelve Month Adjusted EBITDA, Adjusted EPS, and Free Cash Flow. The non-GAAP measures as defined by Petco may not be comparable to similar non-GAAP measures presented by other companies. The presentation of such measures, which may include adjustments to exclude non-recurring items, should not be construed as an inference that Petco’s future results, cash flows, or leverage will be unaffected by other nonrecurring items. Refer to information about the non-GAAP measures contained in this Presentation. This Presentation also includes forward-looking estimates of Adjusted EBITDA and Adjusted EPS as part of our financial guidance. We do not reconcile these non-GAAP measures for future periods to their most comparable GAAP measures due to the uncertainty and potential variability of reconciling items. Because such items cannot be reasonably predicted with the level of precision required, we are unable to provide a reconciliation of these non-GAAP measures without unreasonable effort. Forward-looking estimates of Adjusted EBITDA and Adjusted EPS are estimated in a manner consistent with the relevant definitions and assumptions noted herein.

# SECOND QUARTER 2022 KEY MESSAGES

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Delivered solid results reflecting operational execution amid difficult operating environment and continued advancement in strategic growth pillars.

Momentum in Q2 continued with net revenue growth of 3%, comparable sales growth of 4% year-over-year and 23% on a two-year basis, comping stimulus-aided 2021.

Total services growth of 13% year-over-year and 62% on a two-year stack driven by rapid vet rollout including the Thrive acquisition close and the addition of over 600 veterinarians to our network in the first half of the year.

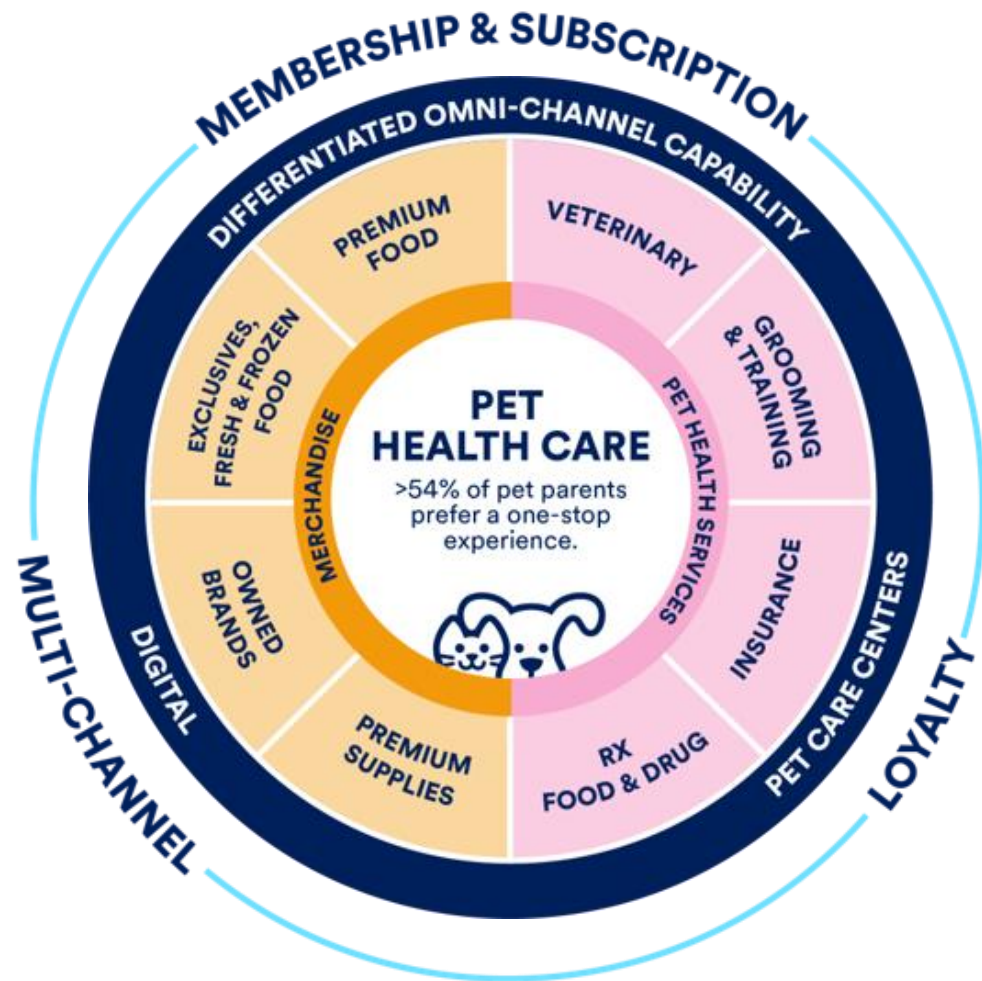
9th consecutive quarter of Pet Care Center comp sales growth.

