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 31, 2021

OR

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

For the transition period from ______ to ______

Commission File Number: 001-39878

Petco Health and Wellness Company, Inc.
(Exact Name of Registrant as Specified in its Charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**81-1005932** **(I.R.S. Employer Identification No.)**
10850 Via Frontera **San Diego, California** **(Address of principal executive offices)**	**92127** **(Zip Code)**

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 ☒

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ☒ No ☐

The number of shares of Registrant's Class A Common Stock outstanding as of August 25, 2021 was 226,491,943.

The number of shares of Registrant's Class B-1 Common Stock outstanding as of August 25, 2021 was 37,790,781.

The number of shares of Registrant's Class B-2 Common Stock outstanding as of August 25, 2021 was 37,790,781.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

PETCO HEALTH AND WELLNESS COMPANY, INC.

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

	July 31, 2021 (Unaudited)	January 30, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 203,404	$ 111,402
Receivables, less allowance for credit losses ($1,802 and $3,267, respectively)	39,889	41,827
Merchandise inventories, net	628,491	538,675
Prepaid expenses	41,990	40,032
Other current assets	30,381	45,613
Total current assets	944,155	777,549
Fixed assets	1,586,677	1,487,987
Less accumulated depreciation	(932,283)	(860,440)
Fixed assets, net	654,394	627,547
Operating lease right-of-use assets	1,314,533	1,328,108
Goodwill	2,182,465	2,179,310
Trade name	1,025,000	1,025,000
Other intangible assets	4,793	4,793
Less accumulated amortization	(4,251)	(4,079)
Other intangible assets, net	542	714
Other long-term assets	194,092	137,474
Total assets	$ 6,315,181	$ 6,075,702
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and book overdrafts	$ 406,685	$ 339,485
Accrued salaries and employee benefits	123,721	129,484
Accrued expenses and other liabilities	210,517	145,846
Current portion of operating lease liabilities	248,631	258,289
Current portion of long-term debt and other lease liabilities	20,235	2,203
Total current liabilities	1,009,789	875,307
Senior secured credit facilities, net, excluding current portion	1,646,463	1,646,281
Operating lease liabilities, excluding current portion	1,070,063	1,083,575
Deferred taxes, net	293,611	280,920
Other long-term liabilities	135,873	134,354
Total liabilities	4,155,799	4,020,437
Commitments and contingencies (Notes 3, 4 and 8)		
Stockholders' equity:		
Class A common stock, $0.001 par value: Authorized - 1.0 billion shares; Issued and outstanding - 226.5 million shares as of July 31, 2021 and 226.4 million shares as of January 30, 2021	226	226
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	2,115,220	2,092,110
Retained earnings (accumulated deficit)	60,420	(22,251)
Accumulated other comprehensive loss	(1,272)	(1,275)
Total stockholders' equity	2,174,632	2,068,848
Noncontrolling interest	(15,250)	(13,583)
Total equity	2,159,382	2,055,265
Total liabilities and equity	$ 6,315,181	$ 6,075,702

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 31, 2021	August 1, 2020	July 31, 2021	August 1, 2020
Net sales	$ 1,434,534	$ 1,208,971	$ 2,849,528	$ 2,322,492
Cost of sales	835,124	679,218	1,653,133	1,326,457
Gross profit	599,410	529,753	1,196,395	996,035
Selling, general and administrative expenses	525,942	464,706	1,075,178	914,623
Operating income	73,468	65,047	121,217	81,412
Interest income	(13)	(99)	(34)	(283)
Interest expense	19,206	54,493	39,735	115,301
Loss on extinguishment and modification of debt	—	—	20,838	—
Other non-operating income	(45,162)	—	(45,162)	—
Income (loss) before income taxes and income from equity method investees	99,437	10,653	105,840	(33,606)
Income tax expense (benefit)	27,011	4,958	29,690	(5,597)
Income from equity method investees	(2,429)	(745)	(4,854)	(1,077)
Net income (loss)	74,855	6,440	81,004	(26,932)
Net loss attributable to noncontrolling interest	(256)	(1,001)	(1,667)	(3,205)
Net income (loss) attributable to Class A and B-1 common stockholders	$ 75,111	$ 7,441	$ 82,671	$ (23,727)
Net income (loss) per Class A and B-1 common share (1):				
Basic	$ 0.28	$ 0.04	$ 0.31	$ (0.11)
Diluted	$ 0.28	$ 0.04	$ 0.31	$ (0.11)
Weighted average shares used in computing net income (loss) per Class A and B-1 common share (1):				
Basic	264,216	209,015	264,216	209,015
Diluted	265,217	209,015	265,123	209,015

(1) Amounts for periods prior to the Company's conversion to a Delaware corporation have been retrospectively adjusted to give effect to the organizational transactions described in Note 1. See Note 7 for further discussion.

See accompanying notes to consolidated financial statements.

PETCO HEALTH AND WELLNESS COMPANY, INC.

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

	Thirteen weeks ended		Twenty-six weeks ended	
	July 31, 2021	August 1, 2020	July 31, 2021	August 1, 2020
Net income (loss)	$ 74,855	$ 6,440	$ 81,004	$ (26,932)
Net loss attributable to noncontrolling interest	(256)	(1,001)	(1,667)	(3,205)
Net income (loss) attributable to Class A and B-1 common stockholders	75,111	7,441	82,671	(23,727)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	789	281	3	(4,689)
Unrealized loss on derivatives	—	(9)	—	(61)
Losses on derivatives reclassified to income	—	2,021	—	3,749
Total other comprehensive income (loss), net of tax	789	2,293	3	(1,001)
Comprehensive income (loss)	75,644	8,733	81,007	(27,933)
Comprehensive loss attributable to noncontrolling interest	(256)	(1,001)	(1,667)	(3,205)
Comprehensive income (loss) attributable to Class A and B-1 common stockholders	$ 75,900	$ 9,734	$ 82,674	$ (24,728)

See accompanying notes to consolidated financial statements.

