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 29, 2023

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	**81-1005932**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
10850 Via Frontera San Diego, California	**92127**
(Address of principal executive offices)	**(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	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

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, 2023 was 229,974,364.

The number of shares of the registrant's Class B-1 Common Stock outstanding as of August 30, 2023 was 37,790,781.

The number of shares of the registrant's Class B-2 Common Stock outstanding as of August 30, 2023 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 inflationary and interest rate pressures, consumer spending patterns, 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 current 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 and prevailing interest rates; (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 data 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; (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 referred to under "Risk Factors" and identified elsewhere in this Form 10-Q and 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 29, 2023	January 28, 2023
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 173,014	$ 201,901
Receivables, less allowance for credit losses ($1,164 and $952, respectively)	66,258	49,580
Merchandise inventories, net	675,441	652,430
Prepaid expenses	54,880	51,274
Other current assets	55,247	60,809
Total current assets	1,024,840	1,015,994
Fixed assets	2,090,367	1,987,560
Less accumulated depreciation	(1,270,141)	(1,184,233)
Fixed assets, net	820,226	803,327
Operating lease right-of-use assets	1,401,834	1,397,761
Goodwill	2,196,664	2,193,941
Trade name	1,025,000	1,025,000
Other long-term assets	193,698	176,806
Total assets	$ 6,662,262	$ 6,612,829
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and book overdrafts	$ 477,748	$ 381,213
Accrued salaries and employee benefits	90,796	89,929
Accrued expenses and other liabilities	219,910	217,556
Current portion of operating lease liabilities	281,415	309,766
Current portion of long-term debt and other lease liabilities	5,077	22,794
Total current liabilities	1,074,946	1,021,258
Senior secured credit facilities, net, excluding current portion	1,588,523	1,628,331
Operating lease liabilities, excluding current portion	1,159,696	1,148,155
Deferred taxes, net	294,094	303,121
Other long-term liabilities	130,239	130,487
Total liabilities	4,247,498	4,231,352
Commitments and contingencies (Notes 3 and 7)		
Stockholders' equity:		
Class A common stock, $0.001 par value: Authorized - 1.0 billion shares; Issued and outstanding - 229.8 million and 228.3 million shares, respectively	230	228
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	2,196,235	2,152,342
Retained earnings	216,470	232,967
Accumulated other comprehensive income (loss)	1,791	(4,098)
Total stockholders' equity	2,414,764	2,381,477
Total liabilities and stockholders' equity	$ 6,662,262	$ 6,612,829

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 29, 2023	July 30, 2022	July 29, 2023	July 30, 2022
Net sales	$ 1,530,734	$ 1,480,797	$ 3,086,642	$ 2,956,788
Cost of sales	937,730	886,320	1,889,156	1,754,637
Gross profit	593,004	594,477	1,197,486	1,202,151
Selling, general and administrative expenses	568,967	544,472	1,145,832	1,102,207
Operating income	24,037	50,005	51,654	99,944
Interest income	(764)	(137)	(1,940)	(157)
Interest expense	37,493	21,820	74,694	41,454
Loss on partial extinguishment of debt	305	—	746	—
Other non-operating (income) loss	(1,795)	10,259	(4,614)	9,945
(Loss) income before income taxes and income from equity method investees	(11,202)	18,063	(17,232)	48,702
Income tax expense	6,732	6,638	5,724	16,638
Income from equity method investees	(3,328)	(2,031)	(6,458)	(5,194)
Net (loss) income	(14,606)	13,456	(16,498)	37,258
Net loss attributable to noncontrolling interest	—	—	—	(891)
Net (loss) income attributable to Class A and B-1 common stockholders	$ (14,606)	$ 13,456	$ (16,498)	$ 38,149
Net (loss) income per Class A and B-1 common share:				
Basic	$ (0.05)	$ 0.05	$ (0.06)	$ 0.14
Diluted	$ (0.05)	$ 0.05	$ (0.06)	$ 0.14
Weighted average shares used in computing net (loss) income per Class A and B-1 common share:				
Basic	267,163	265,431	266,824	265,241
Diluted	267,163	265,835	266,824	265,777

See accompanying notes to consolidated financial statements.

PETCO HEALTH AND WELLNESS COMPANY, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(In thousands) (Unaudited)

	Thirteen weeks ended		Twenty-six weeks ended	
	July 29, 2023	July 30, 2022	July 29, 2023	July 30, 2022
Net (loss) income	$ (14,606)	$ 13,456	$ (16,498)	$ 37,258
Net loss attributable to noncontrolling interest	—	—	—	(891)
Net (loss) income attributable to Class A and B-1 common stockholders	(14,606)	13,456	(16,498)	38,149
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	1,107	(775)	2,164	(2,373)
Unrealized gain on derivatives	3,915	—	2,931	—
Losses on derivatives reclassified to income	361	—	794	—
Total other comprehensive income (loss), net of tax	5,383	(775)	5,889	(2,373)
Comprehensive (loss) income	(9,223)	12,681	(10,609)	34,885
Comprehensive loss attributable to noncontrolling interest	—	—	—	(891)
Comprehensive (loss) income attributable to Class A and B-1 common stockholders	$ (9,223)	$ 12,681	$ (10,609)	$ 35,776

See accompanying notes to consolidated financial statements.

PETCO HEALTH AND WELLNESS COMPANY, INC.