Digital sales up 10% year-over-year, 24% on a two-year basis.

Acceleration in Vital Care subscription growth. Members among highest spending customers and delivering 3.5x higher LTV than average customers.



**Our ecosystem and customer acquisition engine remain defining competitive advantages**



**2 YR Comp Growth 23%**

**Net New Customers<sup>1</sup> >325K**

**Total Active Customers<sup>1</sup> 24.7M**

Winning with our highest value customers, driving increased retention & spend

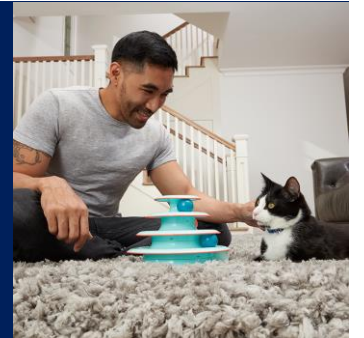
**+54%**

**Growth in Recurring Customer Revenue<sup>1</sup>**



**+282K**

**Active Vital Care Members**



**~1.6M**

**Grooming & Nutrition Perks Members**



<sup>1</sup> Recurring customer revenue includes enterprise sales for customers who participated in any of our recurring revenue programs during the preceding twelve months, which include: repeat delivery, Pupbox, Vital Care and insurance.

# Petco's purpose in action

## Sustainability

Published our 2021 sustainability report outlining commitments including EPA Scope 3 proposals.

Eliminated 8M lbs of cardboard and 66K lbs of plastic through fulfilment channels.

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## Petco Love

Delivered over 917K vaccines to date to under-resourced communities towards our 1 million vaccine commitment in partnership with Merck.

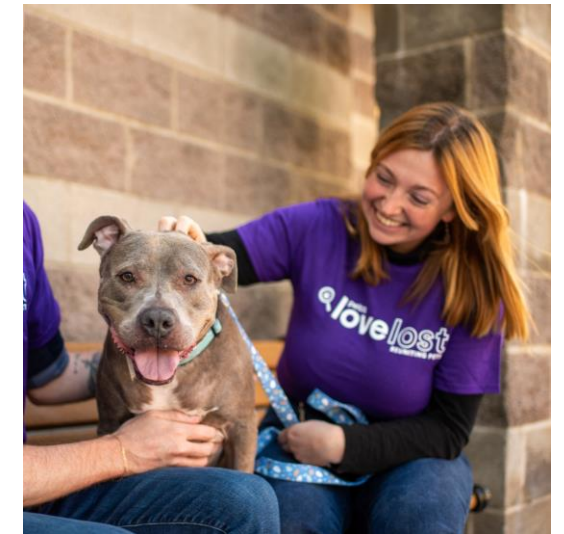
Saved over 95K pet lives in the quarter and reunited over 10K pets with their loving families to date through Petco Love Lost.

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## Championed Petco Partners

Committed to paying every non-trainee Petco partner a minimum of \$15 base wage per hour by the end of the year.

Celebrated Pride across the country with virtual happy hours and learning events, parades and pride rides.



We are on a mission to improve lives for pets, their parents and our Petco partners.

# DELIVERED SOLID GROWTH WHILE MANAGING THROUGH MACRO HEADWINDS

	Q2'22 Results	
	Results	B/(W) Q2'21
<b>Net Revenue (\$B)</b>	<b>\$1.5</b>	<b>+3%</b>
<b>Gross Margin %</b>	<b>40.1%</b>	<b>(170) bps</b>
<b>Adj. EBITDA<sup>1</sup> (\$M)</b>	<b>\$142</b>	<b>(8.5)%</b>
<b>Adj. EPS<sup>1</sup></b>	<b>\$0.19</b>	<b>\$(0.06)</b>
<b>Net Debt<sup>1</sup>/ TTM Adj. EBITDA<sup>1</sup></b>	<b>2.7x</b>	<b>+1%</b>
<b>Free Cash Flow<sup>1</sup> (\$M)</b>	<b>\$(28)</b>	<b>\$(63)</b>

## Q2'22 key highlights

Focused operational execution while continuing to drive long-term growth strategy