PETCO HEALTH AND WELLNESS COMPANY, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS’ / MEMBERS’ EQUITY
(In thousands) (Unaudited)

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

		Common stock									
	Members’ interest (1)	Class A (shares)	Class B-1 (shares)	Class B-2 (shares)	Amount	Additional paid-in capital	Accumulated deficit (1)	Accumulated other comprehensive loss	Total members’ equity	Noncontrolling interest	Total equity
Balance at February 1, 2020	$ 1,358,130	—	—	—	$ —	$ —	$ (780,466)	$ (8,273)	$ 569,391	$ (8,330)	$ 561,061
Equity-based compensation expense (Note 7)	2,305	—	—	—	—	—	—	—	2,305	—	2,305
Net loss	—	—	—	—	—	—	(31,168)	—	(31,168)	(2,204)	(33,372)
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	—	(4,970)	(4,970)	—	(4,970)
Unrealized loss on derivatives, net of tax	—	—	—	—	—	—	—	(52)	(52)	—	(52)
Losses on derivatives reclassified to income, net of tax	—	—	—	—	—	—	—	1,728	1,728	—	1,728
Balance at May 2, 2020	$ 1,360,435	—	—	—	$ —	$ —	$ (811,634)	$ (11,567)	$ 537,234	$ (10,534)	$ 526,700
Equity-based compensation expense (Note 7)	2,312	—	—	—	—	—	—	—	2,312	—	2,312
Repurchase of equity	(104)	—	—	—	—	—	—	—	(104)	—	(104)
Net income	—	—	—	—	—	—	7,441	—	7,441	(1,001)	6,440
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	—	281	281	—	281
Unrealized loss on derivatives, net of tax	—	—	—	—	—	—	—	(9)	(9)	—	(9)
Losses on derivatives reclassified to income, net of tax	—	—	—	—	—	—	—	2,021	2,021	—	2,021
Balance at August 1, 2020	$ 1,362,643	—	—	—	$ —	$ —	$ (804,193)	$ (9,274)	$ 549,176	$ (11,535)	$ 537,641

(1) Balances prior to the Company's conversion to a Delaware corporation were reclassified to additional paid-in capital to give effect to the organizational transactions described in Note 1.

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 31, 2021	August 1, 2020
Cash flows from operating activities:		
Net income (loss)	$ 81,004	$ (26,932)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	82,845	86,038
Amortization of debt discounts and issuance costs	3,369	12,125
Provision for deferred taxes	12,691	(21,753)
Equity-based compensation	23,110	4,617
Impairments, write-offs and losses on sale of fixed and other assets	2,690	6,261
Loss on extinguishment and modification of debt	20,838	—
Income from equity method investees	(4,854)	(1,077)
Amounts reclassified out of accumulated other comprehensive income (Note 5)	—	5,066
Change in contingent consideration obligation	—	(391)
Non-cash operating lease costs	210,490	216,729
Other non-operating income	(45,162)	—
Changes in assets and liabilities:		
Receivables	1,937	(5,208)
Merchandise inventories	(89,784)	(11,056)
Prepaid expenses and other assets	3,294	(9,153)
Accounts payable and book overdrafts	74,466	(18,955)
Accrued salaries and employee benefits	(6,017)	3,116
Accrued expenses and other liabilities	51,145	35,747
Operating lease liabilities	(220,655)	(196,700)
Other long-term liabilities	997	13,915
Net cash provided by operating activities	202,404	92,389
Cash flows from investing activities:		
Cash paid for fixed assets	(99,883)	(50,043)
Cash paid for acquisitions, net of cash acquired	(2,807)	—
Distributions from equity investees	—	73
Proceeds from sale of assets	105	1,296
Net cash used in investing activities	(102,585)	(48,674)
Cash flows from financing activities:		
Borrowings under long-term debt agreements	1,700,000	440,000
Repayments of long-term debt	(1,682,361)	(456,625)
Debt refinancing costs	(24,665)	—
Payments for finance lease liabilities	(2,044)	(2,089)
Proceeds from employee stock purchase plan	1,721	—
Repurchase of equity	—	(105)
Payment of contingent consideration	—	(250)
Payment of offering costs	(3,844)	—
Net cash used in financing activities	(11,193)	(19,069)
Net increase in cash, cash equivalents and restricted cash	88,626	24,646
Cash, cash equivalents and restricted cash at beginning of year	119,540	154,718
Cash, cash equivalents and restricted cash at end of year	$ 208,166	$ 179,364
Supplemental cash flow disclosures:		
Interest paid, net	$ 29,463	$ 95,284
Capitalized interest	$ 181	$ 174
Income taxes paid	$ 5,195	$ 1,344
Supplemental non-cash investing and financing activities disclosure:		
Accounts payable and accrued expenses for capital expenditures	$ 28,105	$ 22,370

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 condensed 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 30, 2021.

The results of operations for the thirteen and twenty-six weeks ended July 31, 2021 are not necessarily indicative of the results of operations that may be achieved for the entire fiscal year ending January 29, 2022.

Corporate Conversion and Public Offerings

The Company previously operated as a Delaware limited liability company under the name PET Acquisition LLC. In January 2021, the Company converted to a Delaware corporation pursuant to a statutory conversion and changed its name to Petco Health and Wellness Company, Inc. The existing balances of members’ interest and accumulated deficit prior to this conversion were reclassified to additional paid-in capital in the condensed consolidated balance sheets. This reclassification had no effect on the Company’s results of operations.

On January 19, 2021, the Company completed its initial public offering of 55.2 million newly-issued shares of its Class A common stock. The offering price was $18.00 per share. The net proceeds from the initial public offering were used to pay a portion of the principal amount and accrued interest on the Company’s debt obligations. Refer to Note 3 and Note 4 for further discussion on the Company’s use of proceeds from the initial public offering.

In June 2021, Scooby Aggregator, LP, the Company’s principal stockholder, completed the sale of 25.3 million existing shares of Class A common stock in connection with a secondary offering. The offering price to the public was $24.00 per share. The Company received no proceeds from the secondary offering. Expenses incurred by the Company related to the secondary offering were not material.

Use of Estimates

The preparation of these condensed 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 condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. These estimates are based on information that is currently available and on various other assumptions that are believed to be reasonable under the circumstances. Actual results could vary from those estimates under different assumptions or conditions.

Cash and Cash Equivalents

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

	July 31, 2021	January 30, 2021
Cash and cash equivalents	$ 203,404	$ 111,402
Restricted cash included in other current assets	4,762	8,138
Total cash, cash equivalents and restricted cash in the statement of cash flows	$ 208,166	$ 119,540

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which amends the accounting for recognizing impairments of financial assets. Under the new accounting guidance, credit losses for financial assets held at amortized cost will be estimated based on expected losses rather than the current incurred loss impairment model. The new accounting guidance also modifies the impairment model for available-for-sale debt securities. The Company adopted this accounting policy on February 2, 2020. The adoption did not have a material impact on the Company's condensed consolidated financial statements and related disclosures.

In August 2018, FASB issued Accounting Standards Update No. 2018-15 – Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40), which amends ASC 350-40 to address a customer's accounting for implementation costs incurred in a cloud computing arrangement that is a service contract. The Company adopted this accounting policy on February 2, 2020. The adoption did not have a material impact on the Company's condensed consolidated financial statements and related disclosures.