CONSOLIDATED STATEMENTS OF EQUITY
(In thousands) (Unaudited)

	Common stock									
	Class A (shares)	Class B-1 (shares)	Class B-2 (shares)	Amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive (loss) income	Total stockholders' equity	Noncontrolling interest	Total equity
Balance at January 28, 2023	228,338	37,791	37,791	$ 266	$ 2,152,342	$ 232,967	$ (4,098)	$ 2,381,477	$ —	$ 2,381,477
Equity-based compensation expense (Note 6)	—	—	—	—	22,282	—	—	22,282	—	22,282
Net loss	—	—	—	—	—	(1,892)	—	(1,892)	—	(1,892)
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	1,057	1,057	—	1,057
Unrealized loss on derivatives (Note 4), net of tax	—	—	—	—	—	—	(984)	(984)	—	(984)
Losses on derivatives reclassified to income (Note 4), net of tax	—	—	—	—	—	—	433	433	—	433
Issuance of common stock, net of tax withholdings	727	—	—	1	(1,254)	—	—	(1,253)	—	(1,253)
Balance at April 29, 2023	229,065	37,791	37,791	$ 267	$ 2,173,370	$ 231,075	$ (3,592)	$ 2,401,120	$ —	$ 2,401,120
Equity-based compensation expense (Note 6)	—	—	—	—	24,322	—	—	24,322	—	24,322
Net loss	—	—	—	—	—	(14,606)	—	(14,606)	—	(14,606)
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	1,107	1,107	—	1,107
Unrealized gain on derivatives (Note 4), net of tax	—	—	—	—	—	—	3,915	3,915	—	3,915
Losses on derivatives reclassified to income (Note 4), net of tax	—	—	—	—	—	—	361	361	—	361
Issuance of common stock, net of tax withholdings	761	—	—	1	(1,457)	—	—	(1,456)	—	(1,456)
Balance at July 29, 2023	229,826	37,791	37,791	$ 268	$ 2,196,235	$ 216,470	$ 1,791	$ 2,414,764	$ —	$ 2,414,764

	Common stock									
	Class A (shares)	Class B-1 (shares)	Class B-2 (shares)	Amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total stockholders' equity	Noncontrolling interest	Total equity
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 6)	—	—	—	—	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 6)	—	—	—	—	$ 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	—	—	—	—	(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

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 29, 2023	July 30, 2022
Cash flows from operating activities:		
Net (loss) income	$ (16,498)	$ 37,258
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	97,919	95,570
Amortization of debt discounts and issuance costs	2,446	2,456
Provision for deferred taxes	(11,002)	9,216
Equity-based compensation	46,248	25,117
Impairments, write-offs and losses on sale of fixed and other assets	1,035	1,369
Loss on partial extinguishment of debt	746	—
Amounts reclassified out of accumulated other comprehensive income (loss)	1,055	—
Income from equity method investees	(6,458)	(5,194)
Non-cash operating lease costs	211,576	210,946
Other non-operating (income) loss	(4,614)	9,945
Changes in assets and liabilities:		
Receivables	(16,679)	10,856
Merchandise inventories	(23,011)	(48,225)
Prepaid expenses and other assets	(14,237)	(21,932)
Accounts payable and book overdrafts	97,062	12,626
Accrued salaries and employee benefits	1,221	(37,345)
Accrued expenses and other liabilities	(1,238)	5,148
Operating lease liabilities	(232,518)	(205,884)
Other long-term liabilities	1,212	(1,839)
Net cash provided by operating activities	134,265	100,088
Cash flows from investing activities:		
Cash paid for fixed assets	(114,023)	(136,190)
Cash paid for acquisitions, net of cash acquired	(2,040)	(2,888)
Cash paid for interest in veterinary joint venture	—	(35,000)
Proceeds from investment	10,248	—
Proceeds from sale of assets	—	2,127
Net cash used in investing activities	(105,815)	(171,951)
Cash flows from financing activities:		
Borrowings under long-term debt agreements	—	4,000
Repayments of long-term debt	(60,000)	(12,500)
Payments for finance lease liabilities	(3,349)	(2,964)
Proceeds from employee stock purchase plan and stock option exercises	2,454	2,591
Tax withholdings on stock-based awards	(4,873)	(13,461)
Net cash used in financing activities	(65,768)	(22,334)
Net decrease in cash, cash equivalents and restricted cash	(37,318)	(94,197)
Cash, cash equivalents and restricted cash at beginning of period	213,727	221,890
Cash, cash equivalents and restricted cash at end of period	$ 176,409	$ 127,693
Supplemental cash flow disclosures:		
Interest paid, net	$ 72,005	$ 35,631
Capitalized interest	$ —	$ 371
Income taxes paid	$ 27,423	$ 5,461
Supplemental non-cash investing and financing activities disclosure:		
Accounts payable and accrued expenses for capital expenditures	$ 30,336	$ 41,343

See accompanying notes to consolidated financial statements.

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 28, 2023.

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 28, 2023, from which the prior year balance sheet information herein was derived.

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.

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.

Derivative Instruments

In November 2022, the Company entered into a series of interest rate cap agreements to limit the maximum interest on a portion of the Company’s variable-rate debt and decrease its exposure to interest rate variability relating to the three-month Secured Overnight Financing Rate as published by CME Group ("Term SOFR"). The interest rate caps became effective December 30, 2022 and expire on December 31, 2024. The interest rate caps are accounted for as cash flow hedges, and changes in the fair value of the interest rate caps are reported as a component of accumulated other comprehensive income (loss) ("AOCI").

