

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended July 30, 2022

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-39878

Petco Health and Wellness Company, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

10850 Via Frontera

San Diego, California

(Address of principal executive offices)

81-1005932
(I.R.S. Employer
Identification No.)

92127

(Zip Code)

Registrant's telephone number, including area code: (858) 453-7845

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, par value \$0.001 per share	WOOF	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of the registrant's Class A Common Stock outstanding as of August 30, 2022 was 227,918,486.

The number of shares of the registrant's Class B-1 Common Stock outstanding as of August 30, 2022 was 37,790,781.

The number of shares of the registrant's Class B-2 Common Stock outstanding as of August 30, 2022 was 37,790,781.

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Forward-Looking Statements

This Quarterly Report on Form 10-Q (this “Form 10-Q”) 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 not statements of historical fact, including statements regarding: our expectations with respect to our revenue, expenses, profitability, and other operating results; our growth plans; our ability to compete effectively in the markets in which we participate; the execution on our transformation initiatives; and the impact of certain macroeconomic factors, including the prolonged COVID-19 pandemic, inflationary pressures, global supply chain constraints and global economic and geopolitical developments, on our business. Forward-looking and other statements in this Form 10-Q may also address our progress, plans, and goals with respect to sustainability initiatives, and the inclusion of such statements is not an indication that these contents are necessarily material to investors or required to be disclosed in our filings with the U.S. Securities and Exchange Commission (the “SEC”). Such plans and goals may change, and statements regarding such plans and goals are not guarantees or promises that they will be met. In addition, historical, current, and forward-looking sustainability-related statements may be based on standards for measuring progress that are still developing, internal controls and processes that continue to evolve, and assumptions that are subject to change in the future.

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 we believe 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 Form 10-Q is, or should be relied upon as, a promise or representation or warranty as to any future matter, including any matter in respect of our operations or business or financial condition. 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 of our control.

Forward-looking statements are subject to many risks, uncertainties and other factors that could cause actual results or events to differ materially from the potential results or events discussed in such forward-looking statements, including, without limitation, those identified in this Form 10-Q 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 other filings with the SEC. The occurrence of any such factors could significantly alter the results set forth in these statements.

We caution 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. We undertake 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.

In addition, statements such as “we believe” and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based on information available to us as of the date of this Form 10-Q. While we believe that information provides a reasonable basis for these statements, that information may be limited or incomplete. Our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or

review of, all relevant information. These statements are inherently uncertain, and investors are cautioned not to unduly rely on these statements.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

PETCO HEALTH AND WELLNESS COMPANY, INC.

CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)

	July 30, 2022 (Unaudited)	January 29, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 125,187	\$ 211,602
Receivables, less allowance for credit losses (\$1,393 and \$931, respectively)	44,762	55,618
Merchandise inventories, net	723,336	675,111
Prepaid expenses	53,955	42,355
Other current assets	66,589	86,091
Total current assets	<u>1,013,829</u>	<u>1,070,777</u>
Fixed assets	1,872,567	1,745,691
Less accumulated depreciation	<u>(1,101,442)</u>	<u>(1,018,769)</u>
Fixed assets, net	771,125	726,922
Operating lease right-of-use assets	1,378,947	1,338,465
Goodwill	2,186,829	2,183,991
Trade name	1,025,000	1,025,000
Other long-term assets	<u>166,702</u>	<u>152,786</u>
Total assets	<u>\$ 6,542,432</u>	<u>\$ 6,497,941</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and book overdrafts	\$ 416,603	\$ 403,976
Accrued salaries and employee benefits	104,222	150,630
Accrued expenses and other liabilities	220,247	210,872
Current portion of operating lease liabilities	272,089	265,897
Current portion of long-term debt and other lease liabilities	<u>22,251</u>	<u>21,764</u>
Total current liabilities	<u>1,035,412</u>	<u>1,053,139</u>
Senior secured credit facilities, net, excluding current portion	1,634,346	1,640,390
Operating lease liabilities, excluding current portion	1,135,627	1,096,133
Deferred taxes, net	326,739	318,355
Other long-term liabilities	<u>131,162</u>	<u>134,105</u>
Total liabilities	<u>4,263,286</u>	<u>4,242,122</u>
Commitments and contingencies (Notes 3 and 6)		
Stockholders' equity:		
Class A common stock, \$0.001 par value: Authorized - 1.0 billion shares; Issued and outstanding - 227.9 million and 227.2 million shares, respectively	228	227
Class B-1 common stock, \$0.001 par value: Authorized - 75.0 million shares; Issued and outstanding - 37.8 million shares	38	38
Class B-2 common stock, \$0.000001 par value: Authorized - 75.0 million shares; Issued and outstanding - 37.8 million shares	—	—
Preferred stock, \$0.001 par value: Authorized - 25.0 million shares; Issued and outstanding - none	—	—
Additional paid-in-capital	2,103,176	2,133,821
Retained earnings	180,315	142,166
Accumulated other comprehensive loss	<u>(4,611)</u>	<u>(2,238)</u>
Total stockholders' equity	<u>2,279,146</u>	<u>2,274,014</u>
Noncontrolling interest	—	<u>(18,195)</u>
Total equity	<u>2,279,146</u>	<u>2,255,819</u>
Total liabilities and equity	<u>\$ 6,542,432</u>	<u>\$ 6,497,941</u>

See accompanying notes to consolidated financial statements.

PETCO HEALTH AND WELLNESS COMPANY, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts) (Unaudited)

	Thirteen weeks ended		Twenty-six weeks ended	
	July 30, 2022	July 31, 2021	July 30, 2022	July 31, 2021
Net sales	\$ 1,480,797	\$ 1,434,534	\$ 2,956,788	\$ 2,849,528
Cost of sales	886,320	835,124	1,754,637	1,653,133
Gross profit	594,477	599,410	1,202,151	1,196,395
Selling, general and administrative expenses	544,472	525,942	1,102,207	1,075,178
Operating income	50,005	73,468	99,944	121,217
Interest income	(137)	(13)	(157)	(34)
Interest expense	21,820	19,206	41,454	39,735
Loss on extinguishment and modification of debt	—	—	—	20,838
Other non-operating loss (income)	10,259	(45,162)	9,945	(45,162)
Income before income taxes and income from equity method investees	18,063	99,437	48,702	105,840
Income tax expense	6,638	27,011	16,638	29,690
Income from equity method investees	(2,031)	(2,429)	(5,194)	(4,854)
Net income	13,456	74,855	37,258	81,004
Net loss attributable to noncontrolling interest	—	(256)	(891)	(1,667)
Net income attributable to Class A and B-1 common stockholders	\$ 13,456	\$ 75,111	\$ 38,149	\$ 82,671
Net income per Class A and B-1 common share:				
Basic	\$ 0.05	\$ 0.28	\$ 0.14	\$ 0.31
Diluted	\$ 0.05	\$ 0.28	\$ 0.14	\$ 0.31
Weighted average shares used in computing net income per Class A and B-1 common share:				
Basic	265,431	264,216	265,241	264,216
Diluted	265,835	265,217	265,777	265,123

See accompanying notes to consolidated financial statements.

PETCO HEALTH AND WELLNESS COMPANY, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands) (Unaudited)

	Thirteen weeks ended		Twenty-six weeks ended	
	July 30, 2022	July 31, 2021	July 30, 2022	July 31, 2021
Net income	\$ 13,456	\$ 74,855	\$ 37,258	\$ 81,004
Net loss attributable to noncontrolling interest	—	(256)	(891)	(1,667)
Net income attributable to Class A and B-1 common stockholders	13,456	75,111	38,149	82,671
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustment	(775)	789	(2,373)	3
Total other comprehensive (loss) income, net of tax	(775)	789	(2,373)	3
Comprehensive income	12,681	75,644	34,885	81,007
Comprehensive loss attributable to noncontrolling interest	—	(256)	(891)	(1,667)
Comprehensive income attributable to Class A and B-1 common stockholders	<u>\$ 12,681</u>	<u>\$ 75,900</u>	<u>\$ 35,776</u>	<u>\$ 82,674</u>

See accompanying notes to consolidated financial statements.

PETCO HEALTH AND WELLNESS COMPANY, INC.

CONSOLIDATED STATEMENTS OF EQUITY
(In thousands) (Unaudited)

	Common stock			Amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total stockholders' equity	Noncontrolling interest	Total equity
	Class A (shares)	Class B-1 (shares)	Class B-2 (shares)							
Balance at January 29, 2022	227,187	37,791	37,791	\$ 265	\$ 2,133,821	\$ 142,166	\$ (2,238)	\$ 2,274,014	\$ (18,195)	\$ 2,255,819
Equity-based compensation expense (Note 5)	—	—	—	—	12,055	—	—	12,055	—	12,055
Net income	—	—	—	—	—	24,693	—	24,693	(891)	23,802
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	(1,598)	(1,598)	—	(1,598)
Issuance of common stock, net of tax withholdings	291	—	—	—	(2,371)	—	—	(2,371)	—	(2,371)
Balance at April 30, 2022	227,478	37,791	37,791	\$ 265	\$ 2,143,505	\$ 166,859	\$ (3,836)	\$ 2,306,793	\$ (19,086)	\$ 2,287,707
Equity-based compensation expense (Note 5)	—	—	—	—	13,422	—	—	13,422	—	13,422
Net income	—	—	—	—	—	13,456	—	13,456	—	13,456
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	(775)	(775)	—	(775)
Investment in veterinary joint venture (Note 1)	—	—	—	—	(54,086)	—	—	(54,086)	19,086	(35,000)
Issuance of common stock, net of tax withholdings	431	—	—	1	335	—	—	336	—	336
Balance at July 30, 2022	227,909	37,791	37,791	\$ 266	\$ 2,103,176	\$ 180,315	\$ (4,611)	\$ 2,279,146	\$ —	\$ 2,279,146

	Common stock			Amount	Additional paid-in capital	(Accumulated deficit) retained earnings	Accumulated other comprehensive loss	Total stockholders' equity	Noncontrolling interest	Total equity
	Class A (shares)	Class B-1 (shares)	Class B-2 (shares)							
Balance at January 30, 2021	226,424	37,791	37,791	\$ 264	\$ 2,092,110	\$ (22,251)	\$ (1,275)	\$ 2,068,848	\$ (13,583)	\$ 2,055,265
Equity-based compensation expense (Note 5)	—	—	—	—	11,604	—	—	11,604	—	11,604
Net income	—	—	—	—	—	7,560	—	7,560	(1,411)	6,149
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	(786)	(786)	—	(786)
Issuance of restricted stock awards	55	—	—	—	—	—	—	—	—	—
Balance at May 1, 2021	226,479	37,791	37,791	\$ 264	\$ 2,103,714	\$ (14,691)	\$ (2,061)	\$ 2,087,226	\$ (14,994)	\$ 2,072,232
Equity-based compensation expense (Note 5)	—	—	—	—	11,506	—	—	11,506	—	11,506
Net income	—	—	—	—	—	75,111	—	75,111	(256)	74,855
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	789	789	—	789
Issuance of restricted stock awards	12	—	—	—	—	—	—	—	—	—
Balance at July 31, 2021	226,491	37,791	37,791	\$ 264	\$ 2,115,220	\$ 60,420	\$ (1,272)	\$ 2,174,632	\$ (15,250)	\$ 2,159,382

See accompanying notes to consolidated financial statements.