2. Revenue Recognition

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

	Thirteen weeks ended		Twenty-six weeks ended	
	July 31, 2021	August 1, 2020	July 31, 2021	August 1, 2020
Consumables	$ 611,946	$ 492,274	$ 1,207,078	$ 1,018,026
Supplies and companion animals	663,572	612,630	1,321,744	1,106,364
Services and other	159,016	104,067	320,706	198,102
Net sales	$ 1,434,534	$ 1,208,971	$ 2,849,528	$ 2,322,492

3. Senior Secured Credit Facilities

As of January 30, 2021, the Company had a senior secured term loan facility (the "Amended Term Loan Facility"), which was fully repaid on March 4, 2021, and a senior secured asset-based revolving credit facility (the "Amended Revolving Credit Facility"), which was terminated on March 4, 2021. On March 4, 2021, the Company entered into a $1,700.0 million secured term loan facility maturing on March 4, 2028 (the "First Lien Term Loan") and a secured asset-based revolving credit facility with availability of up to $500.0 million, subject to a borrowing base, maturing on March 4, 2026 (the "ABL Revolving Credit Facility"). The Amended Term Loan Facility, the Amended Revolving Credit Facility, the First Lien Term Loan, and the ABL Revolving Credit Facility are collectively referred to as the "Senior Secured Credit Facilities."

As of July 31, 2021, the Company was in compliance with its covenants under the First Lien Term Loan and the ABL Revolving Credit Facility.

Term Loan Facilities

On January 19, 2021, the Company repaid $727.0 million of the Amended Term Loan Facility using a portion of the proceeds from its initial public offering, in addition to existing cash on hand. The repayment was applied to the remaining principal payments in order of scheduled payment date and, as a result, no quarterly principal payments remained under the Amended Term Loan Facility, other than the remaining principal balance due at maturity. As such, the entire remaining balance was included in senior secured credit facilities, net, excluding current portion in the condensed consolidated balance sheets as of January 30, 2021.

On March 4, 2021, the Company entered into the $1,700.0 million First Lien Term Loan and repaid all outstanding principal and interest on the Amended Term Loan Facility. Interest under the First Lien Term Loan is at the Company's option, either a base rate or Adjusted LIBOR, subject to a 0.75% floor, payable upon maturity of the LIBOR contract, in either case plus the applicable rate. The base rate is the greater of the bank prime rate, federal funds effective rate plus 0.5% or Adjusted LIBOR plus 1.0%. The applicable rate is 2.25% per annum for a base rate loan or 3.25% per annum for an Adjusted LIBOR loan. Principal and interest payments commenced on June 30, 2021. Principal payments are $4.25 million quarterly.

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

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

As of July 31, 2021, the outstanding principal balance of the First Lien Term Loan was $1,695.8 million ($1,668.8 million, net of the unamortized discount and debt issuance costs). As of January 30, 2021, the outstanding principal balance of the Amended Term Loan Facility was $1,678.1 million ($1,649.4 million, net of the unamortized discount and debt issuance costs). The weighted average interest rate on the borrowings outstanding was 4.1% and 4.3% as of July 31, 2021 and January 30, 2021, 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 31, 2021, the estimated fair value of the First Lien Term Loan was approximately $1,687.3 million, based upon Level 2 fair value hierarchy inputs. As of January 30, 2021, the estimated fair value of the Amended Term Loan Facility was approximately $1,673.9 million, based upon Level 2 fair value hierarchy inputs.

Revolving Credit Facilities

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

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

As of July 31, 2021, no amounts were outstanding under the ABL Revolving Credit Facility. As of January 30, 2021, no amounts were outstanding under the Amended Revolving Credit Facility. At July 31, 2021, $441.1 million was available under the ABL Revolving Credit Facility, which is net of $58.9 million of outstanding letters of credit issued in the normal course of business and no borrowing base reduction for a shortfall in qualifying assets.

Unamortized debt issuance costs of $5.3 million relating to the ABL Revolving Credit Facility were outstanding and were being amortized using the straight-line method over the remaining term of the agreement as of July 31, 2021. Unamortized debt issuance costs of $3.1 million relating to the Amended Revolving Credit Facility were outstanding and were being amortized using the straight-line method over the remaining term of the agreement as of January 30, 2021.

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

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

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

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

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

4. Senior Notes

Floating Rate Senior Notes

On January 26, 2016, the Company issued $750.0 million of unsecured senior notes maturing on January 26, 2024 in a private offering (the “Floating Rate Senior Notes”). Debt issuance costs of $26.2 million related to the Floating Rate Senior Notes were being amortized over the contractual term to interest expense using the effective interest rate in effect at issuance. The Floating Rate Senior Notes bore interest at a floating rate equal to three-month LIBOR, subject to a 1.00% floor, plus 8.0% per annum (the “Applicable Margin”) payable quarterly in arrears.

On January 19, 2021, in connection with the Company’s initial public offering, the holders of the outstanding Floating Rate Senior Notes exchanged $450.0 million of the aggregate principal amount of the Floating Rate Senior Notes for a new series of notes with a principal amount of $450.0 million issued by Scooby Aggregator, LP, the Company’s principal stockholder. Scooby Aggregator, LP, as the new holder of $450.0 million of Floating Rate Senior Notes, contributed the principal balance to the Company. This contribution, offset by approximately $7.4 million of unamortized deferred financing costs associated with the principal balance contributed, was recorded as an adjustment to additional paid-in capital.

On January 19, 2021, the Company repaid the remaining $300.0 million principal balance of the Floating Rate Senior Notes using a portion of the proceeds from its initial public offering, in addition to existing cash on hand.

3.00% Senior Notes

On January 26, 2016, the Company issued senior unsecured notes maturing on January 25, 2019 in a private offering to its members. Interest on the notes was originally 0.75% per annum, payable semi-annually either in cash or by means of capitalizing such interest and adding it to the then outstanding principal amount of the notes.

On April 6, 2019, the Company amended the notes to extend their maturity to July 25, 2019. Interest under these notes (the “3.00% Senior Notes”) was 3.00% per annum, payable upon maturity. On July 25, 2019, February 3, 2020, and September 28, 2020, the Company further amended the notes to extend their maturity to January 25, 2020, January 25, 2021, and January 25, 2023, respectively.

On January 19, 2021, in connection with its initial public offering, the Company repaid $4.0 million of the principal balance of the 3.00% Senior Notes. The remaining $127.7 million of principal and $3.6 million of accrued interest was then contributed to the Company.