In March 2023, the Company entered into an interest rate collar agreement to limit the maximum interest on a portion of the Company's variable-rate debt and decrease its exposure to interest rate variability relating to three-month Term SOFR. The interest rate collar became effective March 31, 2023 and expires on March 31, 2026. The interest rate collar is accounted for as a cash flow hedge, and changes in the fair value of the interest rate collar are reported as a component of AOCI.

In June 2023, the Company entered into an interest rate collar agreement to limit the maximum interest on a portion of the Company's variable-rate debt and decrease its exposure to interest rate variability relating to three-month Term SOFR. The interest rate collar becomes effective September 30, 2023 and expires on December 31, 2026. The interest rate collar is accounted for as a cash flow hedge, and changes in the fair value of the interest rate collar are reported as a component of AOCI.

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 29, 2023	January 28, 2023
Cash and cash equivalents	$ 173,014	$ 201,901
Restricted cash included in other current assets	3,395	11,826
Total cash, cash equivalents and restricted cash in the statement of cash flows	$ 176,409	$ 213,727

2. Revenue Recognition

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

	Thirteen weeks ended		Twenty-six weeks ended	
	July 29, 2023	July 30, 2022	July 29, 2023	July 30, 2022
Consumables	$ 734,077	$ 687,068	$ 1,497,128	$ 1,372,998
Supplies and companion animals	544,521	600,711	1,098,066	1,199,890
Services and other	252,136	193,018	491,448	383,900
Net sales	$ 1,530,734	$ 1,480,797	$ 3,086,642	$ 2,956,788

3. Senior Secured Credit Facilities

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 29, 2023, the Company was in compliance with its covenants under the First Lien Term Loan and the ABL Revolving Credit Facility.

Term Loan Facilities

On December 12, 2022, the Company amended the First Lien Term Loan to replace the LIBOR-based rate with a SOFR-based rate as the interest rate benchmark. Interest on the First Lien Term Loan is based on, at the Company's option, either a base rate or Term SOFR plus the credit spread adjustment recommended by the Alternative Reference Rates Committee ("Adjusted Term SOFR"), subject to a 0.75% floor, payable upon maturity of the SOFR 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 Term SOFR plus 1.0%. The applicable rate is 2.25% per annum for a base rate loan or 3.25% per annum for an Adjusted Term SOFR loan. Principal and interest payments commenced on June 30, 2021. Principal payments are normally $4.25 million quarterly.

The Company voluntarily prepaid $35.0 million and $25.0 million of the First Lien Term Loan using existing cash on hand in March 2023 and May 2023, respectively. The repayments were applied to the remaining principal payments in order of scheduled payment date and, as a result, the entire remaining balance was included in senior secured credit facilities, net, excluding current portion in the consolidated balance sheets as of July 29, 2023. The Company accounted for the repayments as partial extinguishments and recognized losses on debt extinguishment of $0.3 million and $0.7 million during the thirteen and twenty-six week periods ended July 29, 2023, respectively. In August 2023, the Company repaid $15.0 million on the First Lien Term Loan using existing cash on hand. The repayment was applied to remaining principal payments in order of scheduled payment date.

As of July 29, 2023, the outstanding principal balance of the First Lien Term Loan was $1,610.3 million ($1,591.5 million, net of the unamortized discount and debt issuance costs). As of January 28, 2023, the outstanding principal balance of the First Lien Term Loan was $1,670.3 million ($1,648.9 million, net of the unamortized discount and debt issuance costs). The weighted average interest rate on the borrowings outstanding was 8.9% and 8.2% as of July 29, 2023 and January 28, 2023, 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 29, 2023 and January 28, 2023, the estimated fair value of the First Lien Term Loan was approximately $1,604.3 million and $1,649.4 million, respectively, based upon Level 2 fair value hierarchy inputs.

Revolving Credit Facilities

As of July 29, 2023 and January 28, 2023, no amounts were outstanding under the ABL Revolving Credit Facility. As of July 29, 2023, $446.4 million was available under the ABL Revolving Credit Facility, which is net of $53.6 million of outstanding letters of credit issued in the normal course of business and no borrowing base reduction for a shortfall in qualifying assets. As of July 29, 2023 and January 28, 2023, unamortized debt issuance costs of $3.0 million and $3.6 million, respectively, 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.

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.

On December 12, 2022, the Company amended the ABL Revolving Credit Facility to replace the LIBOR-based rate with a SOFR-based rate as the interest rate benchmark. Interest on the ABL Revolving Credit Facility is based on, at the Company's option, either the base rate or Adjusted Term SOFR 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 Term SOFR 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 Term SOFR 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. Derivative Instruments

The interest rate caps and collars are accounted for as cash flow hedges because they are expected to be highly effective in hedging variable rate interest payments. Changes in the fair value of the cash flow hedges are reported as a component of AOCI. As of July 29, 2023, AOCI included unrealized gains of $2.2 million ($1.7 million, net of tax). Approximately $0.5 million and $1.1 million of pre-tax losses deferred in AOCI were reclassified to interest expense during the thirteen and twenty-six week periods ended July 29, 2023, respectively. As of January 28, 2023, AOCI included unrealized losses of $2.7 million ($2.1 million, net of tax). The Company currently estimates that $3.2 million of losses related to trade date costs on its cash flow hedges that are currently deferred in AOCI will be reclassified to interest expense in the consolidated statement of operations within the next twelve months. This estimate could vary based on actual amounts as a result of changes in market conditions.