PETCO HEALTH AND WELLNESS COMPANY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands) (Unaudited)

	Twenty-six weeks ended	
	July 30, 2022	July 31, 2021
Cash flows from operating activities:		
Net income	\$ 37,258	\$ 81,004
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	95,570	82,845
Amortization of debt discounts and issuance costs	2,456	3,369
Provision for deferred taxes	9,216	12,691
Equity-based compensation	25,117	23,110
Impairments, write-offs and losses on sale of fixed and other assets	1,369	2,690
Loss on extinguishment and modification of debt	—	20,838
Income from equity method investees	(5,194)	(4,854)
Non-cash operating lease costs	210,946	210,490
Other non-operating loss (income)	9,945	(45,162)
Changes in assets and liabilities:		
Receivables	10,856	1,937
Merchandise inventories	(48,225)	(89,784)
Prepaid expenses and other assets	(21,932)	3,294
Accounts payable and book overdrafts	12,626	74,466
Accrued salaries and employee benefits	(37,345)	(6,017)
Accrued expenses and other liabilities	5,148	51,145
Operating lease liabilities	(205,884)	(220,655)
Other long-term liabilities	(1,839)	997
Net cash provided by operating activities	<u>100,088</u>	<u>202,404</u>
Cash flows from investing activities:		
Cash paid for fixed assets	(136,190)	(99,883)
Cash paid for acquisitions, net of cash acquired	(2,888)	(2,807)
Cash paid for interest in veterinary joint venture	(35,000)	—
Proceeds from sale of assets	2,127	105
Net cash used in investing activities	<u>(171,951)</u>	<u>(102,585)</u>
Cash flows from financing activities:		
Borrowings under long-term debt agreements	4,000	1,700,000
Repayments of long-term debt	(12,500)	(1,682,361)
Debt refinancing costs	—	(24,665)
Payments for finance lease liabilities	(2,964)	(2,044)
Proceeds from employee stock purchase plan and stock option exercises	2,591	1,721
Tax withholdings on stock-based awards	(13,461)	—
Payment of offering costs	—	(3,844)
Net cash used in financing activities	<u>(22,334)</u>	<u>(11,193)</u>
Net (decrease) increase in cash, cash equivalents and restricted cash	(94,197)	88,626
Cash, cash equivalents and restricted cash at beginning of year	221,890	119,540
Cash, cash equivalents and restricted cash at end of year	<u>\$ 127,693</u>	<u>\$ 208,166</u>
Supplemental cash flow disclosures:		
Interest paid, net	\$ 35,631	\$ 29,463
Capitalized interest	\$ 371	\$ 181
Income taxes paid	\$ 5,461	\$ 5,195
Supplemental non-cash investing and financing activities disclosure:		
Accounts payable and accrued expenses for capital expenditures	\$ 41,343	\$ 28,105

See accompanying notes to consolidated financial statements.

PETCO HEALTH AND WELLNESS COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Summary of Significant Accounting Policies

Basis of Presentation

Petco Health and Wellness Company, Inc. (together with its consolidated subsidiaries, the “Company”) is a category-defining health and wellness company focused on improving the lives of pets, pet parents, and its own partners. The Company manages its business as one reportable operating segment.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation as prescribed by accounting principles generally accepted in the United States (“GAAP”). All adjustments were comprised of normal recurring adjustments, except as noted in these Notes to Consolidated Financial Statements.

There have been no significant changes from the significant accounting policies disclosed in Note 1 of the Notes to Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended January 29, 2022.

The accompanying consolidated financial statements have been prepared in accordance with GAAP for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. Interim financial results are not necessarily indicative of results anticipated for the full year. The accompanying consolidated financial statements and these Notes to Consolidated Financial Statements should be read in conjunction with the audited consolidated financial statements and Notes to Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended January 29, 2022, from which the prior year balance sheet information herein was derived.

Veterinary Joint Venture

The Company previously held a 50% investment in a joint venture with a domestic partner to build and operate veterinary clinics in Petco locations. The joint venture was a variable interest entity for which the Company was the primary beneficiary, and accordingly, the joint venture’s results of operations and statements of financial position are included in the Company’s consolidated financial statements. In May 2022, the Company completed the purchase of the remaining 50% of the issued and outstanding membership interests of the joint venture, which is now a wholly owned subsidiary of the Company, for cash consideration of \$35.0 million. Direct transaction costs related to this purchase were not material.

Use of Estimates

The preparation of these consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. These estimates are based on information that is currently available and on various other assumptions that are believed to be reasonable under the circumstances. Actual results could vary from those estimates under different assumptions or conditions.

Cash and Cash Equivalents

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported in the consolidated balance sheets to the total amounts reported in the consolidated statements of cash flows (in thousands).

	July 30, 2022	January 29, 2022
Cash and cash equivalents	\$ 125,187	\$ 211,602
Restricted cash included in other current assets	2,506	10,288
Total cash, cash equivalents and restricted cash in the statement of cash flows	\$ 127,693	\$ 221,890

Recent Accounting Pronouncements

In March 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2020-04 – Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting, which provides optional expedients and exceptions for applying GAAP to contract modifications, hedging relationships, and other transactions affected by the anticipated transition from LIBOR. As a result of the reference rate reform initiative, certain widely used reference rates such as LIBOR are expected to be discontinued. The guidance is designed to simplify how entities account for contracts, such as receivables, debt, leases, derivative instruments and hedging, that are modified to replace LIBOR or other benchmark interest rates with new rates. The guidance is effective upon issuance and may be applied through December 31, 2022. The Company is currently evaluating the impact of this accounting standard, but does not expect it to have a material impact on the consolidated financial statements and related disclosures.

2. Revenue Recognition

Net sales by product type and services were as follows (in thousands):

	Thirteen weeks ended		Twenty-six weeks ended	
	July 30, 2022	July 31, 2021	July 30, 2022	July 31, 2021
Consumables	\$ 687,068	\$ 611,946	\$ 1,372,998	\$ 1,207,078
Supplies and companion animals	600,711	663,572	1,199,890	1,321,744
Services and other	193,018	159,016	383,900	320,706
Net sales	\$ 1,480,797	\$ 1,434,534	\$ 2,956,788	\$ 2,849,528

3. Senior Secured Credit Facilities

The Company previously had a senior secured term loan facility (the “Amended Term Loan Facility”), which was fully repaid on March 4, 2021, and a senior secured asset-based revolving credit facility (the “Amended Revolving Credit Facility”), which was terminated on March 4, 2021. On March 4, 2021, the Company entered into a \$1,700.0 million secured term loan facility maturing on March 4, 2028 (the “First Lien Term Loan”) and a secured asset-based revolving credit facility with availability of up to \$500.0 million, subject to a borrowing base, maturing on March 4, 2026 (the “ABL Revolving Credit Facility”).

As of July 30, 2022, the Company was in compliance with its covenants under the First Lien Term Loan and the ABL Revolving Credit Facility.

Term Loan Facilities

On March 4, 2021, the Company entered into the First Lien Term Loan and repaid all outstanding principal and interest on the Amended Term Loan Facility. Interest on the First Lien Term Loan is based on, at the Company’s option, either a base rate or Adjusted LIBOR, subject to a 0.75% floor, payable upon maturity of the

LIBOR contract, in either case plus the applicable rate. The base rate is the greater of the bank prime rate, federal funds effective rate plus 0.5% or Adjusted LIBOR plus 1.0%. The applicable rate is 2.25% per annum for a base rate loan or 3.25% per annum for an Adjusted LIBOR loan. Principal and interest payments commenced on June 30, 2021. Principal payments are \$4.25 million quarterly.

In connection with the March 4, 2021 transaction described above, the Company recognized a loss on debt extinguishment and modification of \$19.6 million on the term loan facilities, which consisted of a \$6.5 million write-off of unamortized debt discount and issuance costs on the Amended Term Loan Facility and \$13.1 million of third-party expenses.

Fees relating to the Company's entry into the First Lien Term Loan consisted of arranger fees and other third-party expenses. Of those fees, \$3.2 million was capitalized as debt issuance costs, along with \$4.3 million of original issue discount. The remaining portion of original issue discount and debt issuance costs of the Amended Term Loan Facility previously capitalized is being amortized over the contractual term of the First Lien Term Loan to interest expense using the effective interest rate in effect on the date of issuance, as these amounts represent the portion that was not substantially modified.

As of July 30, 2022, the outstanding principal balance of the First Lien Term Loan was \$1,678.8 million (\$1,655.5 million, net of the unamortized discount and debt issuance costs). As of January 29, 2022, the outstanding principal balance of the First Lien Term Loan was \$1,687.3 million (\$1,662.1 million, net of the unamortized discount and debt issuance costs). The weighted average interest rate on the borrowings outstanding was 5.6% and 4.1% as of July 30, 2022 and January 29, 2022, respectively. Debt issuance costs are being amortized over the contractual term to interest expense using the effective interest rate in effect at issuance. As of July 30, 2022 and January 29, 2022, the estimated fair value of the First Lien Term Loan was approximately \$1,624.2 million and \$1,687.3 million, respectively, based upon Level 2 fair value hierarchy inputs.

Revolving Credit Facilities

On March 4, 2021, the Company entered into the ABL Revolving Credit Facility and terminated the Amended Revolving Credit Facility. The ABL Revolving Credit Facility has availability up to \$500.0 million, subject to a borrowing base.

Fees relating to the Company's entry into the ABL Revolving Credit Facility consisted of arranger fees and other third-party expenses. Of those fees, \$4.1 million was capitalized as debt issuance costs. Unamortized debt issuance costs of \$1.2 million were written off and recognized as a loss on debt extinguishment and modification in connection with this transaction. The remaining portion of debt issuance costs of the Amended Revolving Credit Facility previously capitalized is being amortized over the contractual term of the ABL Revolving Credit Facility as these amounts represent the portion that was not substantially modified.

As of July 30, 2022 and January 29, 2022, no amounts were outstanding under the ABL Revolving Credit Facility. At July 30, 2022, \$443.9 million was available under the ABL Revolving Credit Facility, which is net of \$56.1 million of outstanding letters of credit issued in the normal course of business and no borrowing base reduction for a shortfall in qualifying assets. Unamortized debt issuance costs of \$4.2 million relating to the ABL Revolving Credit Facility were outstanding and were being amortized using the straight-line method over the remaining term of the agreement as of July 30, 2022. Unamortized debt issuance costs of \$4.7 million relating to the ABL Revolving Credit Facility were outstanding and were being amortized using the straight-line method over the remaining term of the agreement as of January 29, 2022.

The ABL Revolving Credit Facility has availability up to \$500.0 million and a \$150.0 million letter of credit sub-facility. The availability is limited to a borrowing base, which allows borrowings of up to 90% of eligible accounts receivable plus 90% of the net orderly liquidation value of eligible inventory plus up to \$50.0 million of qualified cash of the Company to which the Company and guarantors have no access, less reserves as determined by the administrative agent. Letters of credit reduce the amount available to borrow under the ABL Revolving Credit Facility by their face value.

Interest on the ABL Revolving Credit Facility is based on, at the Company's option, either the base rate or Adjusted LIBOR subject to a floor of 0%, in either case, plus an applicable margin. The applicable margin is currently equal to 25 basis points in the case of base rate loans and 125 basis points in the case of Adjusted LIBOR loans.

The applicable margin is adjusted quarterly based on the average historical excess availability as a percentage of the Line Cap, which represents the lesser of the aggregate ABL Revolving Credit Facility and the borrowing base, as follows:

Average Historical Excess Availability	Applicable Margin for Adjusted LIBOR Loans	Applicable Margin for Base Rate Loans
Less than 33.3% of the Line Cap	1.75%	0.75%
Less than 66.7% but greater than or equal to 33.3% of the Line Cap	1.50%	0.50%
Greater than or equal to 66.7% of the Line Cap	1.25%	0.25%

The ABL Revolving Credit Facility is subject to an unused commitment fee. If the actual daily utilized portion exceeds 50%, the unused commitment fee is 0.25%. Otherwise, the unused commitment fee is 0.375% and is not dependent upon excess availability.

4. Fair Value Measurements

Assets and Liabilities Measured on a Recurring Basis

The following table presents information about assets and liabilities that are measured at fair value on a recurring basis and indicate the fair value hierarchy of the valuation techniques utilized to determine such fair value (in thousands):

	July 30, 2022		
	Level 1	Level 2	Level 3
Assets (liabilities):			
Money market mutual funds	\$ 60,418	\$ —	\$ —
Investments of officers' life insurance	\$ —	\$ 13,210	\$ —
Non-qualified deferred compensation plan	\$ —	\$ (18,206)	\$ —
Investment in Rover Group, Inc.	\$ 22,874	\$ —	\$ —
	January 29, 2022		
	Level 1	Level 2	Level 3
Assets (liabilities):			
Money market mutual funds	\$ 167,277	\$ —	\$ —
Investments of officers' life insurance	\$ —	\$ 14,575	\$ —
Non-qualified deferred compensation plan	\$ —	\$ (17,453)	\$ —
Investment in Rover Group, Inc.	\$ 32,819	\$ —	\$ —

The fair value of money market mutual funds is based on quoted market prices, such as quoted net asset values published by the fund as supported in an active market. Money market mutual funds included in the Company's cash and cash equivalents were \$59.5 million and \$158.0 million as of July 30, 2022 and January 29, 2022, respectively. Also included in the Company's money market mutual funds balances were \$0.9 million and \$9.3 million as of July 30, 2022 and January 29, 2022, respectively, which relate to the Company's restricted cash, and are included in other current assets in the consolidated balance sheets.