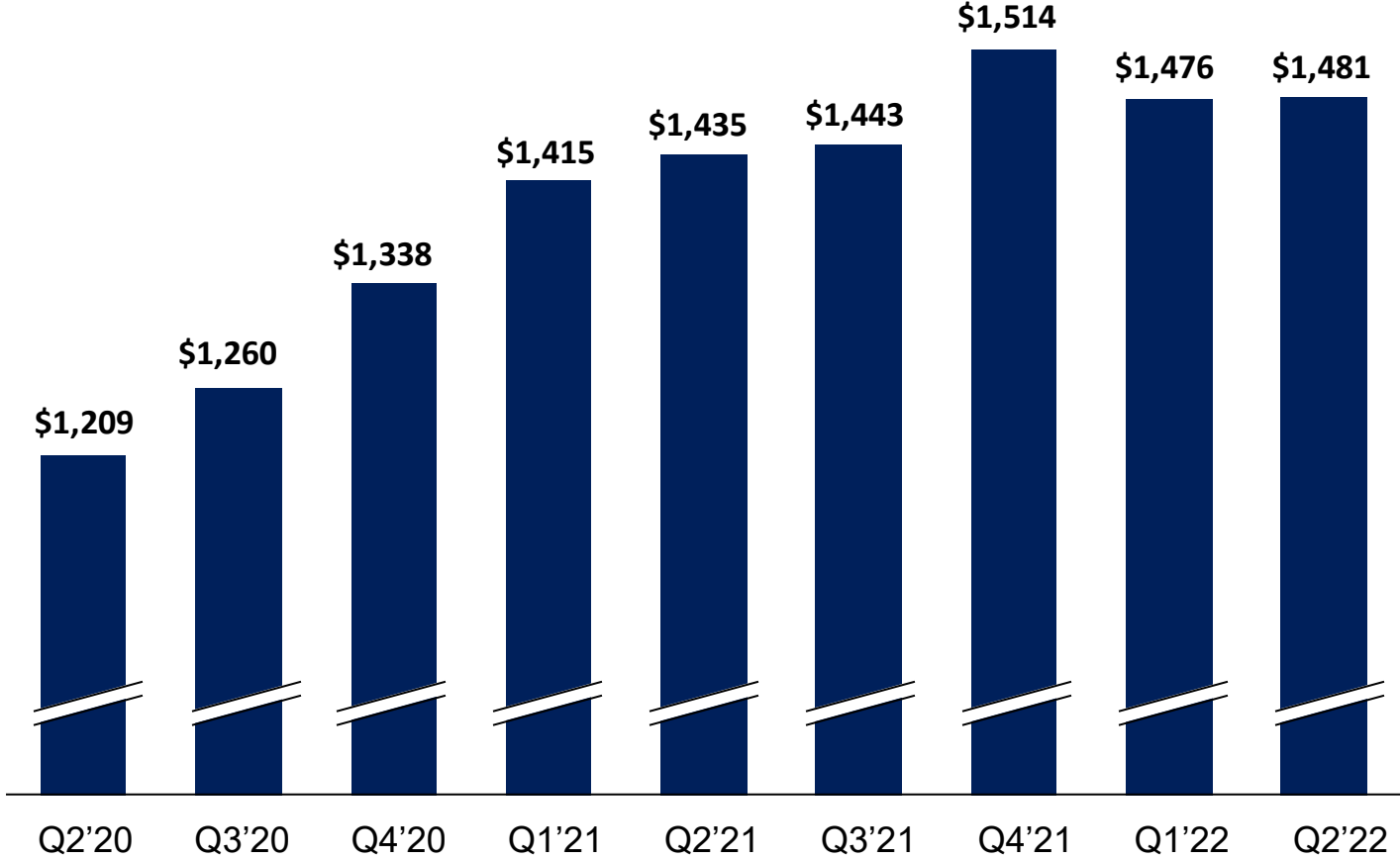
Revenue growth driven by broad based strength:

- Services & Vet: up **13%** y/y and **62%** on a 2-year stack
- Digital: up **10%** y/y and **24%**<sup>2</sup> on a 2-year stack
- B&M Merchandise: up **1%** y/y and **17%** on a 2-year stack



# STRONG TRACK RECORD OF DELIVERING GROWTH

NET REVENUE (\$M)