5. Derivative Instruments

In March 2016, the Company entered into a series of five interest rate cap agreements with four counterparties with a total notional value of $1,950.0 million to limit the maximum interest rate on a portion of the Company’s variable-rate debt and limit its exposure to interest rate variability when the three-month LIBOR exceeds 2.25%.

The interest rate caps were accounted for as cash flow hedges because the interest rate caps were expected to be highly effective in hedging variable rate interest payments. Changes in the fair value of the interest rate caps were reported as a component of AOCI. The interest rate caps expired and were settled in accordance with their contractual terms on January 29, 2021.

6. 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 31, 2021		
	Level 1	Level 2	Level 3
Assets (liabilities):			
Money market mutual funds	$ 146,512	$ —	$ —
Investments of officers' life insurance	$ —	$ 15,783	$ —
Non-qualified deferred compensation plan	$ —	$ (17,879)	$ —

	January 30, 2021		
	Level 1	Level 2	Level 3
Assets (liabilities):			
Money market mutual funds	$ 63,798	$ —	$ —
Investments of officers' life insurance	$ —	$ 14,140	$ —
Non-qualified deferred compensation plan	$ —	$ (15,526)	$ —

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 $143.0 million and $56.0 million as of July 31, 2021 and January 30, 2021, respectively. Also included in the Company’s money market mutual funds balances were $3.5 million and $7.8 million as of July 31, 2021 and January 30, 2021, respectively, which relate to the Company’s restricted cash, and are included in other current assets in the condensed 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.

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.

The Company previously held an equity investment, in the form of multiple series of preferred stock, in A Place for Rover, Inc. ("Rover"), an online marketplace for pet care, which was historically accounted for as an equity security without a readily determinable fair value. In July 2021, Rover completed a business combination with Nebula Caravel Acquisition Corp., a publicly-traded special purpose acquisition company. The combined entity was renamed to Rover Group, Inc., and the Company's equity investment was converted into a common stock investment in the combined entity. The business combination was considered to be an observable transaction, and the Company recognized a $45.2 million gain from the remeasurement of the fair value of its investment, which is included in other non-operating income in the consolidated statements of operations. The fair value of the investment was $49.6 million as of July 31, 2021 and is included within other long-term assets on the consolidated balance sheets.

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 31, 2021 and August 1, 2020. During the thirteen and twenty-six week periods ended July 31, 2021, the Company recorded fixed asset and right-of-use asset impairment charges of $1.4 million and $2.5 million, respectively. During the thirteen and twenty-six week periods ended August 1, 2020, the Company recorded fixed asset and right-of-use asset impairment charges of $2.7 million and $5.8 million, respectively.

7. Stockholders' Equity

Equity-Based Compensation

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

Scooby LP, the direct owner of Scooby Aggregator, LP, also maintains an incentive plan (the "2016 Incentive Plan") under which it has awarded partnership unit awards to 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 31, 2021	August 1, 2020	July 31, 2021	August 1, 2020
RSUs and RSAs	$ 6,353	$ —	$ 12,825	$ —
Options	2,045	—	4,137	—
ESPP	317	—	390	—
Partnership units of Scooby LP under the 2016 Incentive Plan	2,791	2,312	5,758	4,617
Total equity-based compensation expense	$ 11,506	$ 2,312	$ 23,110	$ 4,617

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

	RSUs and RSAs		Options	
Nonvested RSUs and RSAs/options outstanding, January 30, 2021		3,414		3,482
Granted		226		—
RSUs and RSAs vested/options exercised		(12)		—
Forfeited/expired		(164)		(49)
Nonvested RSUs and RSAs/options outstanding, July 31, 2021		3,464		3,433
Unrecognized compensation expense as of July 31, 2021	$	48,669	$	19,510
Weighted average remaining expense period as of July 31, 2021		2.3 Years		2.5 Years

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

Enrollment in the ESPP began in April 2021. The ESPP will allow 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 30, 2021	214,006
Granted	—
Forfeited	(3,704)
Outstanding, July 31, 2021	210,302
Vested, July 31, 2021	110,548

No additional Series C Units have been or will be awarded since the Company’s initial public offering. As of July 31, 2021, unrecognized compensation expense related to the unvested portion of Scooby LP’s Series C Units was $21.8 million, which is expected to be recognized over a weighted average period of 2.7 years. In addition to acceleration upon a change in control, a portion of grantees’ Series C Units may vest upon certain levels of direct or indirect sales by Scooby LP of the Company’s Class A common stock, and all unvested Series C Units will fully accelerate in the event Scooby LP sells 90% of its direct or indirect holdings of the Company’s Class A common stock.

Earnings (Loss) Per Share

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

There were approximately 3.4 million potential shares that were anti-dilutive and excluded from the computation of diluted shares outstanding during the twenty-six weeks ended July 31, 2021. There were no potentially dilutive securities outstanding during the twenty-six weeks ended August 1, 2020.

For periods prior to the Company’s conversion to a Delaware corporation in January 2021, the Company has retrospectively presented net loss per share as if the conversion had occurred at the beginning of the earliest period presented. The weighted average shares used in computing net loss per Class A and B-1 common share in these periods are based on the number of Common Series A and Common Series B Units of PET Acquisition LLC held by members. For periods prior to the conversion, these calculations do not include the 55.2 million shares of Class A common stock issued in the Company’s initial public offering.

8. Commitments and Contingencies

COVID-19

The COVID-19 pandemic has been a highly disruptive economic and societal event that has affected the Company’s business and has had a significant impact on consumer shopping behavior. To serve pet parents while also providing for the safety of employees, the Company has adapted certain aspects of the business. Throughout the pandemic, the Company has monitored the rapidly evolving situation and will continue to adapt its operations to (i) address federal, state and local standards, (ii) meet the needs of pets and pet parents, and (iii) implement standards that the Company believes to be in the best interests of the safety and well-being of its employees and customers. The duration and severity of the pandemic remains uncertain.

Litigation

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 condensed 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 condensed 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 a particular litigation matter is appropriate, the Company may be subject to liability that could have a material adverse effect on its condensed 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 30, 2021 (the "2020 Form 10-K"). The discussion and analysis below contain certain forward-looking statements about our business and operations that are subject to the risks, uncertainties, and other factors described in the sections entitled "Risk Factors" in Part I, Item 1A in the 2020 Form 10-K and Part II, Item 1A in our Quarterly Report on Form 10-Q for the period ended May 1, 2021 (the "Q1 Form 10-Q") and in 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. Please read the section entitled "Cautionary Note Regarding Forward-Looking Statements" in the 2020 Form 10-K. 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. Since our founding in 1965, we have been striving to set new standards in pet care, delivering comprehensive wellness solutions through our products and services, and creating communities that deepen the pet-pet parent bond. Over the last three years, our world-class leadership team and our dedicated and passionate partners have transformed the business from a successful yet traditional retailer to a disruptive, fully integrated, digital-focused provider of premium nutrition, products, services and veterinary care. We operate more than 1,500 Petco locations across the U.S., Mexico, and Puerto Rico, including a growing network of more than 150 in-store veterinary hospitals, and offer a complete online resource for pet health and wellness at petco.com and on the Petco app.