The Company maintains a deferred compensation plan for key executives and other members of management, which is funded by investments in officers' life insurance. The fair value of this obligation is based on participants' elected investments, which reflect the closing market prices of similar assets.

The Company previously held an equity investment, in the form of multiple series of preferred stock, in A Place for Rover, Inc., an online marketplace for pet care, which was historically accounted for as an equity security without a readily determinable fair value. In July 2021, A Place for Rover, Inc. completed a business combination with Nebula Caravel Acquisition Corp., a publicly-traded special purpose acquisition company. The combined entity was renamed to Rover Group, Inc. ("Rover"), and the Company's equity investment was converted into shares of Rover Class A common stock. In September 2021, the Company received additional shares of Rover Class A

common stock in accordance with certain earnout provisions from the July 2021 business combination. The Company now remeasures the fair value of its investment on a quarterly basis, and the resulting gains or losses are included in other non-operating income in the consolidated statements of operations. On November 23, 2021, the Company completed the sale of approximately 11% of its Rover Class A common stock for net proceeds of \$6.1 million in cash as part of its participation in an underwritten secondary offering by certain Rover shareholders.

In February 2022, the Company amended a collaboration agreement with a vendor, and as part of the amendment the Company was granted a right to receive equity and warrants for common shares of the vendor that is subject to certain performance conditions and other contingencies. The Company evaluated the agreement under FASB Accounting Standards Codification 705-20, Consideration Received from a Vendor, and no material consideration was recognized during the twenty-six week period ended July 30, 2022.

Assets Measured on a Non-Recurring Basis

The Company's non-financial assets, which primarily consist of goodwill, other intangible assets, fixed assets and equity and other investments, are reported at carrying value, or at fair value as of the date of the Company's acquisition of Petco Holdings, Inc. LLC on January 26, 2016, and are not required to be measured at fair value on a recurring basis. However, on a periodic basis (at least annually for goodwill and indefinite-lived intangibles or whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable), non-financial assets are assessed for impairment. If impaired, the carrying values of the assets are written down to fair value using Level 3 inputs.

There were no triggering events identified and no indication of impairment of the Company's goodwill, indefinite-lived trade name, other intangible assets or equity and other investments during the thirteen or twenty-six week periods ended July 30, 2022 and July 31, 2021. During the thirteen and twenty-six week periods ended July 30, 2022, the Company recorded fixed asset and right-of-use asset impairment charges of \$0.2 million and \$1.0 million, respectively. During the thirteen and twenty-six week periods ended July 31, 2021, the Company recorded fixed asset and right-of-use asset impairment charges of \$1.4 million and \$2.5 million, respectively.

5. Stockholders' Equity

Equity-Based Compensation

Equity-based compensation awards under the Company's current incentive plan (the "2021 Equity Incentive Plan") include restricted stock units ("RSUs," which include performance-based stock units), restricted stock awards ("RSAs"), non-qualified stock options, and other equity compensation awards. The Company also has an employee stock purchase plan ("ESPP").

The Company's controlling parent, Scooby LP, also maintains an incentive plan (the "2016 Incentive Plan") under which it has awarded partnership unit awards to certain current and former employees, consultants, and non-employee directors of the Company that are restricted profit interests in Scooby LP subject to a distribution threshold ("Series C Units").

The following table summarizes the Company's equity-based compensation expense by award type (in thousands):

	<u>Thirteen weeks ended</u>		<u>Twenty-six weeks ended</u>	
	<u>July 30, 2022</u>	<u>July 31, 2021</u>	<u>July 30, 2022</u>	<u>July 31, 2021</u>
RSUs and RSAs	\$ 8,690	\$ 6,353	\$ 15,157	\$ 12,825
Options	2,038	2,045	3,846	4,137
ESPP	315	317	612	390
Other awards	1,852	2,791	5,502	5,758
Total equity-based compensation expense	<u>\$ 12,895</u>	<u>\$ 11,506</u>	<u>\$ 25,117</u>	<u>\$ 23,110</u>

Activity under the 2021 Equity Incentive Plan was as follows (shares and dollars in thousands):

	RSUs and RSAs	Options
Nonvested/outstanding, January 29, 2022	2,587	3,327
Granted	4,470	503
Vested and delivered/exercised	(986)	(45)
Forfeited/expired	(431)	(266)
Nonvested/outstanding, July 30, 2022	5,640	3,519
Unrecognized compensation expense as of July 30, 2022	\$ 90,555	\$ 13,866
Weighted average remaining expense period as of July 30, 2022	2.4 Years	1.9 Years

RSA activity has not been material and relates to an RSA of Class A common stock granted to an executive in March 2021. For this grant, 50% of the RSA becomes vested on each of the first two anniversaries of the grant date. Unvested RSAs are not considered participating securities for earnings per share purposes, as any related dividends are forfeitable.

The ESPP allows eligible employees to contribute up to 15% of their base earnings towards purchases of Class A common stock, subject to an annual maximum. The purchase price will be 85% of the lower of (i) the fair market value of the stock on the associated lookback date and (ii) the fair market value of the stock on the last day of the related purchase period.

Series C Unit activity under the 2016 Incentive Plan was as follows (in thousands):

	Units
Outstanding, January 29, 2022	207,178
Granted	—
Forfeited	(4,685)
Outstanding, July 30, 2022	202,493
Vested, July 30, 2022	142,540

No additional Series C Units have been or will be awarded following the Company's initial public offering. As of July 30, 2022, unrecognized compensation expense related to the unvested portion of Scooby LP's Series C Units was \$13.2 million, which is expected to be recognized over a weighted average period of 1.7 years. In addition to acceleration upon a change in control, a portion of grantees' Series C Units may vest upon certain levels of direct or indirect sales by Scooby LP of the Company's Class A common stock, and all unvested Series C Units will fully accelerate in the event Scooby LP sells 90% of its direct or indirect holdings of the Company's Class A common stock.

Earnings (Loss) Per Share

Potentially dilutive securities include potential Class A common shares related to outstanding stock options, unvested RSUs and RSAs, and the ESPP, calculated using the treasury stock method. The calculation of diluted shares outstanding excludes securities where the combination of the exercise or purchase price (in the case of options and the ESPP) and the associated unrecognized compensation expense is greater than the average market price of Class A common shares because the inclusion of these securities would be anti-dilutive.

There were approximately 5.3 million and 3.4 million potential shares that were anti-dilutive and excluded from the computation of diluted shares outstanding during the twenty-six weeks ended July 30, 2022 and July 31, 2021, respectively.

6. Commitments and Contingencies

The Company is involved in legal proceedings and is subject to other claims and litigation, in each case, arising in the ordinary course of its business. The Company has made accruals with respect to certain of these matters, where appropriate, which are reflected in the Company's consolidated financial statements but are not, individually or in the aggregate, considered material. For other matters, the Company has not made accruals because management has not yet determined that a loss is probable or because the amount of loss cannot be reasonably estimated. While the ultimate outcome of the matters cannot be determined, the Company currently does not expect that these matters will have a material adverse effect on its consolidated financial statements. The outcome of any litigation is inherently uncertain, however, and if decided adversely to the Company, or if the Company determines that settlement of particular litigation is appropriate, the Company may be subject to liability that could have a material adverse effect on its consolidated financial statements.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the accompanying notes included elsewhere in this Quarterly Report on Form 10-Q (this “Form 10-Q”), as well as the corresponding Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the fiscal year ended January 29, 2022 (the “2021 Form 10-K”). The discussion and analysis below contains certain forward-looking statements about our business and operations that are subject to the risks, uncertainties, and other factors referred to in Part II, Item 1A, “*Risk Factors*” of this Form 10-Q. These risks, uncertainties, and other factors could cause our actual results to differ materially from those expressed in, or implied by, the forward-looking statements. The risks described in this Form 10-Q and in other documents we file from time to time with the U.S. Securities and Exchange Commission (the “SEC”), including the section entitled “Forward-Looking Statements” in this Form 10-Q, should be carefully reviewed. All amounts herein are unaudited.

Overview

Founded in 1965, Petco Health and Wellness Company, Inc. (“Petco”, the “Company”, “we”, “our” and “us”) is a category-defining health and wellness company focused on improving the lives of pets, pet parents, and our own partners. We have consistently set new standards in pet care while delivering comprehensive pet wellness products, services and solutions, and creating communities that deepen the pet-pet parent bond. In recent years, we have transformed our business from a successful yet traditional retailer to a disruptive, fully integrated, omnichannel provider of holistic pet health and wellness offerings, including premium products, services, and veterinary care. Through our integrated ecosystem, we provide our over 24 million total active customers with a comprehensive offering of differentiated products and services to fulfill their pets’ health and wellness needs through our more than 1,500 pet care centers in the U.S., Mexico, and Puerto Rico, including a growing network of more than 200 in-store veterinary hospitals, our digital channel, and our flexible fulfillment options.

Our multicategory, go-to-market strategy integrates our strong digital assets with our nationwide physical footprint to meet the needs of pet parents who are looking for a single source for all their pet’s needs. Our e-commerce site and personalized mobile app serve as hubs for pet parents to manage their pets’ health, wellness, and merchandise needs, while enabling them to shop wherever, whenever, and however they want. By leveraging our extensive physical network of pet care centers, we are able to offer our comprehensive product and service offering in a localized manner with a meaningful last-mile advantage over much of our competition. The full value of our health and wellness ecosystem is realized for customers through our Vital Care membership program. From the nutrition and supplies pets need each day, to the services that keep them at optimal health, Vital Care makes it easier and more affordable for pet parents to care for their pet’s whole health all in one place. Vital Care memberships are at the top of our integrated loyalty programs, followed by our perks program that provides rewards for frequent purchasing and our Pals Rewards loyalty program.

We strive to be a truly unique company, one that is saving and improving millions of pet lives and tangibly improving the lives of pet parents and the partners who work for us, while at the same time executing our differentiated strategy with excellence. In tandem with Petco Love (formerly the Petco Foundation), an independent nonprofit organization, we work with and support thousands of local animal welfare groups across the country and, through in-store adoption events, we have helped find homes for more than 6.6 million animals.

Macroeconomic factors, including the prolonged COVID-19 pandemic, inflationary pressures, supply chain constraints and global economic and geopolitical developments, have varying impacts on our results of operations that are difficult to isolate and quantify. We cannot predict the duration or ultimate severity of these macroeconomic factors or the ultimate impact on the broader economy or our operations and liquidity. Please refer to the risk factors referred to in Part II, Item 1A, “*Risk Factors*” of this Form 10-Q.

How We Assess the Performance of Our Business

In assessing our performance, we consider a variety of performance and financial measures, including the following:

Comparable Sales

Comparable sales is an important measure throughout the retail industry and includes both retail and digital sales of products and services. A new location or digital site is included in comparable sales beginning on the first

day of the fiscal month following 12 full fiscal months of operation and is subsequently compared to like time periods from the previous year. Relocated pet care centers become comparable pet care centers on the first day of operation if the original pet care center was open longer than 12 full fiscal months. If, during the period presented, a pet care center was closed, sales from that pet care center are included up to the first day of the month of closing. There may be variations in the way in which some of our competitors and other retailers calculate comparable sales. As a result, data in this filing regarding our comparable sales may not be comparable to similar data made available by other retailers.

Comparable sales allow us to evaluate how our overall ecosystem is performing by measuring the change in period-over-period net sales from locations and digital sites that have been open for the applicable period. We intend to improve comparable sales by continuing initiatives aimed to increase customer retention, frequency of visits, and basket size. General macroeconomic and retail business trends are also a key driver of changes in comparable sales.