Revenue Growth Y/Y

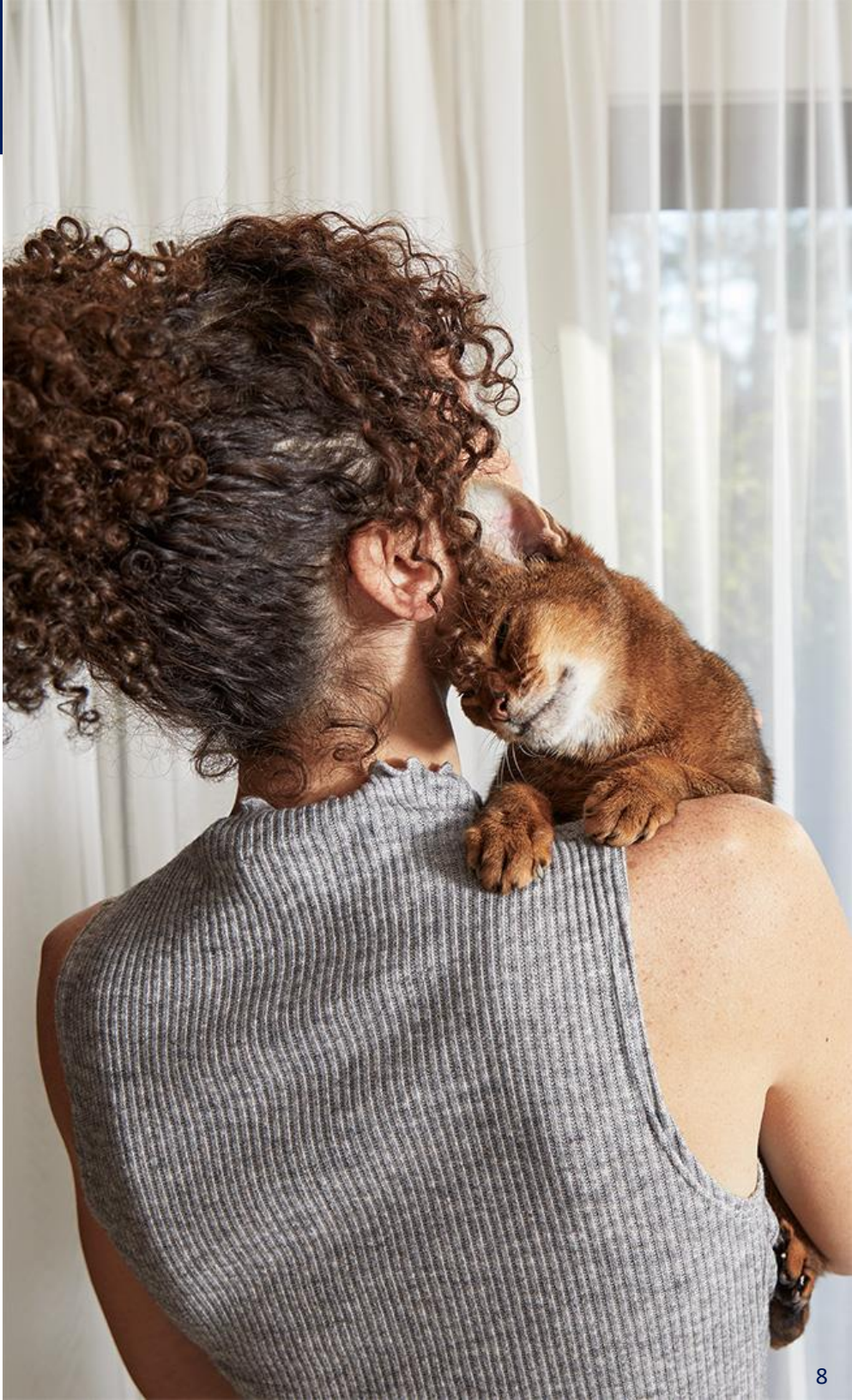
10% 15% 16% 27% 19% 15% 13% 4% 3%

Comp Sales Growth

11% 16% 17% 28% 20% 15% 14% 5% 4%

2 Yr Comp Sales Growth

15% 20% 21% 30% 30% 32% 30% 33% 23%