Our go-to-market strategy is powered by a multi-channel platform that integrates our digital presence with a nationwide physical network. 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 an extensive physical network, we are able to offer a comprehensive product and service offering in a localized manner with a meaningful last-mile delivery advantage over the competition.

We strive to be a truly unique company, one that is saving and improving millions of pet lives and tangibly improving the lives of pet parents and the partners who work for us, while at the same time executing our differentiated strategy with excellence. In tandem with Petco Love (formerly the Petco Foundation), an independent nonprofit organization, we work with and support thousands of local animal welfare groups across the country and, through in-store adoption events, we have helped find homes for more than 6.5 million animals.

Impact of the COVID-19 Pandemic on Our Business

The COVID-19 pandemic has impacted every aspect of the economy. As an essential retailer, all of our pet care centers have remained open, as we are the grocery store, pharmacy, and doctor's office for many of our nation's pets. Market data indicates that with more of the working population staying home, there has been an increase in pet ownership and the percentage of disposable income spent on home-related goods and services, including pet care. Overall, this macroeconomic trend has continued to favorably impact our business results to date with millions of additional new pets that need to be fed, groomed and vaccinated for years to come, but the possible sustained spread or resurgence of the pandemic, and any government response thereto, increases the uncertainty regarding potential economic conditions that could impact our business in the future.

We cannot predict the duration or severity of COVID-19 or its ultimate impact on the broader economy or our operations and liquidity. Please refer to the risk factors described in the sections entitled "Risk Factors" in Part I, Item 1A in the 2020 Form 10-K and Part II, Item 1A in the Q1 Form 10-Q and 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, Free Cash Flow and Net Debt, to evaluate our operating performance, generate future operating plans, and make strategic decisions regarding the allocation of capital. Further explanations of our non-GAAP measures, along with reconciliations to their most comparable GAAP measures, are presented below under "Reconciliation of Non-GAAP Financial Measures to GAAP Measures."

Executive Summary

Our business transformation initiatives, accelerated by an increase in pet ownership and a shift in customer discretionary spend toward the pet category, have driven strong top and bottom-line growth in our business. Comparing the thirteen weeks ended July 31, 2021 with the thirteen weeks ended August 1, 2020, we achieved the following results:

- an increase in net sales from $1.21 billion to $1.43 billion, representing period-over-period growth of 18.7%;
- comparable sales growth of 19.7%;
- an increase in operating income from $65.0 million to $73.5 million, representing period-over-period growth of 12.9%;
- an increase in net income attributable to Class A and B-1 common stockholders from $7.4 million to $75.1 million, representing a period-over-period improvement of 909.4%;
- an increase in Adjusted EBITDA from $130.8 million to $155.1 million, representing period-over-period growth of 18.5%; and
- net cash flows provided by operating activities improved from $92.4 million during the twenty-six weeks ended August 1, 2020 to $202.4 million during the twenty-six weeks ended July 31, 2021.

For a description of our non-GAAP measures and reconciliations to their most comparable GAAP measures, please read the section below titled "Reconciliation of Non-GAAP Financial Measures to GAAP Measures."

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 31, 2021	August 1, 2020	July 31, 2021	August 1, 2020
Net sales	$ 1,434,534	$ 1,208,971	$ 2,849,528	$ 2,322,492
Cost of sales	835,124	679,218	1,653,133	1,326,457
Gross profit	599,410	529,753	1,196,395	996,035
Selling, general and administrative expenses	525,942	464,706	1,075,178	914,623
Operating income	73,468	65,047	121,217	81,412
Interest income	(13)	(99)	(34)	(283)
Interest expense	19,206	54,493	39,735	115,301
Loss on extinguishment and modification of debt	—	—	20,838	—
Other non-operating income	(45,162)	—	(45,162)	—
Income (loss) before income taxes and income from equity method investees	99,437	10,653	105,840	(33,606)
Income tax expense (benefit)	27,011	4,958	29,690	(5,597)
Income from equity method investees	(2,429)	(745)	(4,854)	(1,077)
Net income (loss)	74,855	6,440	81,004	(26,932)
Net loss attributable to noncontrolling interest	(256)	(1,001)	(1,667)	(3,205)
Net income (loss) attributable to Class A and B-1 common stockholders	$ 75,111	$ 7,441	$ 82,671	$ (23,727)

	Thirteen weeks ended		Twenty-six weeks ended	
	July 31, 2021	August 1, 2020	July 31, 2021	August 1, 2020
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	58.2	56.2	58.0	57.1
Gross profit	41.8	43.8	42.0	42.9
Selling, general and administrative expenses	36.7	38.4	37.7	39.4
Operating income	5.1	5.4	4.3	3.5
Interest income	(0.0)	(0.0)	(0.0)	(0.0)
Interest expense	1.3	4.5	1.4	4.9
Loss on extinguishment and modification of debt	—	—	0.7	—
Other non-operating income	(3.1)	—	(1.5)	—
Income (loss) before income taxes and income from equity method investees	6.9	0.9	3.7	(1.4)
Income tax expense (benefit)	1.9	0.5	1.1	(0.2)
Income from equity method investees	(0.2)	(0.1)	(0.2)	(0.0)
Net income (loss)	5.2	0.5	2.8	(1.2)
Net loss attributable to noncontrolling interest	(0.0)	(0.1)	(0.1)	(0.2)
Net income (loss) attributable to Class A and B-1 common stockholders	5.2%	0.6%	2.9%	(1.0)%

	Thirteen weeks ended		Twenty-six weeks ended	
	July 31, 2021	August 1, 2020	July 31, 2021	August 1, 2020
Operational Data:				
Comparable sales	19.7%	10.7%	23.9%	6.4%
Total pet care centers at end of period	1,451	1,474	1,451	1,474
Total pet care centers with veterinarian practices at end of period	155	93	155	93
Adjusted EBITDA (in thousands)	$ 155,073	$ 130,812	$ 280,819	$ 217,648

Thirteen and Twenty-six Weeks Ended July 31, 2021 Compared with Thirteen and Twenty-six Weeks Ended August 1, 2020