Non-GAAP Financial Measures

Management and our board of directors review, in addition to GAAP (as defined herein) measures, certain non-GAAP financial measures, including Adjusted EBITDA, and Free Cash Flow, to evaluate our operating performance, generate future operating plans, and make strategic decisions regarding the allocation of capital. Further explanations of these non-GAAP measures, along with reconciliations to their most comparable GAAP measures, are presented below under “Reconciliation of Non-GAAP Financial Measures to GAAP Measures.”

Executive Summary

Our business transformation initiatives, accelerated by an increase in pet ownership and a shift in customer preferences towards products and services focused on health and wellness, have driven strong results in our business. Comparing the thirteen weeks ended July 30, 2022 with the thirteen weeks ended July 31, 2021 (unless otherwise noted), our results included the following:

- an increase in net sales from \$1.43 billion to \$1.48 billion, representing period-over-period growth of 3.2%;
- comparable sales growth of 3.8%;
- a decrease in operating income from \$73.5 million to \$50.0 million, representing a period-over-period decrease of 31.9%;
- a decrease in net income attributable to Class A and B-1 common stockholders from \$75.1 million to \$13.5 million, representing a period-over-period decrease of 82.1%, which was inclusive of a \$55.4 million lower remeasurement of the fair value of an investment in securities and \$10.9 million of integration-related costs related to the purchase of the remaining stake in our veterinary joint venture; and
- a decrease in Adjusted EBITDA from \$155.1 million to \$142.0 million, representing a period-over-period decrease of 8.5%.

Results of Operations

The following tables summarize our results of operations and the percent of net sales of line items included in our consolidated statements of operations (dollars in thousands):

	Thirteen weeks ended		Twenty-six weeks ended	
	July 30, 2022	July 31, 2021	July 30, 2022	July 31, 2021
Net sales	\$ 1,480,797	\$ 1,434,534	\$ 2,956,788	\$ 2,849,528
Cost of sales	886,320	835,124	1,754,637	1,653,133
Gross profit	594,477	599,410	1,202,151	1,196,395
Selling, general and administrative expenses	544,472	525,942	1,102,207	1,075,178
Operating income	50,005	73,468	99,944	121,217
Interest income	(137)	(13)	(157)	(34)
Interest expense	21,820	19,206	41,454	39,735
Loss on extinguishment and modification of debt	—	—	—	20,838
Other non-operating loss (income)	10,259	(45,162)	9,945	(45,162)
Income before income taxes and income from equity method investees	18,063	99,437	48,702	105,840
Income tax expense	6,638	27,011	16,638	29,690
Income from equity method investees	(2,031)	(2,429)	(5,194)	(4,854)
Net income	13,456	74,855	37,258	81,004
Net loss attributable to noncontrolling interest	—	(256)	(891)	(1,667)
Net income attributable to Class A and B-1 common stockholders	\$ 13,456	\$ 75,111	\$ 38,149	\$ 82,671

	Thirteen weeks ended		Twenty-six weeks ended	
	July 30, 2022	July 31, 2021	July 30, 2022	July 31, 2021
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	59.9	58.2	59.3	58.0
Gross profit	40.1	41.8	40.7	42.0
Selling, general and administrative expenses	36.8	36.7	37.3	37.7
Operating income	3.3	5.1	3.4	4.3
Interest income	(0.0)	(0.0)	(0.0)	(0.0)
Interest expense	1.4	1.3	1.5	1.4
Loss on extinguishment and modification of debt	—	—	—	0.7
Other non-operating loss (income)	0.7	(3.1)	0.3	(1.5)
Income before income taxes and income from equity method investees	1.2	6.9	1.6	3.7
Income tax expense	0.4	1.9	0.5	1.1
Income from equity method investees	(0.1)	(0.2)	(0.2)	(0.2)
Net income	0.9	5.2	1.3	2.8
Net loss attributable to noncontrolling interest	—	(0.0)	(0.0)	(0.1)
Net income attributable to Class A and B-1 common stockholders	0.9%	5.2%	1.3%	2.9%

	Thirteen weeks ended		Twenty-six weeks ended	
	July 30, 2022	July 31, 2021	July 30, 2022	July 31, 2021
Operational Data:				
Comparable sales increase	3.8%	19.7%	4.4%	23.9%
Total pet care centers at end of period	1,428	1,451	1,428	1,451
Adjusted EBITDA (in thousands)	\$ 141,955	\$ 155,073	\$ 274,506	\$ 280,819

Thirteen and Twenty-six Weeks Ended July 30, 2022 Compared with Thirteen and Twenty-six Weeks Ended July 31, 2021

Net Sales and Comparable Sales

(dollars in thousands)	Thirteen weeks ended				Twenty-six weeks ended			
	July 30, 2022	July 31, 2021	\$ Change	% Change	July 30, 2022	July 31, 2021	\$ Change	% Change
Consumables	\$ 687,068	\$ 611,946	\$ 75,122	12.3%	\$ 1,372,998	\$ 1,207,078	\$ 165,920	13.7%
Supplies and companion animals	600,711	663,572	(62,861)	(9.5%)	1,199,890	1,321,744	(121,854)	(9.2%)
Services and other	193,018	159,016	34,002	21.4%	383,900	320,706	63,194	19.7%
Net sales	\$ 1,480,797	\$ 1,434,534	\$ 46,263	3.2%	\$ 2,956,788	\$ 2,849,528	\$ 107,260	3.8%

Net sales increased \$46.3 million, or 3.2%, to \$1.48 billion in the thirteen weeks ended July 30, 2022 compared to net sales of \$1.43 billion in the thirteen weeks ended July 31, 2021, driven by a 3.8% increase in our comparable sales. Net sales increased \$107.3 million, or 3.8%, to \$2.96 billion in the twenty-six weeks ended July 30, 2022 compared to net sales of \$2.85 billion in the twenty-six weeks ended July 31, 2021, driven by a 4.4% increase in our comparable sales. Our sales growth period-over-period was driven by our strong execution and differentiated model across digital and in our pet care centers and continued growth in our active customer base. Our total sales mix remains strong, led by continued momentum in consumables and services, whose customers shop more frequently and have among our highest long-term value. This growth is slightly offset by a decrease in supplies and companion animals driven by softening in discretionary spend associated with the current inflationary macroeconomic environment and the lapping of a stimulus-driven prior year. We have made certain pricing actions to offset cost increases during the twenty-six weeks ended July 30, 2022.

The increase in consumables sales between the periods was driven in part by the increase in new pets, our strategic investments in customer acquisition and retention, continued expansion of our product assortment and a shift to more premium consumables, as well as fresh and frozen food. The decrease in supplies and companion animals is due in part to a strong stimulus driven twenty-six week period ended July 31, 2021 and a decrease in spending on certain non-essential items. The increase in services and other was due in part to the increase in new pets, growth in our membership offerings like Vital Care, and growth in our veterinary hospital business in which we now operate over 200 veterinary hospitals – an increase of over 50 since July 31, 2021.

For the thirteen and twenty-six weeks ended July 30, 2022, pet care center merchandise delivered growth of 0.5% and 1.1%, respectively, led by strong growth in consumables. E-commerce and digital sales increased 9.8% and 10.2% during the thirteen and twenty-six weeks ended July 30, 2022, respectively, driven by strength in our online initiatives such as repeat delivery, buy online pick up in-store (“BOPUS”), ship from store, and same day delivery. Services sales, which include veterinary hospitals, increased 13.1% and 15.9% during the thirteen and twenty-six weeks ended July 30, 2022, respectively, reflecting expansion of our veterinary hospital footprint and strong growth in veterinary and grooming customers.

Gross Profit

Gross profit decreased \$4.9 million, or 0.8%, to \$594.5 million in the thirteen weeks ended July 30, 2022 compared to gross profit of \$599.4 million for the thirteen weeks ended July 31, 2021. As a percentage of sales, our gross profit rate was 40.1% for the thirteen weeks ended July 30, 2022 compared with 41.8% for the thirteen weeks ended July 31, 2021. Gross profit increased \$5.8 million, or 0.5%, to \$1,202.2 million in the twenty-six weeks ended July 30, 2022 compared to gross profit of \$1,196.4 million for the twenty-six weeks ended July 31, 2021. As a percentage of sales, our gross profit rate was 40.7% for the twenty-six weeks ended July 30, 2022 compared with 42.0% for the twenty-six weeks ended July 31, 2021. The decrease in gross profit rate between the periods was primarily due to the mix impact of strong consumables sales and lower supplies and companion animal sales during the thirteen and twenty-six weeks ended July 30, 2022. While the strong consumables mix impacts the gross margin rate, the average consumables customer has a higher lifetime value than most other categories of customer. Sales channel impacts driven by strength in our digital and services business, moderate increases in distribution costs, and one-time integration costs relating to the purchase of the remaining stake in our veterinary joint venture also contributed to the decrease in gross profit rate during the thirteen and twenty-six weeks ended July 30, 2022 as compared to the prior year periods.

Selling, General and Administrative (“SG&A”) Expenses

SG&A expenses increased \$18.5 million, or 3.5%, to \$544.5 million for the thirteen weeks ended July 30, 2022 compared to \$525.9 million for the thirteen weeks ended July 31, 2021. As a percentage of net sales, SG&A expenses were 36.8% for the thirteen weeks ended July 30, 2022 compared with 36.7% for the thirteen weeks ended July 31, 2021. The increase in SG&A expenses period-over-period was to support our growth as we continue to invest in infrastructure and our people, along with higher variable costs on increased sales and integration costs relating to the purchase of the remaining stake in our veterinary joint venture.

SG&A expenses increased \$27.0 million, or 2.5%, to \$1,102.2 million for the twenty-six weeks ended July 30, 2022 compared to \$1,075.2 million for the twenty-six weeks ended July 31, 2021. As a percentage of net sales, SG&A expenses were 37.3% for the twenty-six weeks ended July 30, 2022 compared with 37.7% for the twenty-six weeks ended July 31, 2021, reflecting operating leverage from net sales growth. The increase in SG&A expenses period-over-period was to support our growth as we continue to invest in infrastructure and our people and was partially offset by a decrease in advertising expenses, primarily due to investments that were made during the twenty-six week period ended July 31, 2021 for our rebranding campaign, inclusive of a TV launch and associated advertisements.

Interest Expense

Interest expense increased \$2.6 million, or 13.6%, to \$21.8 million in the thirteen weeks ended July 30, 2022 compared with \$19.2 million in the thirteen weeks ended July 31, 2021. Interest expense increased \$1.8 million, or 4.3%, to \$41.5 million in the twenty-six weeks ended July 30, 2022 compared with \$39.7 million in the twenty-six weeks ended July 31, 2021. The increase was primarily driven by higher interest rates on the First Lien Term Loan. For more information on these obligations, refer to Note 3, “Senior Secured Credit Facilities,” to the Notes to Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q.

Loss on Extinguishment and Modification of Debt

Loss on extinguishment and modification of debt was \$20.8 million for the twenty-six weeks ended July 31, 2021. This loss was recognized in conjunction with the March 2021 refinancing of the Amended Term Loan Facility and Amended Revolving Credit Facility. There was no loss on debt extinguishment and modification for the thirteen weeks ended July 31, 2021 or the thirteen and twenty-six weeks ended July 30, 2022. For more information regarding these activities, refer to Note 3, “Senior Secured Credit Facilities,” to the Notes to Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q.

Other Non-Operating Loss (Income)

Other non-operating loss was \$10.3 million and \$10.0 million for the thirteen and twenty-six weeks ended July 30, 2022, respectively. Other non-operating income was \$45.2 million for both the thirteen and twenty-six weeks ended July 31, 2021. These losses and gains relate to non-cash remeasurements of the fair value of our investment in Rover Group, Inc. For more information regarding this activity, refer to Note 4, “Fair Value Measurements,” to the Notes to Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q.

Income Tax Expense

Our effective tax rates were 32.9% and 30.3% resulting in income tax expense of \$6.6 million and \$16.6 million for the thirteen and twenty-six weeks ended July 30, 2022, respectively, compared to effective tax rates of 26.5% and 26.4% resulting in income tax expense of \$27.0 million and \$29.7 million for the thirteen and twenty-six weeks ended July 31, 2021, respectively. The increase in effective tax rates for the thirteen and twenty-six weeks ended July 30, 2022 is primarily driven by the impact of lower pretax earnings and an increase in nondeductible executive compensation subject to Section 162(m) of the Internal Revenue Code.