# DELIVERED SOLID Q2'22 REVENUE GROWTH

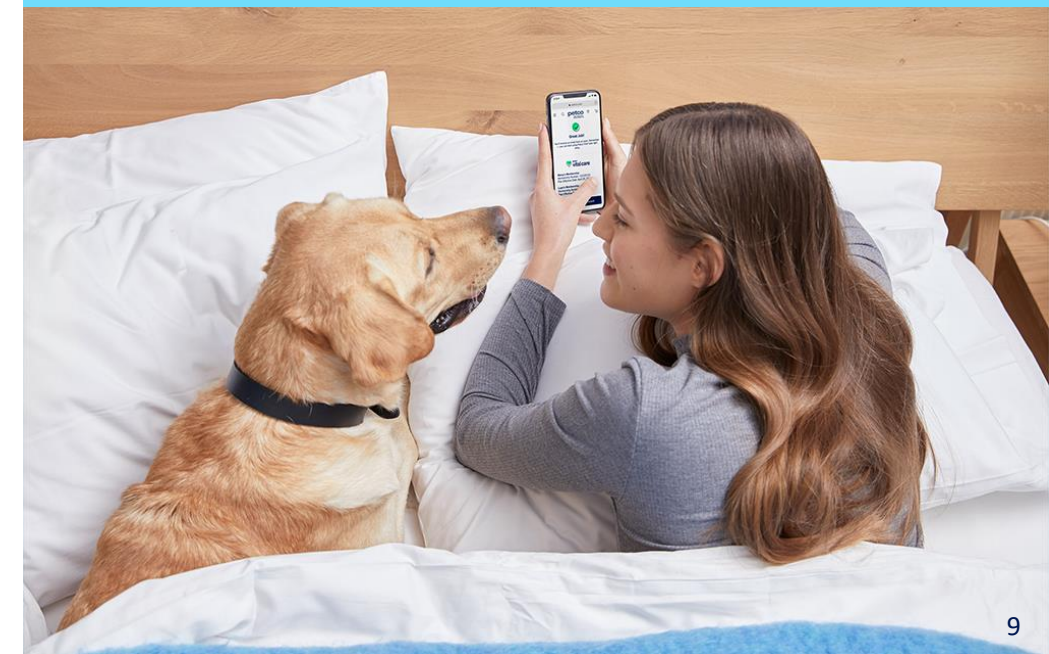
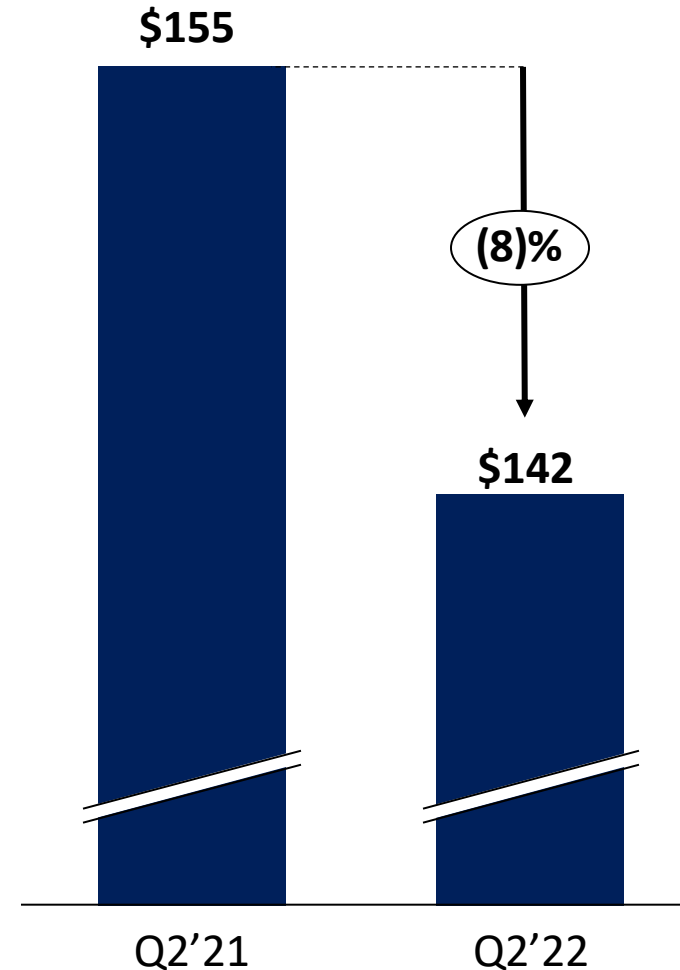
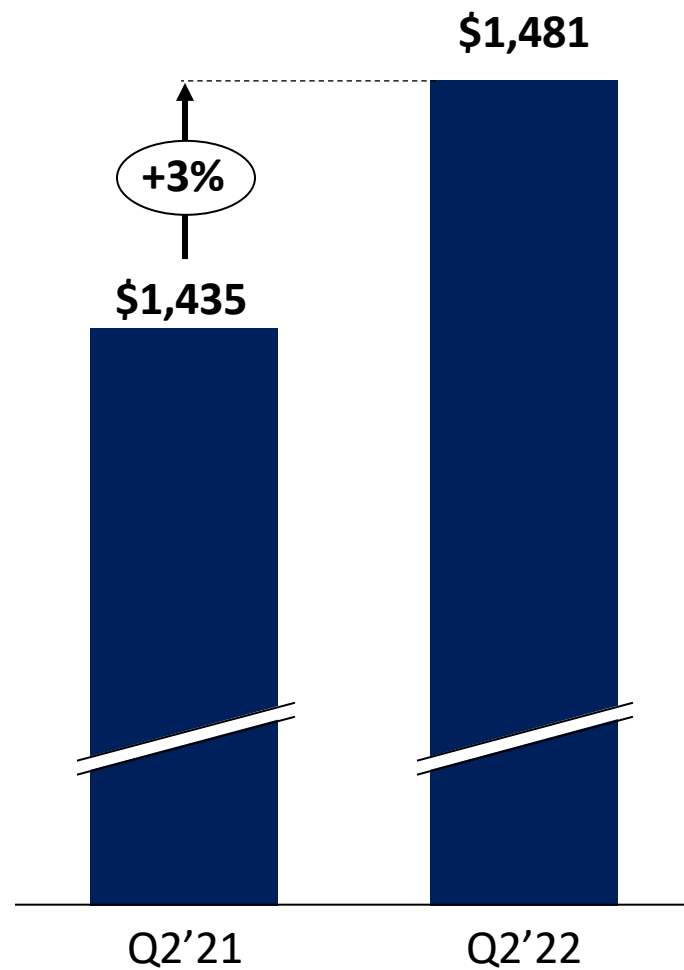
## Key growth highlights