Net Sales and Comparable Sales

	Thirteen weeks ended				Twenty-six weeks ended			
	July 31, 2021	August 1, 2020	$ Change	% Change	July 31, 2021	August 1, 2020	$ Change	% Change
Consumables	$ 611,946	$ 492,274	$ 119,672	24.3%	$ 1,207,078	$ 1,018,026	$ 189,052	18.6%
Supplies and companion animals	663,572	612,630	50,942	8.3%	1,321,744	1,106,364	215,380	19.5%
Services and other	159,016	104,067	54,949	52.8%	320,706	198,102	122,604	61.9%
Net sales	$ 1,434,534	$ 1,208,971	$ 225,563	18.7%	$ 2,849,528	$ 2,322,492	$ 527,036	22.7%

Net sales increased $225.6 million, or 18.7%, to $1.43 billion in the thirteen weeks ended July 31, 2021 compared to net sales of $1.21 billion in the thirteen weeks ended August 1, 2020, driven by a 19.7% increase in our comparable sales. Net sales increased $527.0 million, or 22.7%, to $2.85 billion in the twenty-six weeks ended July 31, 2021 compared to net sales of $2.32 billion in the twenty-six weeks ended August 1, 2020, driven by a 23.9% 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, coupled with an increase in new pet ownership and a resulting increase in sales to meet the needs of these pet parents.

For the thirteen and twenty-six weeks ended July 31, 2021, pet care center merchandise delivered growth of 16.9% and 20.9%, respectively, with strong growth in all major categories including consumables, supplies and companion animals. Our e-commerce and digital sales increased 14.3% and 17.9% during the thirteen and twenty-six weeks ended July 31, 2021 respectively, lapping strong sales growth in the same period last year at the start of the COVID-19 pandemic. This digital sales growth excludes the impact associated with the closure of our Live Aquaria business during the thirteen and twenty-six weeks ended August 1, 2020. The increase in services and other was due in part to growth in our veterinary hospital business with the addition of 62 new hospitals period-over-period coupled with headwinds experienced during the thirteen and twenty-six weeks ended August 1, 2020 with the temporary suspension of our training, grooming and vaccination clinic services while stay-at-home orders were still in place.

The increase in consumables between the periods is driven by the increase in new pets and our strategic investments in customer acquisition and retention. Also affecting the comparison in our sales mix for the thirteen and twenty-six weeks ended July 31, 2021 was the prior year impact of the COVID-19 pandemic. After experiencing an increase in consumables sales due to pantry loading during the first quarter of fiscal year 2020, we saw our sales mix shift heavily to supplies and companion animals during the thirteen weeks ended August 1, 2020 due to increases in new pets and shifts in disposable income towards pets, and initial stimulus payments which provided additional disposable income to pet parents.

Gross Profit

Gross profit increased $69.7 million, or 13.1%, to $599.4 million in the thirteen weeks ended July 31, 2021 compared to gross profit of $529.8 million for the thirteen weeks ended August 1, 2020. As a percentage of sales, our gross profit rate was 41.8% for the thirteen weeks ended July 31, 2021 compared with 43.8% for the thirteen weeks ended August 1, 2020. Gross profit increased $200.4 million, or 20.1%, to $1,196.4 million in the twenty-six weeks ended July 31, 2021 compared to gross profit of $996.0 million for the twenty-six weeks ended August 1, 2020. As a percentage of sales, our gross profit rate was 42.0% for the twenty-six weeks ended July 31, 2021 compared with gross profit 42.9% for the twenty-six weeks ended August 1, 2020. The decrease in gross profit rate between the periods was primarily due to the unique macroeconomic conditions that impacted our sales mix during the early months of the COVID-19 pandemic, as described above. In particular, the influx of new pets in fiscal 2020 drove a higher supplies sales mix, which typically carry higher gross margin rates compared to other categories of sales. During the thirteen and twenty-six weeks ended July 31, 2021, this sales mix has shifted from supplies to higher consumables, though we expect overall customer sales patterns to moderate over time. Sales channel impacts driven by strength in our digital, services and vet business, and moderate increases in distribution costs also contributed to the decrease in gross profit rate during the thirteen and twenty-six weeks ended July 31, 2021 as compared to the prior year.

Selling, General and Administrative ("SG&A") Expenses

SG&A expenses increased $61.2 million, or 13.2%, to $525.9 million for the thirteen weeks ended July 31, 2021 compared to $464.7 million for the thirteen weeks ended August 1, 2020. As a percentage of net sales, SG&A expenses was 36.7% for the thirteen weeks ended July 31, 2021 compared with 38.4% for the thirteen weeks ended August 1, 2020, reflecting operating leverage from net sales growth. The increase in expenses period over period was partially due to a $34.0 million increase in G&A expenses. A portion of this increase was due to a legal settlement accrual for a class action matter as well as increase in stock-based compensation expense driven by our initial public offering. The remainder of the increase in SG&A was predominately due to higher incentive compensation for corporate and field partners along with increased variable costs associated with our higher sales growth. In addition, SG&A expenses were lower for the thirteen weeks ended August 1, 2020 due to precautionary cost containment measures put in place throughout the early stages of the COVID-19 pandemic.

SG&A expenses increased $160.6 million, or 17.6%, to $1,075.2 million for the twenty-six weeks ended July 31, 2021 compared to $914.6 million for the twenty-six weeks ended August 1, 2020. As a percentage of net sales, SG&A expenses was 37.7% for the twenty-six weeks ended July 31, 2021 compared with 39.4% for the twenty-six weeks ended August 1, 2020, reflecting operating leverage from net sales growth. The increase in expenses period-over-period was driven by a $45.5 million increase in advertising expenses to support the acceleration of our sales growth. The remainder of the increase was predominately due to the drivers discussed in the paragraph above.

Interest Expense

Interest expense decreased $35.3 million, or 64.8%, to $19.2 million in the thirteen weeks ended July 31, 2021 compared with $54.5 million in the thirteen weeks ended August 1, 2020. Interest expense decreased $75.6 million, or 65.5%, to $39.7 million in the twenty-six weeks ended July 31, 2021 compared with $115.3 million in the twenty-six weeks ended August 1, 2020. The decrease was primarily driven by the redemption/cancellation of the Floating Rate Senior Notes and the 3.00% Senior Notes and repayment of a portion of our then-outstanding Amended Term Loan Facility (each as defined in Note 4, "*Senior Notes*," and Note 3, "*Senior Secured Credit Facilities*," to the Notes to Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q) in connection with our initial public offering. In March 2020, we borrowed $250.0 million on our then-outstanding senior secured asset-based revolving credit facility (the "Amended Revolving Credit Facility") as a precautionary measure given the uncertainty of the macroeconomic environment at the start of the COVID-19 pandemic. We subsequently repaid the amount in full in the second quarter of fiscal 2020 and had no borrowings outstanding on the Amended Revolving Credit Facility as of January 30, 2021.