Reconciliation of Non-GAAP Financial Measures to GAAP Measures

The following information provides definitions and reconciliations of certain non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with GAAP. Such non-GAAP financial measures are not calculated in accordance with GAAP and should not be considered superior to, as a substitute for or alternative to, and should be considered in conjunction with, the most comparable GAAP measures. The non-GAAP financial measures presented may differ from similarly-titled measures used by other companies.

Adjusted EBITDA

We present Adjusted EBITDA, a non-GAAP financial measure, because we believe it enhances an investor's understanding of our financial and operational performance by excluding certain material non-cash items, unusual or non-recurring items that we do not expect to continue in the future, and certain other adjustments we believe are or are not reflective of our ongoing operations and performance. Adjusted EBITDA enables operating performance to be reviewed across reporting periods on a consistent basis. We use Adjusted EBITDA as one of the principal measures to evaluate and monitor our operating financial performance and to compare our performance to others in our industry. We also use Adjusted EBITDA in connection with establishing discretionary annual incentive compensation targets, to make budgeting decisions, to make strategic decisions regarding the allocation of capital, and to report our quarterly results as defined in our debt agreements, although under such agreements the measure is calculated differently and is used for different purposes.

Adjusted EBITDA is not a substitute for net income (loss), the most comparable GAAP measure, and is subject to a number of limitations as a financial measure, so it should be used in conjunction with GAAP financial measures and not in isolation. There can be no assurances that we will not modify the presentation of Adjusted EBITDA in the future. In addition, other companies in our industry may define Adjusted EBITDA differently, limiting its usefulness as a comparative measure. Refer to Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Reconciliation of Non-GAAP Financial Measures to GAAP Measures" included in the 2021 Form 10-K for more information regarding how we define Adjusted EBITDA.

The table below reflects the calculation of Adjusted EBITDA and Adjusted EBITDA Margin for the periods presented:

(dollars in thousands)	Thirteen weeks ended		Twenty-six weeks ended	
	July 30, 2022	July 31, 2021	July 30, 2022	July 31, 2021
Net income attributable to Class A and B-1 common stockholders	\$ 13,456	\$ 75,111	\$ 38,149	\$ 82,671
Interest expense, net	21,683	19,193	41,297	39,701
Income tax expense	6,638	27,011	16,638	29,690
Depreciation and amortization	48,603	41,238	95,570	82,845
Income from equity method investees	(2,031)	(2,429)	(5,194)	(4,854)
Loss on debt extinguishment and modification	—	—	—	20,838
Asset impairments and write offs	1,207	1,743	1,369	2,690
Equity-based compensation	12,895	11,506	25,117	23,110
Other non-operating loss (income)	10,259	(45,162)	9,945	(45,162)
Mexico joint venture EBITDA (1)	6,501	5,856	13,279	11,862
Store pre-opening expenses	3,803	3,488	7,162	7,517
Store closing expenses	881	962	2,741	2,065
Non-cash occupancy-related costs (2)	2,286	2,885	4,480	4,024
Acquisition-related integration costs (3)	10,859	—	13,095	—
Other costs (4)	4,915	13,671	10,858	23,822
Adjusted EBITDA	\$ 141,955	\$ 155,073	\$ 274,506	\$ 280,819
Net sales	\$ 1,480,797	\$ 1,434,534	\$ 2,956,788	\$ 2,849,528
Net margin (5)	0.9%	5.2%	1.3%	2.9%
Adjusted EBITDA Margin (5)	9.6%	10.8%	9.3%	9.9%

(1) Mexico joint venture EBITDA represents 50% of the entity's operating results for the periods presented, as adjusted to reflect the results on a basis comparable to our Adjusted EBITDA. In the financial statements, this joint venture is accounted for as an equity method investment and reported net of depreciation and income taxes. Because such a presentation would not reflect the adjustments made in our calculation of Adjusted EBITDA, we include our 50% interest in our Mexico joint venture on an Adjusted EBITDA basis to ensure consistency. The table below presents a reconciliation of Mexico joint venture net income to Mexico joint venture EBITDA:

(dollars in thousands)	Thirteen weeks ended		Twenty-six weeks ended	
	July 30, 2022	July 31, 2021	July 30, 2022	July 31, 2021
Net income	\$ 4,064	\$ 4,864	\$ 9,197	\$ 9,713
Depreciation	4,711	3,401	9,005	6,801
Income tax expense	2,390	2,631	5,387	5,411
Foreign currency loss (gain)	444	(342)	380	(487)
Interest expense, net	1,392	1,158	2,588	2,286
EBITDA	\$ 13,001	\$ 11,712	\$ 26,557	\$ 23,724
50% of EBITDA	\$ 6,501	\$ 5,856	\$ 13,279	\$ 11,862

(2) Non-cash occupancy-related costs include the difference between cash and straight-line rent for all periods.

- (3) Acquisition-related integration costs include direct costs resulting from acquiring and integrating businesses. These include third-party professional and legal fees and other integration-related costs that would not have otherwise been incurred as part of the Company's operations. For the thirteen weeks ended July 30, 2022, approximately \$6.7 million of integration costs were recorded in cost of sales and \$4.1 million of integration costs were recorded in selling, general and administrative expenses relating to the purchase of the remaining stake in our veterinary joint venture. For the twenty-six weeks ended July 30, 2022, approximately \$6.7 million of integration costs were recorded in cost of sales and \$6.4 million of integration costs were recorded in selling, general and administrative expenses relating to the purchase of the remaining stake in our veterinary joint venture.
- (4) Other costs include: severance; legal reserves and related fees; one-time consulting and other costs associated with our strategic transformation initiatives; discontinuation and liquidation costs; and costs related to our initial public offering and refinancing.
- (5) We define net margin as net income attributable to Class A and B-1 common stockholders divided by net sales and Adjusted EBITDA margin as Adjusted EBITDA divided by net sales.

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 our ability to generate additional cash from our business operations, is an important financial measure for use in evaluating the Company's financial performance.

The table below reflects the calculation of Free Cash Flow for the periods presented:

	Twenty-six weeks ended	
	July 30, 2022	July 31, 2021
(dollars in thousands)		
Net cash provided by operating activities	\$ 100,088	\$ 202,404
Cash paid for fixed assets	(136,190)	(99,883)
Free Cash Flow	<u>\$ (36,102)</u>	<u>\$ 102,521</u>

Liquidity and Capital Resources

Overview

Our primary sources of liquidity are funds generated by operating activities and available capacity for borrowings on our \$500 million secured asset-based revolving credit facility maturing March 4, 2026 (the "ABL Revolving Credit Facility"). Our ability to fund our operations, to make planned capital investments, to make scheduled debt payments and to repay or refinance indebtedness depends on our future operating performance and cash flows, which are subject to prevailing economic conditions and financial, business, and other factors, some of which are beyond our control. Our liquidity as of July 30, 2022 was \$569.1 million, inclusive of cash and cash equivalents of \$125.2 million and \$443.9 million of availability on the ABL Revolving Credit Facility.

We are a party to contractual obligations involving commitments to make payments to third parties. These obligations impact our short-term and long-term liquidity and capital resource needs. We believe that our current resources, together with anticipated cash flows from operations and borrowing capacity under the ABL Revolving Credit Facility will be sufficient to finance our operations, meet our current cash requirements, and fund anticipated capital investments for at least the next 12 months. We may, however, seek additional financing to fund future

growth or refinance our existing indebtedness through the debt capital markets, but we cannot be assured that such financing will be available on favorable terms, or at all.

Cash Flows

The following table summarizes our consolidated cash flows:

(dollars in thousands)	Twenty-six weeks ended	
	July 30, 2022	July 31, 2021
Total cash provided by (used in):		
Operating activities	\$ 100,088	\$ 202,404
Investing activities	(171,951)	(102,585)
Financing activities	(22,334)	(11,193)
Net (decrease) increase in cash, cash equivalents and restricted cash	<u>\$ (94,197)</u>	<u>\$ 88,626</u>

Operating Activities

Our primary source of operating cash is sales of products and services to customers, which are substantially all on a cash basis, and therefore provide us with a significant source of liquidity. Our primary uses of cash in operating activities include: purchases of inventory; freight and warehousing costs; employee-related expenditures; occupancy-related costs for our pet care centers, distribution centers and corporate support centers; credit card fees; interest under our debt agreements; and marketing expenses. Net cash provided by operating activities is impacted by our net income (loss) adjusted for certain non-cash items, including: depreciation, amortization, impairments and write-offs; amortization of debt discounts and issuance costs; deferred income taxes; equity-based compensation; impairments of goodwill and intangible assets; other non-operating income; and the effect of changes in operating assets and liabilities.

Net cash provided by operating activities was \$100.1 million in the twenty-six weeks ended July 30, 2022 compared with net cash provided by operating activities of \$202.4 million in the twenty-six weeks ended July 31, 2021. The decrease in operating cash flow was due to lower operating income, an increase in cash paid for inventory, and payouts of prior year accrued incentive bonuses. This was partially offset by working capital benefit generated by higher sales as well as lower cash payments on operating leases due to the timing of rent payments.

Investing Activities

Cash used in investing activities consists of capital expenditures, which in the twenty-six weeks ended July 30, 2022 and the twenty-six weeks ended July 31, 2021 primarily supported our transformation initiatives. Net cash used in investing activities was \$172.0 million and \$102.6 million for the twenty-six weeks ended July 30, 2022 and July 31, 2021, respectively. The increase in capital expenditures between the periods was predominantly due to the build-out of our veterinary hospitals, investments in digital assets and innovation in response to our sales growth. In addition, in May 2022, we completed the purchase of the remaining 50% stake in our veterinary joint venture for \$35.0 million, which is now a wholly owned subsidiary.

Financing Activities

Net cash used in financing activities was \$22.3 million for the twenty-six weeks ended July 30, 2022, compared with \$11.2 million used in financing activities in the twenty-six weeks ended July 31, 2021.

Financing cash flows in the twenty-six weeks ended July 30, 2022 primarily consisted of quarterly repayments on the term loan and payments for tax withholdings on stock-based awards.

Financing cash flows in the twenty-six weeks ended July 31, 2021 primarily consisted of borrowings and repayments of debt in connection with the March 4, 2021 debt refinancing transaction discussed under "Sources of Liquidity" below. For more information regarding these activities, refer to Note 3 "Senior Secured Credit Facilities," to the Notes to Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q.

Sources of Liquidity

On March 4, 2021, the Company completed a refinancing transaction by repaying the Amended Term Loan Facility and entering into a new \$1,700 million secured term loan facility maturing on March 4, 2028 (the “First Lien Term Loan”) and the ABL Revolving Credit Facility, which matures on March 4, 2026 and has availability of up to \$500.0 million, subject to a borrowing base. Interest under the First Lien Term Loan is based on, at the Company’s option, either a base rate or Adjusted LIBOR, subject to a 0.75% floor, payable upon maturity of the LIBOR contract, in either case plus the applicable rate. The base rate is the greater of the bank prime rate, federal funds effective rate plus 0.5% or Adjusted LIBOR plus 1.0%. The applicable rate is 2.25% per annum for a base rate loan or 3.25% per annum for an Adjusted LIBOR loan. Principal payments are \$4.25 million quarterly and commenced on June 30, 2021. The terms under the ABL Revolving Credit Facility are substantially similar to those of the Amended Revolving Credit Facility.

For more information regarding this indebtedness, refer to Note 3, “*Senior Secured Credit Facilities*,” to the Notes to Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q.

Critical Accounting Policies and Estimates

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States (“GAAP”) requires us to make assumptions and estimates about future results and apply judgments that affect the reported amounts of assets, liabilities, net sales, expenses and related disclosures. We base our estimates and judgments on historical experience, current trends and other factors that we believe to be relevant at the time our consolidated financial statements are prepared. On an ongoing basis, we review the accounting policies, assumptions, estimates and judgments to ensure that our financial statements are presented fairly and in accordance with GAAP. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material.

There have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in the 2021 Form 10-K.