The cash flow hedges are reflected in the Company's consolidated balance sheets as follows (in thousands):

Assets (Liabilities)	Balance sheet location	July 29, 2023	January 28, 2023
Current asset portion of cash flow hedges	Other current assets	$ 4,402	$ —
Non-current asset portion of cash flow hedges	Other long-term assets	1,003	—
Current liability portion of cash flow hedges	Accrued expenses and other liabilities	—	(1,176)
Non-current liability portion of cash flow hedges	Other long-term liabilities	(1,594)	(1,717)
Total cash flow hedges		$ 3,811	$ (2,893)

5. 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 29, 2023		
	Level 1	Level 2	Level 3
Assets (liabilities):			
Money market mutual funds	$ 118,915	$ —	$ —
Investments of officers' life insurance	$ —	$ 14,281	$ —
Non-qualified deferred compensation plan	$ —	$ (20,200)	$ —
Interest related to Rover Group, Inc.	$ —	$ —	$ 14,518

	January 28, 2023					
	Level 1		Level 2		Level 3	
Assets (liabilities):						
Money market mutual funds	$	156,626	$	—	$	—
Investments of officers' life insurance	$	—	$	13,112	$	—
Non-qualified deferred compensation plan	$	—	$	(18,464)	$	—
Investment in Rover Group, Inc.	$	20,152	$	—	$	—

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 $117.0 million and $145.5 million as of July 29, 2023 and January 28, 2023, respectively. Also included in the Company’s money market mutual funds balances were $1.9 million and $11.1 million as of July 29, 2023 and January 28, 2023, 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.

In April 2023, the Company sold its interest in Rover Group, Inc. Class A common stock to a buyer at a price determined based on the daily volume weighted average price, in addition to a premium, over an agreed upon period. The cash proceeds were received throughout fiscal 2023, with the final payment being received in August 2023. The Company's interest in the unsettled cash proceeds were remeasured at fair value at each reporting period, and the resulting gains or losses were included in other non-operating income in the consolidated statements of operations.

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 29, 2023 and July 30, 2022. During the thirteen and twenty-six week periods ended July 29, 2023, the Company recorded fixed asset and right-of-use asset impairment charges of $0.9 million and $1.1 million, respectively. 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.

6. Stockholders’ Equity

Equity-Based Compensation

Equity-based compensation awards under the Company’s current equity 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):

	Thirteen weeks ended		Twenty-six weeks ended	
	July 29, 2023	July 30, 2022	July 29, 2023	July 30, 2022
RSUs and RSAs	$ 16,778	$ 8,690	$ 31,274	$ 15,157
Options	4,917	2,038	10,002	3,846
ESPP	423	315	854	612
Other awards	2,001	1,852	4,118	5,502
Total equity-based compensation expense	$ 24,119	$ 12,895	$ 46,248	$ 25,117

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

	RSUs and RSAs	Options
Nonvested/outstanding, January 28, 2023	7,802	7,814
Granted	7,343	—
Vested and delivered/exercised	(2,059)	—
Forfeited/expired	(634)	(67)
Nonvested/outstanding, July 29, 2023	12,452	7,747
Unrecognized compensation expense as of July 29, 2023	$ 118,638	$ 21,873
Weighted average remaining expense period as of July 29, 2023	2.1 years	1.3 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 vested on each of the first two anniversaries of the grant date. Unvested RSAs were not considered participating securities for earnings per share purposes, as any related dividends were 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 28, 2023	201,359
Granted	—
Forfeited	(847)
Outstanding, July 29, 2023	200,512
Vested, July 29, 2023	172,814

No additional Series C Units have been or will be awarded following the Company's initial public offering. As of July 29, 2023, unrecognized compensation expense related to the unvested portion of Scooby LP's Series C Units was $6.1 million, which is expected to be recognized over a weighted average period of 1.1 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.

(Loss) Income 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.

All outstanding equity awards were excluded from the calculation of diluted loss per Class A and B-1 common share in the twenty-six weeks ended July 29, 2023, as their effect would be antidilutive in a net loss period.

There were approximately 5.3 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.

7. Commitments and Contingencies

The Company is involved in legal proceedings and is subject to other claims and litigation 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 28, 2023 (the "2022 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

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 25 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 250 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 Premier membership program. From the nutrition and supplies pets need each day, to the services that keep them at optimal health, Vital Care Premier makes it easier and more affordable for pet parents to care for their pet's whole health all in one place. Vital Care Premier memberships are at the top of our integrated loyalty programs, followed by Vital Care Core and our perks programs that provide rewards for frequent purchasing.

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, a life-changing 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 nearly 7 million animals.

Macroeconomic factors, including rising interest rates, inflationary pressures, supply chain constraints, and global economic and geopolitical developments have varying impacts on our results of operations, such as decreases in sales of discretionary items like supplies, that are difficult to isolate and quantify. We cannot predict the duration or ultimate severity of these macroeconomic factors or the ultimate impact on 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

The financial results for the thirteen weeks ended July 29, 2023 reflect continued business and operational execution, while investing in strategic growth initiatives. Comparing the thirteen weeks ended July 29, 2023 with the thirteen weeks ended July 30, 2022 (unless otherwise noted), our results included the following:

- an increase in net sales from $1.48 billion to $1.53 billion, representing period-over-period growth of 3.4%;
- comparable sales growth of 3.2%;
- a decrease in operating income from $50.0 million to $24.0 million, representing a period-over-period decrease of 51.9%;
- net loss attributable to Class A and B-1 common stockholders of $14.6 million, compared to net income attributable to Class A and B-1 common stockholders of $13.5 million in the prior year period; and
- a decrease in Adjusted EBITDA from $133.5 million to $112.6 million.