Loss on Extinguishment and Modification of Debt

Loss on extinguishment and modification of debt was $20.8 million for the twenty-six weeks ended July 31, 2021. This loss was recognized in conjunction with the March 4, 2021 debt refinancing transaction described above. There was no loss on debt extinguishment and modification for the thirteen weeks ended July 31, 2021 or the thirteen and twenty-six weeks ended August 1, 2020. 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

Other non-operating income was $45.2 million for the thirteen and twenty-six weeks ended July 31, 2021. This income relates to a non-cash gain from the remeasurement of the fair value of our investment in A Place for Rover, Inc. ("Rover"). There was no other non-operating income recognized during the thirteen or twenty-six weeks ended August 1, 2020. For more information regarding this activity, refer to Note 6, "*Fair Value Measurements,*" to the Notes to Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q.

Income Tax Expense (Benefit)

Our effective tax rates were 26.4% and 26.4%, resulting in income tax expense of $27.0 million and $29.7 million for the thirteen and twenty-six weeks ended July 31, 2021, respectively, compared to effective tax rates of 39.4% and 19.2%, resulting in income tax expense (benefit) of $5.0 million and $(5.6) million for the thirteen and twenty-six weeks ended August 1, 2020, respectively. The increase in effective tax rate for the twenty-six weeks ended July 31, 2021 is primarily driven by an increase in earnings along with an increase in stock-based compensation expense.

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 in accordance with GAAP and should not be considered superior to, as a substitute for or alternative to, and should be considered in conjunction with, the most comparable GAAP measures. The non-GAAP financial measures presented may differ from similarly-titled measures used by other companies.

Adjusted EBITDA

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

Adjusted EBITDA is not a substitute for net income (loss), the most comparable GAAP measure, and is subject to a number of limitations as a financial measure, so it should be used in conjunction with GAAP financial measures and not in isolation. There can be no assurances that we will not modify the presentation of Adjusted EBITDA in the future. In addition, other companies in our industry may define Adjusted EBITDA differently, limiting its usefulness as a comparative measure. Refer to Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Reconciliation of Non-GAAP Financial Measures to GAAP Measures” included in the 2020 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, after taking into account net sales for the periods presented:

	Thirteen weeks ended		Twenty-six weeks ended	
	July 31, 2021	August 1, 2020	July 31, 2021	August 1, 2020
Reconciliation of Net Income (Loss) Attributable to Class A and B-1 Common Stockholders to Adjusted EBITDA				
Net income (loss) attributable to Class A and B-1 common stockholders	$ 75,111	$ 7,441	$ 82,671	$ (23,727)
Interest expense, net	19,193	54,394	39,701	115,018
Income tax expense (benefit)	27,011	4,958	29,690	(5,597)
Depreciation and amortization	41,238	42,471	82,845	86,038
Income from equity method investees	(2,429)	(745)	(4,854)	(1,077)
Loss on debt extinguishment and modification	—	—	20,838	—
Asset impairments and write offs	1,743	2,852	2,690	6,261
Equity-based compensation	11,506	2,312	23,110	4,617
Other non-operating income	(45,162)	—	(45,162)	—
Mexico joint venture EBITDA (1)	5,856	3,483	11,862	7,502
Store pre-opening expenses	3,488	1,477	7,517	3,385
Store closing expenses	962	2,609	2,065	3,636
Non-cash occupancy-related costs (2)	2,885	5,969	4,024	13,169
Non-recurring costs (3)	13,671	3,591	23,822	8,423
Adjusted EBITDA	$ 155,073	$ 130,812	$ 280,819	$ 217,648
Net sales	$ 1,434,534	$ 1,208,971	$ 2,849,528	$ 2,322,492
Net margin (4)	5.2%	0.6%	2.9%	(1.0)%
Adjusted EBITDA Margin (4)	10.8%	10.8%	9.9%	9.4%

(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:

	Thirteen weeks ended		Twenty-six weeks ended	
(dollars in thousands)	July 31, 2021	August 1, 2020	July 31, 2021	August 1, 2020
Net income	$ 4,864	$ 2,384	$ 9,713	$ 3,112
Depreciation	3,401	2,702	6,801	5,856
Income tax expense	2,631	1,129	5,411	2,423
Foreign currency (gain) loss	(342)	(295)	(487)	1,262
Interest expense, net	1,158	1,046	2,286	2,350
EBITDA	$ 11,712	$ 6,966	$ 23,724	$ 15,003
50% of EBITDA	$ 5,856	$ 3,483	$ 11,862	$ 7,502

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

(3) Non-recurring costs include: severance; legal reserves and related fees; one-time consulting and other costs associated with the Company's strategic transformation initiatives; discontinuation and liquidation costs; and costs related to our initial public offering and refinancing. While we incurred significant costs associated with the COVID-19 pandemic during fiscal 2020, we have not classified any of these costs as non-recurring due to the uncertainty surrounding the pandemic's length and long-term impact on the macroeconomic operating environment.

(4) We define net margin as net income (loss) 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 operations 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.

Although other companies report their free cash flow, numerous methods exist for calculating a company's free cash flow. As a result, the method used by the Company to calculate our Free Cash Flow may differ from the methods used by other companies to calculate their free cash flow.

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

	Twenty-six weeks ended	
(dollars in thousands)	**July 31, 2021**	**August 1, 2020**
Net cash provided by operating activities	$ 202,404	$ 92,389
Cash paid for fixed assets	(99,883)	(50,043)
Free Cash Flow	$ 102,521	$ 42,346

Net Debt

Net Debt is a non-GAAP financial measure that is calculated as the sum of current and non-current debt, less cash and cash equivalents. Management considers this adjustment useful because it reduces the volatility of total debt caused by fluctuations between cash paid against the Company's revolving credit facility and cash held on hand in cash and cash equivalents.

Although other companies report their net debt, numerous methods exist for calculating a company's net debt. As a result, the method used by the Company to calculate our Net Debt may differ from the methods used by other companies to calculate their net debt.

The table below reflects the calculation of Net Debt for the periods presented:

(dollars in thousands)	**July 31, 2021**	**August 1, 2020**
Total debt:		
Senior secured credit facilities, net, including current portion	$ 1,663,463	$ 2,381,419
Senior notes, net	—	867,778
Finance leases, including current portion	15,104	14,347
Total debt	$ 1,678,567	$ 3,263,544
Less: cash and cash equivalents	(203,404)	(168,892)
Net Debt	$ 1,475,163	$ 3,094,652
Adjusted EBITDA	$ 547,519	$ 449,351
Net Debt / Adjusted EBITDA ratio	2.7x	6.9x

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 31, 2021 was $644.5 million, inclusive of cash and cash equivalents of $203.4 million and $441.1 million of availability on the ABL Revolving Credit Facility. 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.