Recent Accounting Pronouncements

Refer to Note 1, “*Summary of Significant Accounting Policies*,” to the Notes to Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q for information regarding recently issued accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are subject to market risks arising from transactions in the normal course of our business. These risks are primarily associated with interest rate fluctuations, as well as changes in our credit standing, based on the capital and credit markets, which are not predictable. We do not currently hold any instruments for trading purposes.

Interest Rate Risk

We are subject to interest rate risk in connection with the First Lien Term Loan and the ABL Revolving Credit Facility. As of July 30, 2022, we had \$1,678.8 million outstanding under the First Lien Term Loan and no amounts outstanding under the ABL Revolving Credit Facility. The First Lien Term Loan and the ABL Revolving Credit Facility each bear interest at variable rates. An increase of 100 basis points in the variable rates on the First Lien Term Loan and the ABL Revolving Credit Facility as of July 30, 2022 would have increased annual cash interest in the aggregate by approximately \$17.0 million.

We cannot predict market fluctuations in interest rates and their impact on our debt, nor can there be any assurance that long-term fixed-rate debt will be available at favorable rates, if at all. Consequently, future results may differ materially from estimated results due to adverse changes in interest rates or debt availability.

Credit Risk

As of July 30, 2022, our cash and cash equivalents were maintained at major financial institutions in the United States, and our current deposits are likely in excess of insured limits. We believe these institutions have

sufficient assets and liquidity to conduct their operations in the ordinary course of business with little or no credit risk to us.

Foreign Currency Risk

Substantially all of our business is currently conducted in U.S. dollars. We do not believe that an immediate 10% increase or decrease in the relative value of the U.S. dollar as compared to other currencies would have a material effect on our operating results.

Item 4. Controls and Procedures.

Management's Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required financial disclosure.

As of the end of the period covered by this Form 10-Q, our management, under the supervision and with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rules 13a-15(e) and 15d-15(e). Based upon this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of July 30, 2022.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the quarter ended July 30, 2022, which has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls

Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. Management does not expect, however, that our disclosure controls and procedures will prevent or detect all error and fraud. Any control system, no matter how well designed and operated, is based on certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

See Note 6, “*Commitments and Contingencies*,” to the Notes to Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q for a description of legal proceedings, which is incorporated herein by reference.

Item 1A. Risk Factors.

Reference is made to Part I, Item 1A, “*Risk Factors*” included in the 2021 Form 10-K for information concerning risk factors. There have been no material changes with respect to the risk factors disclosed in the 2021 Form 10-K. You should carefully consider such factors, which could materially and adversely affect our business, financial condition and/or results of operations. The risks described in the 2021 Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

The following is a list of exhibits filed as part of this Quarterly Report on Form 10-Q:

Exhibit Number	Description
10.1†	Form of Performance Stock Unit Award Grant Notice and Standard Terms and Conditions under the Petco Health and Wellness Company, Inc. 2021 Equity Incentive Plan (Executive Form)
31.1	Certification of Principal Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

† Management contract or compensatory plan or arrangement.

* Furnished herewith and not deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Petco Health and Wellness Company, Inc.

Date: September 2, 2022

By: /s/ Brian LaRose
Brian LaRose
Chief Financial Officer
(Principal Financial and Accounting Officer)

PETCO HEALTH AND WELLNESS COMPANY, INC.
2021 EQUITY INCENTIVE PLAN
GRANT NOTICE FOR
PERFORMANCE STOCK UNIT AWARD

FOR GOOD AND VALUABLE CONSIDERATION, Petco Health and Wellness Company, Inc. (the “*Company*”), hereby grants to the Participant named below the target number of performance stock units (the “*PSUs*”) specified below (the “*Award*”) as performance-based Restricted Stock Units under the Petco Health and Wellness Company, Inc. 2021 Equity Incentive Plan (as amended from time to time, the “*Plan*”). Each Earned PSU represents the right to receive one share of Common Stock, upon the terms and subject to the conditions set forth in this Grant Notice (including Exhibit C), the Plan and the Standard Terms and Conditions (the “*Standard Terms and Conditions*”) promulgated under such Plan and attached hereto as Exhibit A, and the Confidentiality and Inventions Agreement attached hereto as Exhibit B. This Award is granted pursuant to the Plan and is subject to and qualified in its entirety by the Standard Terms and Conditions. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Plan.

Name of Participant:	
Grant Date:	
Target Number of PSUs:	[●] (the “ <i>Target PSUs</i> ”)
Award Type:	The Award represents the right to receive shares of Common Stock in an amount from [●]% to [●]% of the Target PSUs. The Award shall vest and become earned and nonforfeitable upon (i) the Participant’s satisfaction of the Service Requirement (as defined below) and (ii) the Committee’s certification of the final level of achievement of the Performance Goal (as defined below). PSUs that become earned upon satisfaction of the Service Requirement and the Performance Goal are referred to herein as “ <i>Earned PSUs</i> .”
Performance Period:	
Service Requirement:	The “ <i>Service Requirement</i> ” is set forth on <u>Exhibit C</u> attached hereto.
Performance Goal:	The “ <i>Performance Goal</i> ” is set forth on <u>Exhibit C</u> attached hereto.

IN ORDER TO RECEIVE THE BENEFITS OF THIS AGREEMENT, PARTICIPANT MUST EXECUTE AND RETURN THIS GRANT NOTICE (THE “**ACCEPTANCE REQUIREMENTS**”). IF YOU FAIL TO SATISFY THE ACCEPTANCE REQUIREMENTS WITHIN 60 DAYS AFTER THE GRANT DATE, THEN (1) THIS GRANT NOTICE WILL BE OF NO FORCE OR EFFECT AND THIS AWARD WILL BE AUTOMATICALLY FORFEITED TO THE COMPANY WITHOUT CONSIDERATION, AND (2) NEITHER PARTICIPANT NOR THE COMPANY WILL HAVE ANY FUTURE RIGHTS OR OBLIGATIONS UNDER THIS GRANT NOTICE OR THE STANDARD TERMS AND CONDITIONS.

By accepting this Grant Notice, Participant acknowledges that Participant has received and read, and agrees that this Award shall be subject to, the terms of this Grant Notice (including Exhibit C), the Plan, and the Standard Terms and Conditions and the Confidentiality and Inventions Agreement.

PETCO HEALTH AND WELLNESS COMPANY, INC.

By:
Name:
Title:

PARTICIPANT

[Name]

SIGNATURE PAGE TO
GRANT NOTICE FOR
PERFORMANCE STOCK UNIT AWARD

EXHIBIT A

**PETCO HEALTH AND WELLNESS COMPANY, INC.
2021 EQUITY INCENTIVE PLAN**

**STANDARD TERMS AND CONDITIONS FOR
PERFORMANCE STOCK UNITS**

These Standard Terms and Conditions apply to the Award of performance stock units granted pursuant to the Petco Health and Wellness Company, Inc. 2021 Equity Incentive Plan (the “*Plan*”), which are evidenced by a Grant Notice or an action of the Committee that specifically refers to these Standard Terms and Conditions. In addition to these Standard Terms and Conditions, the performance stock units shall be subject to the terms of the Plan, which are incorporated into these Standard Terms and Conditions by this reference. Capitalized terms not otherwise defined herein shall have the meaning set forth in the Plan.

1. TERMS OF PERFORMANCE STOCK UNITS

Petco Health and Wellness Company, Inc. (the “*Company*”) has granted to the Participant named in the Grant Notice provided to said Participant herewith (the “*Grant Notice*”) an award of performance stock units (the “*Award*” or “*PSUs*”) specified in the Grant Notice, with each Earned PSU representing the right to receive one share of Common Stock. The Award is subject to the conditions set forth in the Grant Notice, these Standard Terms and Conditions and the Plan. For purposes of these Standard Terms and Conditions and the Grant Notice, any reference to the Company shall include a reference to any Subsidiary.

2. VESTING AND SETTLEMENT OF PERFORMANCE STOCK UNITS

(a) The Award shall not be vested as of the Grant Date set forth in the Grant Notice and shall be forfeitable unless and until otherwise vested pursuant to the terms of the Grant Notice and these Standard Terms and Conditions. After the Grant Date, subject to termination or acceleration as provided in these Standard Terms and Conditions and the Plan, the Award shall become vested and earned as described in the Grant Notice with respect to the Target PSUs as set forth in the Grant Notice.

(b) As soon as administratively practicable following the date a PSU becomes an Earned PSU pursuant to the Grant Notice and this Section 2, but in no event later than two and one-half months following the Vesting Date, the Company shall deliver to the Participant a number of shares of Common Stock equal to the number of Earned PSUs.

(c) If the Participant experiences a Termination of Employment as a result of the Participant’s death or Disability, then, subject to the Participant’s (or the Participant’s personal representative’s) execution and nonrevocation of a general release of claims in a form provided by the Company, (i) with respect to any completed fiscal year during the Performance Period for which the Vesting Date has not occurred, the outstanding Target PSUs allocated to such fiscal year will remain outstanding and eligible to become Earned PSUs based on achievement of the Performance Goals and settlement of such Earned PSUs shall not be accelerated; and (ii) with respect to any incomplete fiscal year during the Performance Period, the outstanding Target PSUs

allocated to such fiscal year shall become Earned PSUs effective as of the date of such Termination of Employment.

(d) If the Participant experiences a Termination of Employment as a result of the Participant's Retirement (as defined below), then, subject to the Participant's execution and nonrevocation of a general release of claims in a form provided by the Company, (i) with respect to any completed fiscal year during the Performance Period for which the Vesting Date has not occurred, the outstanding Target PSUs allocated to such fiscal year will remain outstanding and eligible to become Earned PSUs based on achievement of the Performance Goals and settlement of such Earned PSUs shall not be accelerated; (ii) with respect to the fiscal year during the Performance Period in which the Termination of Employment occurs, the Pro-Rata Portion of the Target PSUs allocated to such fiscal year shall remain outstanding and eligible to become Earned PSUs based on achievement of the Performance Goals and settlement of such Earned PSUs shall not be accelerated; and (iii) the Target PSUs allocated to any fiscal year during the Performance Period that commences after the Termination of Employment shall be forfeited and canceled as of the Termination Date.

(e) Upon the consummation of a Change in Control prior to the end of the Performance Period, (i) with respect to any completed fiscal year during the Performance Period for which the Vesting Date has not occurred, the outstanding Target PSUs allocated to such fiscal year will become Earned PSUs based on achievement of the Performance Goal for such fiscal year effective immediately prior to such Change in Control, and (ii) with respect to any incomplete fiscal year during the Performance Period, the Target PSUs allocated to such fiscal year shall remain outstanding and become Earned PSUs on the last day of such fiscal year, subject to the Participant's continued employment by or service to the Company or its Subsidiaries through such date.

(f) Notwithstanding Section 2(e) above, if the Participant experiences a Termination of Employment as a result of an Involuntary Termination (as defined below) at any time following a Change in Control, then subject to the Participant's execution and nonrevocation of a general release of claims in a form provided by the Company, any Target PSUs that remain outstanding shall become Earned PSUs effective as of the date of such Termination of Employment.

(g) Upon the Participant's Termination of Employment for any other reason not set forth in Section 2(c), 2(d) or 2(f), any PSUs that have not become Earned PSUs shall be forfeited and canceled as of the Termination Date.

(h) As used in this Section 2:

(i) "**Good Reason**" has the meaning set forth in the written employment, offer, services or severance agreement or letter between the Participant and the Company or an Affiliate, or if there is no such agreement or no such term is defined in such agreement, means, without the Participant's consent: (A) a material diminution in the Participant's authority, duties or responsibilities with the Company or an Affiliate; (B) a material diminution in the Participant's base salary; (C) a relocation of the Participant's principal place of employment by more than 50 miles; or (D) a material breach by the Company of any of its obligations under these Standard Terms and Conditions. Notwithstanding the foregoing, any assertion by the Participant of a

termination for Good Reason shall not be effective unless (1) the Participant provides written notice to the Company of the existence of one or more of the foregoing conditions within 30 days after the initial occurrence of such condition(s); (2) the condition(s) specified in such notice must remain uncorrected for 30 days following the Company's receipt of such written notice; and (3) the date of the termination of the Participant's employment must occur within 90 days after the initial occurrence of the condition(s) specified in such notice.

(ii) "**Involuntary Termination**" means a Termination of Employment by the Company without Cause (and not as a result of death or Disability) or by the Participant for Good Reason.