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 29, 2023	July 30, 2022	July 29, 2023	July 30, 2022
Net sales	$ 1,530,734	$ 1,480,797	$ 3,086,642	$ 2,956,788
Cost of sales	937,730	886,320	1,889,156	1,754,637
Gross profit	593,004	594,477	1,197,486	1,202,151
Selling, general and administrative expenses	568,967	544,472	1,145,832	1,102,207
Operating income	24,037	50,005	51,654	99,944
Interest income	(764)	(137)	(1,940)	(157)
Interest expense	37,493	21,820	74,694	41,454
Loss on partial extinguishment of debt	305	—	746	—
Other non-operating (income) loss	(1,795)	10,259	(4,614)	9,945
(Loss) income before income taxes and income from equity method investees	(11,202)	18,063	(17,232)	48,702
Income tax expense	6,732	6,638	5,724	16,638
Income from equity method investees	(3,328)	(2,031)	(6,458)	(5,194)
Net (loss) income	(14,606)	13,456	(16,498)	37,258
Net loss attributable to noncontrolling interest	—	—	—	(891)
Net (loss) income attributable to Class A and B-1 common stockholders	$ (14,606)	$ 13,456	$ (16,498)	$ 38,149

	Thirteen weeks ended		Twenty-six weeks ended	
	July 29, 2023	July 30, 2022	July 29, 2023	July 30, 2022
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	61.3	59.9	61.2	59.3
Gross profit	38.7	40.1	38.8	40.7
Selling, general and administrative expenses	37.2	36.8	37.1	37.3
Operating income	1.5	3.3	1.7	3.4
Interest income	(0.0)	(0.0)	(0.1)	(0.0)
Interest expense	2.3	1.4	2.5	1.5
Loss on partial extinguishment of debt	0.0	—	0.0	—
Other non-operating (income) loss	(0.1)	0.7	(0.1)	0.3
(Loss) income before income taxes and income from equity method investees	(0.7)	1.2	(0.6)	1.6
Income tax expense	0.4	0.4	0.2	0.5
Income from equity method investees	(0.1)	(0.1)	(0.3)	(0.2)
Net (loss) income	(1.0)	0.9	(0.5)	1.3
Net loss attributable to noncontrolling interest	—	—	—	(0.0)
Net (loss) income attributable to Class A and B-1 common stockholders	(1.0)%	0.9 %	(0.5)%	1.3 %

	Thirteen weeks ended		Twenty-six weeks ended	
	July 29, 2023	July 30, 2022	July 29, 2023	July 30, 2022
Operational Data:				
Comparable sales increase	3.2 %	3.8 %	4.1 %	4.4 %
Total pet care centers at end of period	1,429	1,428	1,429	1,428
Total veterinarian practices at end of period	269	212	269	212
Adjusted EBITDA (in thousands)	$ 112,578	$ 133,497	$ 223,604	$ 252,692

Thirteen and Twenty-six Weeks Ended July 29, 2023 Compared with Thirteen and Twenty-six Weeks Ended July 30, 2022

Net Sales and Comparable Sales

	Thirteen weeks ended				Twenty-six weeks ended			
(dollars in thousands)	July 29, 2023	July 30, 2022	$ Change	% Change	July 29, 2023	July 30, 2022	$ Change	% Change
Consumables	$ 734,077	$ 687,068	$ 47,009	6.8 %	$ 1,497,128	$ 1,372,998	$ 124,130	9.0 %
Supplies and companion animals	544,521	600,711	(56,190)	(9.4 %)	1,098,066	1,199,890	(101,824)	(8.5 %)
Services and other	252,136	193,018	59,118	30.6 %	491,448	383,900	107,548	28.0 %
Net sales	$ 1,530,734	$ 1,480,797	$ 49,937	3.4 %	$ 3,086,642	$ 2,956,788	$ 129,854	4.4 %

Net sales increased $49.9 million, or 3.4%, to $1.53 billion in the thirteen weeks ended July 29, 2023 compared to net sales of $1.48 billion in the thirteen weeks ended July 30, 2022, driven by a 3.2% increase in our comparable sales. Net sales increased $129.9 million, or 4.4%, to $3.09 billion in the twenty-six weeks ended July 29, 2023 compared to net sales of $2.96 billion in the twenty-six weeks ended July 30, 2022, driven by a 4.1% 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. Our sales growth was led by continued momentum in consumables and services, whose customers shop more frequently and have among our highest long-term value. This growth is partially offset by a decrease in supplies and companion animals sales driven by softening in discretionary spend associated with the current inflationary macroeconomic environment.

The increase in consumables sales between the periods was driven in part by our continued expansion of our product assortment. The decrease in supplies and companion animals sales is due to a decrease in spending on certain non-essential items. The increase in services and other was due to growth in our membership offerings like Vital Care and growth in our grooming services and veterinary hospital business in which we now operate over 250 veterinary hospitals.

Service related sales, which include veterinary hospitals, increased 16.6% and 15.0% during the thirteen and twenty-six weeks ended July 29, 2023, respectively, reflecting expansion and maturity of our veterinary hospital footprint and strong growth in veterinary and grooming customers. E-commerce and digital sales increased 9.4% and 10.3% during the thirteen and twenty-six weeks ended July 29, 2023, respectively, driven by strength in our online initiatives such as repeat delivery, same day delivery and our digital pharmacy. For the thirteen and twenty-six weeks ended July 29, 2023, pet care center merchandise and Vital Care delivered growth of 0.1% and 1.3%, respectively, led by strong growth in consumables.