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. There have been no material changes to our contractual obligations as compared to those described in the 2020 Form 10-K, except for the debt refinancing transaction that occurred on March 4, 2021. For more information regarding our primary 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 for amounts outstanding as of July 31, 2021 related to our debt. Also refer to further discussion on our debt refinancing transaction in "Sources of Liquidity" below.

Cash Flows

The following table summarizes our consolidated cash flows:

	Twenty-six weeks ended	
(dollars in thousands)	**July 31, 2021**	**August 1, 2020**
Total cash provided by (used in):		
Operating activities	$ 202,404	$ 92,389
Investing activities	(102,585)	(48,674)
Financing activities	(11,193)	(19,069)
Net increase in cash, cash equivalents and restricted cash	$ 88,626	$ 24,646

Operating Activities

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

Net cash provided by operating activities was $202.4 million in the twenty-six weeks ended July 31, 2021 compared with net cash provided by operating activities of $92.4 million in the twenty-six weeks ended August 1, 2020. The increase in operating cash flow was due to strong operating performance and working capital benefit generated by higher sales as well as lower interest payments due to the reduction of debt balances in connection with the initial public offering and related recapitalization, and the refinancing transaction that occurred on March 4, 2021 discussed under "Sources of Liquidity" below. The increase in operating cash flows between the periods was partially offset by an increase in cash paid for inventory driven by higher inventory turns, higher payroll, bonus and fringe benefits driven by operating performance and pet care center appreciation bonuses, an increase in advertising spend, and an increase in cash paid on operating leases due to the timing of rent payments.

Investing Activities

Cash used in investing activities consists of capital expenditures, which in the twenty-six weeks ended July 31, 2021 and the twenty-six weeks ended August 1, 2020 primarily supported our transformation initiatives. Net cash used in investing activities was $102.6 million and $48.7 million for the twenty-six weeks ended July 31, 2021 and August 1, 2020, respectively. The increase in capital expenditures between the periods is partially due to a reduction in capital expenditures put in place for the twenty-six weeks ended August 1, 2020 throughout the early stages of the

COVID-19 pandemic. The majority of our capital expenditures are discretionary in nature and made to expand our business.

Financing Activities

Net cash used in financing activities was $11.2 million for the twenty-six weeks ended July 31, 2021, compared with $19.1 million used in financing activities in the twenty-six weeks ended August 1, 2020.

Financing cash flows in the twenty-six weeks ended July 31, 2021 primarily consisted of borrowings and repayments of debt in connection with the March 4, 2021 debt refinancing transaction. 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.

Financing cash flows in the twenty-six weeks ended August 1, 2020 included a precautionary draw on the Amended Revolving Credit Facility of $250.0 million in March 2020 at the start of the COVID-19 pandemic. As operations stabilized and financial results improved, the balance was repaid in full in the second quarter of fiscal 2020.

Sources of Liquidity

Senior Secured Credit Facilities

As of January 30, 2021, the Company had $1,678.1 million outstanding on the Amended Term Loan Facility and no balance on the Amended Revolving Credit Facility, providing for senior secured financing of up to $500.0 million, subject to a borrowing base.

On March 4, 2021, the Company completed a refinancing transaction by entering into the $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. The refinancing transaction, in combination with the application of the proceeds from the Company's initial public offering and other recapitalization transactions in connection therewith, reduced the Company's total debt by 48.6% as compared with August 1, 2020. Net Debt as a result of these transactions decreased $1,619.5 million or 52.3% to $1,475.2 million at July 31, 2021. Our Net Debt to Adjusted EBITDA ratio as a result of these transactions improved from 6.9x at August 1, 2020 to 2.7x at July 31, 2021. Interest under the First Lien Term Loan is at the Company's option, either a base rate or Adjusted LIBOR, subject to a 0.75% floor, payable upon maturity of the LIBOR contract, in either case plus the applicable rate. The base rate is the greater of the bank prime rate, federal funds effective rate plus 0.5% or Adjusted LIBOR plus 1.0%. The applicable rate is 2.25% per annum for a base rate loan or 3.25% per annum for an Adjusted LIBOR loan. Principal payments are $4.25 million quarterly and commence on June 30, 2021. The terms under the ABL Revolving Credit Facility are substantially similar to those of the Amended Revolving Credit Facility.

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

Critical Accounting Policies and Estimates

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

There have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in the 2020 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 31, 2021, we had $1,695.8 million outstanding under the First Lien Term Loan and no amounts outstanding under the ABL Revolving Credit Facility. The First Lien Term Loan and the ABL Revolving Credit Facility each bear interest at variable rates. An increase of 100 basis points in the variable rates on the First Lien Term Loan and the ABL Revolving Credit Facility as of July 31, 2021 would have increased annual cash interest in the aggregate by approximately $17.2 million. As of July 31, 2021, the underlying interest rates on the First Lien Term Loan and the ABL Revolving Credit Facility were at the floor in the applicable agreements.

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 31, 2021, 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 31, 2021.

Changes in Internal Control over Financial Reporting

This Form 10-Q does not include disclosure of changes in internal control over financial reporting due to a transition period established by rules of the SEC for newly public companies.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

See Note 8, "*Commitments and Contingencies—Litigation*," 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 2020 Form 10-K and Part II, Item 1A, "*Risk Factors*" included in our Q1 Form 10-Q for information concerning risk factors. Except as set forth in the Q1 Form 10-Q, there have been no material changes with respect to the risk factors disclosed in our 2020 Form 10-K. You should carefully consider such factors, which could materially affect our business, financial condition or future results. The risks described in the Q1 Form 10-Q and in the 2020 Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or results of operations.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Description
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)

* Furnished herewith and not deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and shall not be deemed to be 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: August 27, 2021

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

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)) 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) [Reserved];

   (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: August 27, 2021

By: /s/ Ronald Coughlin, Jr.
Ronald Coughlin, Jr.
Chief 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)) 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) [Reserved];

   (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: August 27, 2021

By: /s/ Brian LaRose
Brian LaRose
Chief Financial 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 31, 2021, 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: August 27, 2021

By: /s/ Ronald Coughlin, Jr.
Ronald Coughlin, Jr.
Chief 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 31, 2021, 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: August 27, 2021

By: /s/ Brian LaRose
Brian LaRose
Chief Financial Officer