(iii) "**Pro-Rata Portion**" means (A) the Target PSUs allocated to the applicable fiscal year, *multiplied by* (B) a fraction, the numerator of which is the number of days between the start of such fiscal year and the Termination Date and the denominator of which is the number of days in the applicable fiscal year.

(iv) "**Retirement**" means a Termination of Employment by the Participant upon achieving (A) 55 or more years of age and (B) 10 or more years of service with the Company and its Affiliates.

(v) "**Termination Date**" means the date of the Participant's Termination of Employment.

3. RIGHTS AS STOCKHOLDER; DIVIDEND EQUIVALENTS

(a) Participant shall not be, nor have any of the rights or privileges of, a stockholder of the Company in respect of any PSUs unless and until shares of Common Stock settled for Earned PSUs shall have been issued by the Company to Participant (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company).

(b) Notwithstanding the foregoing, from and after the Grant Date and until the earlier of (i) the Participant's receipt of Common Stock upon payment of Earned PSUs and (ii) the time when the Participant's right to receive Common Stock upon payment of PSUs is forfeited, on the date that the Company pays a cash dividend (if any) to holders of Common Stock generally, the Participant shall be entitled, as a Dividend Equivalent, to a number of additional whole Target PSUs determined by dividing (i) the product of (A) the dollar amount of the cash dividend paid per share of Common Stock on such date and (B) the total number of Target PSUs (including dividend equivalents paid thereon) previously credited to the Participant as of such date, by (ii) the Fair Market Value per share of Common Stock on such date. Such Dividend Equivalents (if any) shall be subject to the same terms and conditions and shall be settled or forfeited in the same manner and at the same time as the Target PSUs to which the Dividend Equivalents were credited.

4. RESTRICTIONS ON REALES OF SHARES

The Company may impose such restrictions, conditions or limitations as it determines appropriate as to the timing and manner of any resales by the Participant or other subsequent transfers by the Participant of any shares of Common Stock issued pursuant to Earned PSUs, including (a) restrictions under an insider trading policy, (b) restrictions designed to delay and/or coordinate the timing and manner of sales by Participant and other holders and (c) restrictions as to the use of a

specified brokerage firm for such resales or other transfers.

5. INCOME TAXES

To the extent required by applicable federal, state, local or foreign law, the Participant shall make arrangements satisfactory to the Company for the satisfaction of any withholding tax obligations that arise by reason of the grant or vesting of the PSUs. The Company shall not be required to issue shares or to recognize the disposition of such shares until such obligations are satisfied.

6. NONTRANSFERABILITY OF AWARD

The Participant understands, acknowledges and agrees that, except as otherwise provided in the Plan or as permitted by the Committee, the Award may not be sold, assigned, transferred, pledged or otherwise directly or indirectly encumbered or disposed of other than by will or the laws of descent and distribution. Notwithstanding the foregoing, (a) the Participant shall be permitted to transfer the Award as a gift to an Assignee Entity in accordance with and subject to the limits of Section 17 of the Plan and (b) if not previously so transferred, any shares of Common Stock that become issuable hereunder but which otherwise remain unissued at the time of the Participant's death shall be transferred to the Participant's designated beneficiary or, if none, to the Participant's estate.

7. OTHER AGREEMENTS SUPERSEDED

The Grant Notice, these Standard Terms and Conditions, the Confidentiality and Inventions Agreement and the Plan constitute the entire understanding between the Participant and the Company regarding the Award. Any prior agreements, commitments or negotiations concerning the Award are superseded; provided, however, that the terms of the Confidentiality and Inventions Agreement are in addition to and complement (and do not replace or supersede) all other agreements and obligations between the Company and any of its affiliates and the Participant with respect to confidentiality and intellectual property.

8. LIMITATION OF INTEREST IN SHARES SUBJECT TO PERFORMANCE STOCK UNITS

Neither the Participant (individually or as a member of a group) nor any beneficiary or other person claiming under or through the Participant shall have any right, title, interest, or privilege in or to any shares of Common Stock allocated or reserved for the purpose of the Plan or subject to the Grant Notice or these Standard Terms and Conditions except as to such shares of Common Stock, if any, as shall have been issued to such person in connection with the Award. Nothing in the Plan, in the Grant Notice, these Standard Terms and Conditions or any other instrument executed pursuant to the Plan shall confer upon the Participant any right to continue in the Company's employ or service nor limit in any way the Company's right to terminate the Participant's employment at any time for any reason.

9. GENERAL

(a) In the event that any provision of these Standard Terms and Conditions is declared to be illegal, invalid or otherwise unenforceable by a court of competent jurisdiction, such provision shall be reformed, if possible, to the extent necessary to render it legal, valid and enforceable, or otherwise deleted, and the remainder of these Standard Terms and Conditions shall

not be affected except to the extent necessary to reform or delete such illegal, invalid or unenforceable provision.

(b) The headings preceding the text of the sections hereof are inserted solely for convenience of reference, and shall not constitute a part of these Standard Terms and Conditions, nor shall they affect its meaning, construction or effect. Words in the masculine gender shall include the feminine gender, and where appropriate, the plural shall include the singular and the singular shall include the plural. The use herein of the word “including” following any general statement, term or matter shall not be construed to limit such statement, term or matter to the specific items or matters set forth immediately following such word or to similar items or matters, whether or not non-limiting language (such as “without limitation”, “but not limited to”, or words of similar import) is used with reference thereto, but rather shall be deemed to refer to all other items or matters that could reasonably fall within the broadest possible scope of such general statement, term or matter. References herein to any agreement, instrument or other document means such agreement, instrument or other document as amended, supplemented and modified from time to time to the extent permitted by the provisions thereof and not prohibited by the Plan or these Standard Terms and Conditions.

(c) These Standard Terms and Conditions shall inure to the benefit of and be binding upon the parties hereto and their respective permitted heirs, beneficiaries, successors and assigns.

(d) These Standard Terms and Conditions shall be construed in accordance with and governed by the laws of the State of Delaware, without regard to principles of conflicts of law.

(e) In the event of any conflict between the Grant Notice, these Standard Terms and Conditions and the Plan, the Grant Notice and these Standard Terms and Conditions shall control. In the event of any conflict between the Grant Notice and these Standard Terms and Conditions, the Grant Notice shall control.

(f) All questions arising under the Plan or under these Standard Terms and Conditions shall be decided by the Committee in its total and absolute discretion.

10. CLAWBACK

The PSUs and any shares of Common Stock issued pursuant to the Earned PSUs will be subject to recoupment in accordance with any clawback policy adopted by the Company. No recovery of compensation under such a clawback policy will be an event giving rise to a right to resign for “good reason” or “constructive termination” (or similar term) under any agreement with the Company. By accepting the Award, the Participant is agreeing to be bound by any such clawback policy, as in effect or as may be adopted and/or modified from time to time by the Company in its discretion.

11. ELECTRONIC DELIVERY

By executing the Grant Notice, the Participant hereby consents to the delivery of information (including, without limitation, information required to be delivered to the Participant pursuant to applicable securities laws) regarding the Company and the Subsidiaries, the Plan, and the PSUs via Company web site or other electronic delivery.

EXHIBIT B

CONFIDENTIALITY AND INVENTIONS AGREEMENT

As a condition to the receipt of the Award granted pursuant to the Grant Notice to which this Confidentiality and Inventions Agreement is attached and in consideration of the Participant's continued employment with the Company, the Participant hereby confirms the Participant's agreement as follows:

1. GENERAL

The Participant's employment by the Company is in a capacity in which he or she may have access to, or contribute to the production of, Confidential Information and the Company Work Product (both as defined below). The Participant's employment creates a relationship of confidence and trust between the Company and the Participant with respect to the Confidential Information and the Company Work Product as set forth herein. This Confidentiality and Inventions Agreement are subject to the terms of the Standard Terms and Conditions attached as Exhibit A to the Grant Notice to which this Confidentiality and Inventions Agreement is attached; provided however, that in the event of any conflict between the Standard Terms and Conditions and this Confidentiality and Inventions Agreement, this Confidentiality and Inventions Agreement shall control.

2. DEFINITIONS

Capitalized terms not otherwise defined herein shall have the meaning set forth in the Petco Health and Wellness Company, Inc. 2021 Equity Incentive Plan, as amended from time to time. For purposes of this Confidentiality and Inventions Agreement:

(a) "**Confidential Information**" shall mean information or material (i) that is proprietary to the Company or confidential to the Company, whether or not designated or labeled as such, and (ii) that the Participant creates, discovers or develops, or of which the Participant obtains knowledge of or access to, in the course of the Participant's employment with the Company. Confidential Information may include, but is not limited to, designs, works of authorship, formulae, ideas, concepts, techniques, inventions, devices, improvements, know-how, methods, processes, drawings, specifications, models, data, diagrams, flow charts, research, procedures, computer programs, marketing techniques and materials, business, marketing, development and product plans, financial information, customer lists and contact information, personnel information, and other confidential business or technical information created on behalf of the Company or obtained as a result of or in the course of employment with the Company. For purposes of this Confidentiality and Inventions Agreement, the "**Company**" shall mean the Company or any of its Affiliates. To the extent that the participant can demonstrate by competent proof that one of the following exceptions applies, the Participant shall have no obligation under this Confidentiality and Inventions Agreement to maintain in confidence any: (I) INFORMATION THAT IS OR BECOMES GENERALLY PUBLICLY KNOWN OTHER THAN AS A RESULT OF THE PARTICIPANT'S DISCLOSURE IN VIOLATION OF THIS AGREEMENT, (II) INFORMATION THAT WAS KNOWN BY THE PARTICIPANT OR AVAILABLE TO THE PARTICIPANT WITHOUT RESTRICTION PRIOR TO DISCLOSURE TO THE PARTICIPANT BY THE COMPANY, (III) INFORMATION THAT BECOMES AVAILABLE TO THE PARTICIPANT ON A NON-CONFIDENTIAL BASIS FROM A THIRD PARTY

EXHIBIT B

CONFIDENTIALITY AND INVENTIONS AGREEMENT

THAT IS NOT SUBJECT TO CONFIDENTIALITY OBLIGATIONS IN FAVOR, OR THAT INURE TO THE BENEFIT, OF THE COMPANY, AND (IV) INFORMATION THAT WAS DEVELOPED INDEPENDENTLY BY OR FOR THE PARTICIPANT WITHOUT REFERENCE TO THE CONFIDENTIAL INFORMATION, USE OF COMPANY RESOURCES OR BREACH OF THIS AGREEMENT, INCLUDING, WITHOUT LIMITATION, THE “PRE-EMPLOYMENT WORK PRODUCT” (AS DEFINED BELOW).

(b) “**Work Product**” shall mean inventions, data, ideas, designs, drawings, works of authorship, trademarks, service marks, trade names, service names, logos, developments, formulae, concepts, techniques, devices, improvements, know-how, methods, processes, programs and discoveries, whether or not patentable or protectable under applicable copyright or trademark law, or under other similar law, and whether or not reduced to practice or tangible form, together with any improvements thereon or thereto, derivative works therefrom, and intellectual property rights therein created on behalf of the Company as part of the obligation of employment in performing work for the Company or otherwise in the course of employment with the Company.

3. CONFIDENTIALITY

(a) During the term of the Participant’s employment by the Company and at all times thereafter, The Participant will keep in strict confidence and trust all Confidential Information, and the Participant will not, directly or indirectly, disclose, distribute, sell, transfer, use, lecture upon or publish any Confidential Information, except as may be necessary in the course of performing the Participant’s duties as an employee of the Company or as the Company authorizes or permits. Notwithstanding the foregoing, the Participant shall be entitled to continue to use Confidential Information of the Company transferred to a purchaser (“**Purchaser**”) of all or substantially all of the assets of a business (“**Business**”) of Company (an “**Acquisition**”) solely to the extent that the Participant becomes an employee of such Purchaser or Purchaser’s designated affiliate upon consummation of the Acquisition and such Confidential Information is used in the Business prior to consummation of the Acquisition. The Participant acknowledges and agrees that, upon consummation of the Acquisition, the Confidential Information shall be deemed the Confidential Information of the Purchaser and subject to the Participant’s applicable employment, confidentiality and inventions assignment agreement with such Purchaser.