We are unable to quantify certain factors impacting sales described above due to the fact that such factors are based on input measures or qualitative information that do not lend themselves to quantification.

Gross Profit

Gross profit decreased $1.5 million, or 0.2%, to $593.0 million in the thirteen weeks ended July 29, 2023 compared to gross profit of $594.5 million for the thirteen weeks ended July 30, 2022. As a percentage of sales, our gross profit rate was 38.7% for the thirteen weeks ended July 29, 2023 compared with 40.1% for the thirteen weeks ended July 30, 2022. Gross profit decreased $4.7 million, or 0.4%, to $1,197.5 million in the twenty-six weeks ended July 29, 2023 compared to gross profit of $1,202.2 million for the twenty-six weeks ended July 30, 2022. As a percentage of sales, our gross profit rate was 38.8% for the twenty-six weeks ended July 29, 2023 compared with 40.7% for the twenty-six weeks ended July 30, 2022. The decrease in gross profit rate between the periods was primarily due to the mix impact of strong consumables sales and softer supplies and companion animal sales during the thirteen and twenty-six weeks ended July 29, 2023. While the strong consumables mix impacts the gross margin rate, the average consumables customer has a higher lifetime value than most other categories of customers. Sales channel impacts driven by strength in our digital and services business (which includes vet) also contributed to the decrease in gross profit rate during the thirteen and twenty-six weeks ended July 29, 2023 as compared to the prior year periods. We are unable to quantify the factors impacting gross profit rate described above due to the fact that such factors are based on input measures or qualitative information that do not lend themselves to quantification.

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

SG&A expenses increased $24.5 million, or 4.5%, to $569.0 million for the thirteen weeks ended July 29, 2023 compared to $544.5 million for the thirteen weeks ended July 30, 2022. As a percentage of net sales, SG&A expenses were 37.2% for the thirteen weeks ended July 29, 2023 compared with 36.8% for the thirteen weeks ended July 30, 2022. 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 included higher equity-based compensation expense driven by additional awards issued throughout the past year.

SG&A expenses increased $43.6 million, or 4.0%, to $1,145.8 million for the twenty-six weeks ended July 29, 2023 compared to $1,102.2 million for the twenty-six weeks ended July 30, 2022. As a percentage of net sales, SG&A expenses were 37.1% for the twenty-six weeks ended July 29, 2023 compared with 37.3% for the twenty-six weeks ended July 30, 2022, 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 included higher equity-based compensation expense driven by additional awards issued throughout the past year. This increase was partially offset by a decrease in advertising expenses.

Interest Expense

Interest expense increased $15.7 million, or 71.8%, to $37.5 million in the thirteen weeks ended July 29, 2023 compared with $21.8 million in the thirteen weeks ended July 30, 2022. Interest expense increased $33.2 million, or 80.2%, to $74.7 million in the twenty-six weeks ended July 29, 2023 compared with $41.5 million in the twenty-six weeks ended July 30, 2022. 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 Partial Extinguishment of Debt

Loss on partial extinguishment of debt was $0.7 million for the twenty-six weeks ended July 29, 2023. This loss was recognized in conjunction with the $35.0 million and $25.0 million repayments on the First Lien Term Loan in March 2023 and May 2023, respectively. There was no loss on debt extinguishment and modification for the 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 (Income) Loss

Other non-operating income was $1.8 million and $4.6 million for the thirteen and twenty-six weeks ended July 29, 2023, respectively. Other non-operating loss was $10.3 million and $10.0 million for the thirteen and twenty-six weeks ended July 30, 2022, respectively. For more information regarding this activity, refer to Note 5, “*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 -85.5% and -53.1%, resulting in income tax expense of $6.7 million and $5.7 million for the thirteen and twenty-six weeks ended July 29, 2023, respectively, compared to effective tax rates of 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. The change in effective tax rates for the thirteen and twenty-six weeks ended July 29, 2023 was primarily driven by a change in earnings and a shortfall in tax deductions resulting from the exercise and vesting of equity-based compensation awards.

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 (loss) income, 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 2022 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 July 29, 2023	Thirteen weeks ended July 30, 2022	Twenty-six weeks ended July 29, 2023	Twenty-six weeks ended July 30, 2022
Net (loss) income attributable to Class A and B-1 common stockholders	$ (14,606)	$ 13,456	$ (16,498)	$ 38,149
Interest expense, net	36,729	21,683	72,754	41,297
Income tax expense	6,732	6,638	5,724	16,638
Depreciation and amortization	48,664	48,603	97,919	95,570
Income from equity method investees	(3,328)	(2,031)	(6,458)	(5,194)
Loss on partial extinguishment of debt	305	—	746	—
Asset impairments and write offs	1,031	1,207	1,035	1,369
Equity-based compensation	24,119	12,895	46,248	25,117
Other non-operating (income) loss	(1,795)	10,259	(4,614)	9,945
Mexico joint venture EBITDA (1)	8,544	6,501	17,278	13,279
Acquisition-related integration costs (2)	—	10,859	—	13,095
Other costs (3)	6,183	3,427	9,470	3,427
Adjusted EBITDA	$ 112,578	$ 133,497	$ 223,604	$ 252,692
Net sales	$ 1,530,734	$ 1,480,797	$ 3,086,642	$ 2,956,788
Net margin (4)	(1.0)%	0.9%	(0.5)%	1.3%
Adjusted EBITDA Margin	7.4%	9.0%	7.2%	8.5%

(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 July 29, 2023	Thirteen weeks ended July 30, 2022	Twenty-six weeks ended July 29, 2023	Twenty-six weeks ended July 30, 2022
Net income	$ 6,656	$ 4,064	$ 12,915	$ 9,197
Depreciation	6,443	4,711	12,151	9,005
Income tax expense	2,364	2,390	6,438	5,387
Foreign currency loss	395	444	522	380
Interest expense, net	1,230	1,392	2,530	2,588
EBITDA	$ 17,088	$ 13,001	$ 34,556	$ 26,557
50% of EBITDA	$ 8,544	$ 6,501	$ 17,278	$ 13,279

(2) 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.