Revenue growth was 3% while adjusted EBITDA was pressured:

- Scaling vet buildout with 212 hospitals open as of end of quarter
- Consumables continued to surge with sales growing 12% year-over-year, and 37% on two-year stack

Net Revenue (\$M)

Adjusted EBITDA<sup>1</sup> (\$M)



# UPDATED 2022 GUIDANCE

		Guidance <sup>2</sup>	
		Updated	Previous
2022	Revenue (\$B)	\$5.975B to \$6.05B	\$6.15B to \$6.25B
	Adj. EBITDA <sup>1</sup> (\$M)	\$580M to \$595M	\$630M to \$645M
	Adj. EPS <sup>1</sup>	\$0.77 - \$0.81	\$0.97 - \$1.00
	Capital Expenditures	\$250M - \$275M	\$275M - \$325M



**Focused on driving long-term profitable growth while managing short-term challenges**

<sup>1</sup> Adjusted EBITDA and Adjusted EPS are non-GAAP financial measures and have not been reconciled to the most comparable GAAP outlook because it is not possible to do so without unreasonable efforts due to the uncertainty and potential variability of reconciling items, which are dependent on future events and often outside of management's control and which could be significant. Because such items cannot be reasonably predicted with the level of precision required, we are unable to provide outlook for the comparable GAAP measures. Forward-looking estimates of Adjusted EBITDA and Adjusted EPS are made in a manner consistent with the relevant definitions and assumptions noted herein.

<sup>2</sup> Guidance updated as of August 24, 2022. All guidance is subject to change without notice depending on a number of factors, including economic conditions, currency rates, the tax and regulatory landscape and other factors that are beyond Petco's control. Petco undertakes no obligation to affirm or update its guidance.

# NON-GAAP MEASURES AND OTHER DEFINITIONS



# Non-GAAP Measures and Other Definitions

The following information provides definitions and reconciliations of the non-GAAP financial measures presented in this Presentation to the most directly comparable financial measures calculated and presented in accordance with U.S. generally accepted accounting principles (GAAP). The company has provided this non-GAAP financial information, which is not calculated or presented in accordance with GAAP, as information supplemental and in addition to the financial measures presented in this Presentation that are calculated and presented in accordance with GAAP. Such non-GAAP financial measures should not be considered superior to, as a substitute for or alternative to, and should be considered in conjunction with, the GAAP financial measures presented in this Presentation. The non-GAAP financial measures in this Presentation may differ from similarly-titled measures used by other companies.

Adjusted EBITDA: Adjusted EBITDA, including Trailing Twelve Month Adjusted EBITDA, is considered a non-GAAP financial measure under the Securities and Exchange Commission's (SEC) rules because it excludes certain amounts included in net income calculated in accordance with GAAP. Management believes that Adjusted EBITDA is a meaningful measure to share with investors because it facilitates comparison of the current period performance with that of the comparable prior period. In addition, Adjusted EBITDA affords investors a view of what management considers to be Petco's core operating performance as well as the ability to make a more informed assessment of such operating performance as compared with that of the prior period. Please see the company's Annual Report on Form 10-K filed on March 24, 2022 with the SEC for additional information on Adjusted EBITDA. The tables on pages 13 and 14 of this Presentation reflect the calculation of Adjusted EBITDA for the thirteen and fifty-two week period ended July 30, 2022 compared to the prior year thirteen and fifty-two week period ended July 31, 2021, as well as the twelve-month period ended January 29, 2022.

Adjusted Net Income and Adjusted EPS: Adjusted Net Income and Adjusted diluted earnings per share attributable to Petco common stockholders (Adjusted EPS) are considered non-GAAP financial measures under the SEC's rules because they exclude certain amounts included in the net income attributable to Petco common stockholders and diluted earnings per share attributable to Petco common stockholders calculated in accordance with GAAP. Management believes that Adjusted Net Income and Adjusted EPS are meaningful measures to share with investors because they facilitate comparison of the current period performance with that of the comparable prior period. In addition, Adjusted Net Income and Adjusted EPS afford investors a view of what management considers to be Petco's core earnings performance as well as the ability to make a more informed assessment of such earnings performance with that of the prior period. The table on page 15 of this Presentation reflect the calculation of Adjusted Net Income and Adjusted EPS for the thirteen weeks ended July 30, 2022 compared to the thirteen weeks ended July 31, 2021.