(b) The Participant recognizes that the Company has received and in the future will receive information from third parties which is subject to an obligation on the Company’s part to maintain the confidentiality of such information and to use it only for certain limited purposes. The Participant agrees, during the term of the Participant’s employment and thereafter, to hold all such confidential or proprietary information of third parties in the strictest confidence and not to disclose or use it, except as necessary in performing the Participant’s duties as an employee of the Company consistent with the Company’s agreement with such third party. The Participant agrees that such information will be subject to the terms of this Confidentiality and Inventions Agreement as Confidential Information.

(c) Trade Secrets Disclosure. 18 U.S.C. § 1833(b) provides: “An individual shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that—(A) is made—(i) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or

investigating a suspected violation of law; or (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.” Nothing in this Agreement is intended to conflict with 18 U.S.C. § 1833(b) or create liability for disclosures of trade secrets that are expressly allowed by 18 U.S.C. § 1833(b). Accordingly, the parties to this Agreement have the right to disclose in confidence trade secrets to federal, state, and local government officials, or to an attorney, for the sole purpose of reporting or investigating a suspected violation of law. The parties also have the right to disclose trade secrets in a document filed in a lawsuit or other proceeding, but only if the filing is made under seal and protected from public disclosure. Nothing in this Confidentiality and Inventions Agreement prevents the Participant from discussing or disclosing information about unlawful acts in the workplace, such as harassment or discrimination or any other conduct that the Participant has reason to believe is unlawful.

4. COMPANY PROPERTY

All apparatus, computers, computer files and media, notes, data, documents, reference materials, sketches, memoranda, records, drawings, engineering log books, equipment, lab/inventor notebooks, programs, prototypes, samples, equipment, tangible embodiments of information, and other physical property, whether or not pertaining to Confidential Information, furnished to the Participant or produced by the Participant or others in connection with the Participant’s employment, shall be and remain the sole property of the Company and any such property actually in the Participant’s possession or control shall be returned promptly to the Company as and when requested in writing by the Company. Should the Company not so request, the Participant shall return and deliver all such property to the Company upon termination of the Participant’s employment. The Participant may not retain any such property or any reproduction of such property upon such termination. The Participant further agrees that any property situated on the Company’s premises and owned, leased, maintained or otherwise contracted for by the Company, including, but not limited to, computers, computer files, e-mail, voicemail, disks and other electronic storage media, filing cabinets, desks or other work areas, are subject to inspection by the Company’s representatives at any time with or without notice.

5. COMPANY WORK PRODUCT

Subject to Section 6 and 7 below, the Participant agrees that any Work Product, in whole or in part, conceived, developed, made or reduced to practice by the Participant (either solely or in conjunction with others) during the term of his or her employment with the Company (collectively, the “*Company Work Product*”) shall be owned exclusively by the Company (or, to the extent applicable, a Purchaser pursuant to an Acquisition). Without limiting the foregoing, the Participant agrees that any of the Company Work Product shall be deemed to be “works made for hire” as defined in U.S. Copyright Act §101, and all right, title, and interest therein shall vest solely in the Company from conception. The Participant hereby irrevocably assigns and transfers, and agrees to assign and transfer in the future on the Company’s request, to the Company all right, title and interest in and to any Company Work Product, including, but not limited to, patents, copyrights and other intellectual property rights therein. The Participant shall treat any such Company Work Product as Confidential Information. The Participant will execute all applications, assignments, instruments and other documents and perform all acts consistent herewith as the Company or its counsel may deem necessary or desirable to obtain, perfect or enforce any patents, copyright registrations or other protections on such Company Work Product and to otherwise protect the

interests of the Company therein. The Participant's obligation to reasonably assist the Company in obtaining and enforcing the intellectual property and other rights in the Company Work Product in any and all jurisdictions shall continue beyond the termination of the Participant's employment. The Participant acknowledges that the Company may need to secure the Participant's signature for lawful and necessary documents required to apply for, maintain or enforce intellectual property and other rights with respect to the Company Work Product (including, but not limited to, renewals, extensions, continuations, divisions or continuations in part of patent applications). The Participant hereby irrevocably designates and appoints the Company and its duly authorized officers and agents, as the Participant's agents and attorneys-in-fact, to act for and on the Participant's behalf and instead of the Participant, to execute and file any such document(s) and to do all other lawfully permitted acts to further the prosecution, issuance and enforcement of patents, copyright registrations and other protections on the Company Work Product with the same legal force and effect as if executed by the Participant. The Participant further hereby waives and relinquishes any and all moral rights that the Participant may have in the Company Work Product.

6. EXCEPTION TO ASSIGNMENTS

Pursuant to Section 2870 of the California Labor Code, the requirements set forth in Section 5 of this Agreement shall not apply to an invention that the Participant develops entirely on his or her own time without using the Company's equipment, supplies, facilities, or trade secret information except for those inventions that either: (i) relate at the time of conception or reduction to practice of the invention to the Company's business, or actual or demonstrably anticipated research or development of the Company; or (ii) result from any work performed by the Participant for the Company.

7. PRE-EMPLOYMENT WORK PRODUCT

(a) Work Product includes only things done for the Company in performing work for the Company.

(b) The Participant acknowledges that the Company has a strict policy against using proprietary information belonging to any other person or entity without the express permission of the owner of that information. The Participant represents and warrants that the Participant's performance of all of the terms of this Confidentiality and Inventions Agreement and as an employee of the Company does not and will not result in a breach of any duty owed by the Participant to a third party to keep in confidence any information, knowledge or data. The Participant has not brought or used, and will not bring to the Company, or use, induce the Company to use, or disclose in the performance of the Participant's duties, nor has the Participant used or disclosed in the performance of any services for the Company prior to the effective date of the Participant's employment with the Company (if any), any equipment, supplies, facility, electronic media, software, trade secret or other information or property of any former employer or any other person or entity, unless the Participant has obtained their written authorization for its possession and use.

8. RECORDS

The Participant agrees that he or she will keep and maintain adequate and current written records (in the form of notes, sketches, drawings or such other form(s) as may be specified by the

Company) of all the Company Work Product made by the Participant during the term of his or his or her employment with the Company, which records shall be available at all times to the Company and shall remain the sole property of the Company.

9. PRESUMPTION

If any application for any United States or foreign patent related to or useful in the business of the Company or any customer of the Company shall be filed by or for the Participant during the period of one year after the Participant's employment is terminated, the subject matter covered by such application shall be presumed to have been conceived during the Participant's employment with the Company.

10. AGREEMENTS WITH THIRD PARTIES OR THE U.S. GOVERNMENT.

The Participant acknowledges that the Company from time to time may have agreements with other persons or entities, or with the U.S. Government or agencies thereof, which impose obligations or restrictions on the Company regarding inventions made during the course of work thereunder or regarding the confidential nature of such work. The Participant agrees to be bound by all such obligations and restrictions of which the Participant has been made aware of by the Company and to take all action necessary to discharge the obligations of the Company thereunder.

11. INJUNCTIVE RELIEF

Because of the unique nature of the Confidential Information and the Company Work Product, the Participant understands and agrees that the Company may suffer immediate and irreparable harm if the Participant fails to comply with any of his or her obligations under this Confidentiality and Inventions Agreement and that monetary damages may be inadequate to compensate the Company for such breach. Accordingly, the Participant agrees that in the event of a breach or threatened breach of this Confidentiality and Inventions Agreement, in addition to any other remedies available to it at law or in equity, the Company will be entitled, without posting bond or other security, to seek injunctive relief to enforce the terms of this Confidentiality and Inventions Agreement, including, but not limited to, restraining the Participant from violating this Confidentiality and Inventions Agreement or compelling the Participant to cease and desist all unauthorized use and disclosure of the Confidential Information and the Company Work Product. The Participant will indemnify the Company against any costs, including, but not limited to, reasonable outside legal fees and costs, incurred in obtaining relief against the Participant's breach of this Confidentiality and Inventions Agreement. Nothing in this Section 11 shall be construed as prohibiting the Company from pursuing any other remedies available to it for such breach or threatened breach, including, but not limited to, recovery of damages.

12. DISCLOSURE OF OBLIGATIONS

The Participant is hereby permitted and the Participant authorizes the Company to provide a copy of this Confidentiality and Inventions Agreement and any exhibits hereto to any of the Participant's future employers, and to notify any such future employers of the Participant's obligations and the Company's rights hereunder, provided that neither party is under any obligation to do so.

13. JURISDICTION AND VENUE

This Confidentiality and Inventions Agreement will be governed by the laws of the State of California without regard to any conflicts-of-law rules. To the extent that any lawsuit is permitted under this Confidentiality and Inventions Agreement, the Participant hereby expressly consents to the personal and exclusive jurisdiction and venue of the state and federal courts located in San Diego, California for any lawsuit filed against the Participant by the Company. Nothing herein shall limit the right of the Company to seek and obtain injunctive relief in any jurisdiction for violation of the portions of this Confidentiality and Inventions Agreement dealing with protection of Confidential Information or the Company Work Product.

14. ASSIGNMENT; INUREMENT

Neither this Confidentiality and Inventions Agreement nor any duties or obligations under this Confidentiality and Inventions Agreement may be assigned by the Participant without the prior written consent of the Company. The Participant understands and agrees that the Company may freely assign this Confidentiality and Inventions Agreement. This Agreement shall inure to the benefit of, and shall be binding upon, the permitted assigns, successors in interest (including any Purchaser upon consummation of an Acquisition), personal representatives, estates, heirs, and legatees of each of the parties hereto. Any assignment in violation of this Section 14 shall be null and void.

15. SURVIVORSHIP

The rights and obligations of the parties to this Confidentiality and Inventions Agreement will survive termination of my employment with the Company.

16. MISCELLANEOUS

In the event that any provision hereof or any obligation or grant of rights by the Participant hereunder is found invalid or unenforceable pursuant to judicial decree or decision, any such provision, obligation or grant of rights shall be deemed and construed to extend only to the maximum permitted by law, the invalid or unenforceable portions shall be severed, and the remainder of this Confidentiality and Inventions Agreement shall remain valid and enforceable according to its terms. This Confidentiality and Inventions Agreement may not be amended, waived or modified, except by an instrument in writing executed by the Participant and a duly authorized representative of the Company.

17. ACKNOWLEDGMENT

EMPLOYEE ACKNOWLEDGES THAT, IN EXECUTING THE GRANT NOTICE TO WHICH THIS CONFIDENTIALITY AND INVENTIONS AGREEMENT IS ATTACHED, EMPLOYEE HAS HAD THE OPPORTUNITY TO SEEK THE ADVICE OF INDEPENDENT LEGAL COUNSEL, AND EMPLOYEE HAS READ AND UNDERSTOOD ALL OF THE TERMS AND PROVISIONS OF THIS CONFIDENTIALITY AND INVENTIONS AGREEMENT. THIS CONFIDENTIALITY AND INVENTIONS AGREEMENT SHALL NOT BE CONSTRUED AGAINST ANY PARTY BY REASON OF THE DRAFTING OR PREPARATION HEREOF.

EXHIBIT C

PERFORMANCE GOALS AND SERVICE REQUIREMENT

EXHIBIT C
PERFORMANCE GOALS AND SERVICE REQUIREMENT

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Ronald Coughlin, Jr., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Petco Health and Wellness Company, Inc.;
 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
 4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
 5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.
-

Date: September 2, 2022

By: _____
/s/ Ronald Coughlin, Jr.
Ronald Coughlin, Jr.
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Brian LaRose, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Petco Health and Wellness Company, Inc.;
 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
 4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
 5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.
-

Date: September 2, 2022

By: _____ /s/ Brian LaRose

Brian LaRose
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the accompanying Quarterly Report on Form 10-Q of Petco Health and Wellness Company, Inc. (the "Company") for the quarter ended July 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ronald Coughlin, Jr., Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: September 2, 2022

By: _____ /s/ Ronald Coughlin, Jr.
Ronald Coughlin, Jr.
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the accompanying Quarterly Report on Form 10-Q of Petco Health and Wellness Company, Inc. (the "Company") for the quarter ended July 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brian LaRose, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: September 2, 2022

By: _____ /s/ Brian LaRose

Brian LaRose
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)