(3) Other costs include, as incurred: restructuring costs and restructuring-related severance costs; legal reserves associated with significant, non-ordinary course legal or regulatory matters; and costs related to certain significant strategic transactions.

(4) We define net margin as net (loss) 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:

(dollars in thousands)	Twenty-six weeks ended July 29, 2023	Twenty-six weeks ended July 30, 2022
Net cash provided by operating activities	$ 134,265	$ 100,088
Cash paid for fixed assets	(114,023)	(136,190)
Free Cash Flow	$ 20,242	$ (36,102)

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 29, 2023 was $619.4 million, inclusive of cash and cash equivalents of $173.0 million and $446.4 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 29, 2023	Twenty-six weeks ended July 30, 2022
Total cash provided by (used in):		
Operating activities	$ 134,265	$ 100,088
Investing activities	(105,815)	(171,951)
Financing activities	(65,768)	(22,334)
Net decrease in cash, cash equivalents and restricted cash	$ (37,318)	$ (94,197)

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 (loss) income 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) loss; and the effect of changes in operating assets and liabilities.

Net cash provided by operating activities was $134.3 million in the twenty-six weeks ended July 29, 2023 compared with net cash provided by operating activities of $100.1 million in the twenty-six weeks ended July 30, 2022. The increase in operating cash flow is due to higher sales, lower cash paid for advertising and timing differences in accounts payable. This was partially offset by increases in cash paid for interest, income taxes and operating leases as well as higher payroll and fringe benefits.

Investing Activities

Cash used in investing activities consists of capital expenditures, which in the twenty-six weeks ended July 29, 2023 and the twenty-six weeks ended July 30, 2022 primarily supported our initiatives including the continued build-out of our veterinary hospitals. Net cash used in investing activities was $105.8 million and $172.0 million for the twenty-six weeks ended July 29, 2023 and July 30, 2022, respectively. This change was primarily driven by the $35.0 million cash paid for the remaining 50% stake in our veterinary joint venture during the twenty-six weeks ended July 30, 2022.

Financing Activities

Net cash used in financing activities was $65.8 million for the twenty-six weeks ended July 29, 2023, compared with $22.3 million used in financing activities in the twenty-six weeks ended July 30, 2022.

Financing cash flows in the twenty-six weeks ended July 29, 2023 primarily consisted of $60.0 million in principal repayments on the term loan.

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

Sources of Liquidity

Senior Secured Credit Facilities

On March 4, 2021, the Company completed a refinancing transaction by entering into a $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 on the First Lien Term Loan is based on, at the Company’s option, either a base rate or Adjusted Term SOFR, subject to a 0.75% floor, payable upon maturity of the SOFR 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 Term SOFR plus 1.0%. The applicable rate is 2.25% per annum for a base rate loan or 3.25% per annum for an Adjusted Term SOFR loan. Principal and interest payments commenced on June 30, 2021. Principal payments are typically $4.25 million quarterly. In March 2023 and May 2023, the Company repaid $35.0 million and $25.0 million in principal, respectively, of the First Lien Term Loan using existing cash on hand. The repayments were applied to remaining principal payments in order of scheduled payment date. Additionally, in August 2023, the Company repaid $15.0 million in principal on the First Lien Term Loan using existing cash on hand.

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.

Derivative Instruments

In November 2022, the Company entered into a series of interest rate cap agreements to limit the maximum interest on a portion of the Company’s variable-rate debt and decrease its exposure to interest rate variability relating to three-month Term SOFR. The interest rate caps became effective December 30, 2022 and expire on December 31, 2024.

In March 2023, the Company entered into an interest rate collar agreement to limit the maximum interest on a portion of the Company’s variable-rate debt and decrease its exposure to interest rate variability relating to three-month Term SOFR. The interest rate collar became effective March 31, 2023 and expires on March 31, 2026.

In June 2023, the Company entered into an interest rate collar agreement to limit the maximum interest on a portion of the Company’s variable-rate debt and decrease its exposure to interest rate variability relating to three-month Term SOFR. The interest rate collar becomes effective September 30, 2023 and expires on December 31, 2026.

For more information regarding derivative instruments, refer to Note 4, *"Derivative Instruments,"* 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 2022 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 29, 2023, we had $1,610.3 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 29, 2023 would have increased annual cash interest in the aggregate by approximately $16.3 million. Additionally, we entered into cash flow hedges to limit the maximum interest rate on a portion of our variable-rate debt and limit our exposure to interest rate variability, refer to Note 4, "Derivative Instruments," to the Notes to Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q.

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 29, 2023, 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 29, 2023.

Changes in Internal Control over Financial Reporting

During the quarter ended July 29, 2023, we shifted our prior enterprise resource planning ("ERP") system to a cloud-based ERP system. As part of the system conversion, we assessed the impact to the control environment and modified internal controls where necessary.