Free Cash Flow: Free cash flow is a non-GAAP financial measure that is calculated as net cash provided by operating activities less cash paid for fixed assets. Management believes that free cash flow, which measures the ability to generate additional cash from business operations, is an important financial measure for use in evaluating the company's financial performance. The table on page 16 of this Presentation reflects the calculation of free cash flow for the thirteen and twenty-six weeks ended July 30, 2022 compared to the thirteen and twenty-six weeks ended July 31, 2021.

Net Debt: Net Debt is a non-GAAP financial measure that is calculated as the sum of current and non-current debt, less cash and cash equivalents. Management considers this adjustment useful because it reduces the volatility of total debt caused by fluctuations between cash paid against the company's revolving credit facility and cash held on hand in cash and cash equivalents. The table on page 17 reflects the calculation of Net Debt as of the period ended July 30, 2022 compared to the prior quarters ended January 29, 2022 and July 31, 2021.

Total Active Customers: Total Active Customers is the total number of customers (including Pals members and eComm customers) trackable by certain personal information that have made at least one transaction with us during the prior 12-month period. It reflects the inflow of new customers as well as the outflow of customers who have not made a transaction during the prior 12-month period. Net New Customers is the change in Total Active Customers between this quarter end and the prior quarter end. Previously, Total Active Customers and Net New Customers included Pals members whose transactions were tracked by member numbers only as opposed to other personal information. Currently, only Pals members accounts with certain personal information are counted.

# Non-GAAP Measures: Adjusted EBITDA\*

(dollars in thousands)	13 Weeks Ended	
	July 30, 2022	July 31, 2021
<b>Reconciliation of Net Income Attributable to Class A and B-1 Common Stockholders to Adjusted EBITDA</b>		
<b>Net income attributable to Class A and B-1 common stockholders</b>	<b>\$ 13,456</b>	<b>\$ 75,111</b>
Add (deduct):		
Interest expense, net	21,683	19,193
Income tax expense	6,638	27,011
Depreciation and amortization	48,603	41,238
Income from equity method investees	(2,031)	(2,429)
Asset impairments and write offs	1,207	1,743
Equity-based compensation	12,895	11,506
Other non-operating loss (income)	10,259	(45,162)
Mexico joint venture EBITDA (1)	6,501	5,856
Store pre-opening expenses	3,803	3,488
Store closing expenses	881	962
Non-cash occupancy-related costs (2)	2,286	2,885
Acquisition-related integration costs (3)	10,859	—
Other costs (4)	4,915	13,671
<b>Adjusted EBITDA</b>	<b>\$ 141,955</b>	<b>\$ 155,073</b>
Net sales	\$ 1,480,797	\$ 1,434,534
Net margin (5)	0.9%	5.2%
Adjusted EBITDA Margin	9.6%	10.8%

\* Please see our second quarter 2022 earnings release posted to our website for related footnotes.

# Non-GAAP Measures: Trailing Twelve Month Adjusted EBITDA\*

(dollars in thousands)	Trailing Twelve Months		
	July 30, 2022	January 29, 2022	July 31, 2021
<b>Reconciliation of Net Income Attributable to Class A and B-1 Common Stockholders to Adjusted EBITDA</b>			
<b>Net income attributable to Class A and B-1 common stockholders</b>	<b>\$ 119,895</b>	<b>\$ 164,417</b>	<b>\$ 79,915</b>
Add (deduct):			
Interest expense, net	78,932	77,335	143,113
Income tax expense	40,422	53,473	31,950
Depreciation and amortization	185,156	172,431	171,643
Income from equity method investees	(11,224)	(10,883)	(10,259)
Loss on debt extinguishment and modification	—	20,838	38,387
Asset impairments and write offs	9,597	10,918	12,035
Equity-based compensation	51,272	49,265	31,408
Other non-operating loss (income)	20,609	(34,497)	(45,162)
Mexico joint venture EBITDA (1)	28,254	26,837	23,434
Store pre-opening expenses	14,410	14,765	13,360
Store closing expenses	5,704	5,028	6,211
Non-cash occupancy-related costs (2)	8,570	8,114	10,095
Acquisition-related integration costs (3)	13,095	—	—
Other costs (4)	20,473	33,437	41,389
<b>Adjusted EBITDA</b>	<b>\$ 585,165</b>	<b>\$ 591,478</b>	<b>\$ 547,519</b>
Net sales	\$ 5,914,409	\$ 5,807,149	\$ 5,447,238
Net margin (5)	2.0%	2.8%	1.5%
Adjusted EBITDA Margin	9.9%	10.2%	10.1%

\* Please see our second quarter 2022 earnings release posted to our website for related footnotes.