There were no further changes in our internal control over financial reporting that occurred during the quarter ended July 29, 2023 that have materially affected, or are 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 7, "*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 2022 Form 10-K for information concerning risk factors. There have been no material changes with respect to the risk factors disclosed in the 2022 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 2022 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 of our directors or Section 16 officers adopted or terminated a Rule 10b5-1 trading arrangement (as defined in Item 408(a) of Regulation S-K) or a non-Rule 10b5-1 trading arrangement (as defined in Item 408(c) of Regulation S-K) during the quarterly period covered by this Form 10-Q.

Item 6. Exhibits.

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

Exhibit Number	Description
3.1	Certificate of Amendment to the Second Amended and Restated Certificate of Incorporation of Petco Health and Wellness Company, Inc. (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K, filed on June 23, 2023)
10.1†	First Amendment to Petco Health and Wellness Company, Inc. 2021 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K, filed on June 23, 2023)
10.2†	Form of Retention Bonus Agreement
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 1, 2023	By:	/s/ Brian LaRose
		Brian LaRose
		Chief Financial Officer
		(Principal Financial and Accounting Officer)

Exhibit 10.2

RETENTION BONUS AGREEMENT

This Retention Bonus Agreement ("Agreement") is effective on , by and between (hereinafter "Employee") and Petco Health and Wellness Company, Inc. (hereinafter "Company"). In consideration of the mutual promises made herein, the Company and Employee agree as follows.

1. **Purpose of Retention Bonus.** Employee is being offered a Retention Bonus in order to encourage Employee to remain employed with the Company in the position of through . The "Retention Period" shall begin on and shall end on . This Agreement shall not modify the duration of the Employee's employment with the Company, and the Employee remains an employee-at-will during the entire time of employment with the Company.

2. **Retention Bonus Amount.** The Company shall pay to Employee a total amount of $, less applicable state and federal taxes and withholdings, as a "Retention Bonus." Employee must remain employed during the entire Retention Period and comply with all other conditions stated in this Agreement and otherwise meet all conditions precedent to retain the Retention Bonus.

3. **Conditions Required To Earn and Retain Retention Bonus Payment.** In addition to remaining employed during the Retention Period, Employee also must comply with the following conditions to earn and retain the Retention Bonus:

   (a) **Resignation.** Employee shall not resign Employee's employment prior to the end of the Retention Period for any reason (regardless of when such resignation is effective).

   (b) **Termination for Cause.** Employee shall not commit any action constituting Cause (as defined in the Company's 2021 Equity Incentive Plan) which leads to termination of Employee's employment for Cause.

   (c) **Compliance with Applicable Laws and Company Policies.** Employee shall at all times comply with laws (whether domestic or foreign) applicable to Employee's actions on behalf of the Company and shall materially comply with all written Company policies, including the Company's Code of Ethics & Conduct.

4. **Payment of Retention Bonus**: The Company shall pay Employee the Retention Bonus, less applicable state and federal taxes and withholdings, on .

5. **Forfeiture/Repayment of Retention Bonus.** Employee agrees that in the event Employee does not fulfill the obligations set forth above in Section 3, then Employee agrees to repay the full Retention Bonus Amount as follows:

   (a) **Resignation:** If the Employee resigns employment prior to the end of the Retention Period, Employee agrees to repay the gross Retention Bonus within 30 days following Employee's receipt of notice from the Company of Employee's repayment obligation (the "Repayment Notice").

   (b) **Termination for Cause:** If Employee commits any action constituting Cause which leads to a termination for Cause, Employee agrees to repay the gross Retention Bonus within 30 days following Employee's receipt of the Repayment Notice.

   (c) **Violation of Applicable Laws and Company Policies.** If Employee violates the conditions of Section 3(c) above, Employee agrees to repay the gross Retention Bonus within 30 days following Employee's receipt of the Repayment Notice.

(d) **Death, Disability, or Termination Without Cause:** If the Retention Bonus is not earned because Employee dies, becomes permanently disabled and unable to work, or is terminated without Cause, Employee shall be entitled to retain the full Retention Bonus.

6. **Miscellaneous.**

(a) This Agreement constitutes the entire agreement of the parties with regard to the Retention Bonus. Any modification of this Agreement will be effective only if it is in writing and signed by both the Company and Employee;

(b) The provisions of this Agreement shall not supersede or modify the provisions of any employment agreement, confidentiality agreement, or relationship between Employee and the Company. This Agreement does not supersede, replace or limit the rights and obligations of the Company and Employee with respect to such matters imposed by law or other agreements;

(c) The headings in this Agreement are intended solely for the convenience of reference and should be given no effect in the construction or interpretation of this Agreement; and

(d) Should any provision of this Agreement be held by a court of competent jurisdiction to be invalid, void or unenforceable, the remaining provisions shall be unaffected and shall continue in full force and effect, and the invalid, void or unenforceable provision(s) shall be deemed not to be part of this Agreement.

7. **Governing Law.** This Agreement shall be governed in all respects by the laws of the State of California.

IT IS SO AGREED.

DATED:______________ ________________________________
Name:

DATED:______________ Petco Health and Wellness Company, Inc.
By:________________________________
Title:________________________________

Exhibit 31.1

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 1, 2023	By:	/s/ Ronald Coughlin, Jr.
		Ronald Coughlin, Jr.
		Chief Executive Officer
		(Principal Executive Officer)

Exhibit 31.2

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 1, 2023

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

Exhibit 32.1

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 29, 2023, 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 1, 2023

By: /s/ Ronald Coughlin, Jr.

Ronald Coughlin, Jr.
Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

**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 29, 2023, 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 1, 2023

By: /s/ Brian LaRose

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