# Non-GAAP Measures: Adjusted Net Income and Adjusted EPS\*

(in thousands, except per share amounts)

## Reconciliation of Diluted EPS to Adjusted EPS

	13 Weeks Ended			
	July 30, 2022		July 31, 2021	
	Amount	Per share	Amount	Per share
<b>Net income attributable to common stockholders / diluted EPS</b>	<b>\$ 13,456</b>	<b>\$ 0.05</b>	<b>\$ 75,111</b>	<b>\$ 0.28</b>
Add (deduct):				
Income tax expense	6,638	0.02	27,011	0.10
Asset impairments and write offs	1,207	0.01	1,743	0.01
Equity-based compensation	12,895	0.05	11,506	0.04
Other non-operating loss (income)	10,259	0.04	(45,162)	(0.17)
Store pre-opening expenses	3,803	0.01	3,488	0.01
Store closing expenses	881	0.00	962	0.01
Non-cash occupancy-related costs (2)	2,286	0.01	2,885	0.01
Acquisition-related integration costs (3)	10,859	0.04	—	—
Other costs (4)	4,915	0.02	13,671	0.05
<b>Adjusted pre-tax income / diluted earnings per share</b>	<b>\$ 67,199</b>	<b>\$ 0.25</b>	<b>\$ 91,215</b>	<b>\$ 0.34</b>
Income tax expense at 26% normalized tax rate	17,472	0.06	23,716	0.09
<b>Adjusted Net Income / Adjusted EPS</b>	<b>\$ 49,727</b>	<b>\$ 0.19</b>	<b>\$ 67,499</b>	<b>\$ 0.25</b>

\* Please see our second quarter 2022 earnings release posted to our website for related footnotes.

# Non-GAAP Measures: Free Cash Flow

(in thousands)

	13 Weeks Ended		26 Weeks Ended	
	July 30, 2022	July 31, 2021	July 30, 2022	July 31, 2021
Net cash provided by operating activities	\$ 42,571	\$ 87,402	\$ 100,088	\$ 202,404
Cash paid for fixed assets	(70,280)	(52,532)	(136,190)	(99,883)
<b>Free Cash Flow</b>	<b>\$ (27,709)</b>	<b>\$ 34,870</b>	<b>\$ (36,102)</b>	<b>\$ 102,521</b>



# Non-GAAP Measures: Net Debt

(dollars in thousands)	July 30, 2022	January 29, 2022	July 31, 2021
Total debt:			
Senior secured credit facilities, net, including current portion	\$ 1,651,346	\$ 1,657,390	\$ 1,663,463
Finance leases, including current portion	29,419	29,816	15,104
Total debt	1,680,765	1,687,206	1,678,567
Less: cash and cash equivalents	(125,187)	(211,602)	(203,404)
<b>Net Debt</b>	<b>\$ 1,555,578</b>	<b>\$ 1,475,604</b>	<b>\$ 1,475,163</b>
Adjusted EBITDA (TTM)	\$ 585,165	\$ 591,478	\$ 547,519
Net Debt / Adjusted EBITDA ratio	2.7x	2.5x	2.7x

# Net Sales by Category

	13 Weeks Ended				
	July 30, 2022	July 31, 2021	August 1, 2020	% Change (1 yr)	% Change (2 yr)
Consumables	\$ 687,068	\$ 611,946	\$ 492,274	12%	37%
Supplies and companion animals	600,711	663,572	612,630	(9%)	(1%)
Services and other	193,018	159,016	104,067	21%	74%
<b>Net sales</b>	<b>\$1,480,797</b>	<b>\$1,434,534</b>	<b>\$ 1,208,971</b>	<b>3%</b>	<b>22%</b>

	26 Weeks Ended				
	July 30, 2022	July 31, 2021	August 1, 2020	% Change (1 yr)	% Change (2 yr)
Consumables	\$ 1,372,998	\$ 1,207,078	\$ 1,018,026	14%	32%
Supplies and companion animals	1,199,890	1,321,744	1,106,364	(9%)	10%
Services and other	383,900	320,706	198,102	20%	82%
<b>Net sales</b>	<b>\$2,956,788</b>	<b>\$2,849,528</b>	<b>\$ 2,322,492</b>	<b>4%</b>	<b>26%</b>

**THANK YOU**

**petco**  
THE HEALTH +  
WELLNESS CO.