

**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 November 2, 2024

OR

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

For the transition period from _____ to _____

Commission File Number: 001-39878

Petco Health and Wellness Company, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

10850 Via Frontera

San Diego, California

(Address of principal executive offices)

81-1005932

(I.R.S. Employer
Identification No.)

92127

(Zip Code)

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

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

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

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

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

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

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

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

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

The number of shares of the registrant's Class A Common Stock outstanding as of December 4, 2024 was 237,866,468.

The number of shares of the registrant's Class B-1 Common Stock outstanding as of December 4, 2024 was 37,790,781.

The number of shares of the registrant's Class B-2 Common Stock outstanding as of December 4, 2024 was 37,790,781.

Table of Contents

	<u>Page</u>	
PART I.	<u>FINANCIAL INFORMATION</u>	4
Item 1.	<u>Financial Statements (Unaudited)</u>	4
	<u>Consolidated Balance Sheets</u>	4
	<u>Consolidated Statements of Operations</u>	5
	<u>Consolidated Statements of Comprehensive Income</u>	6
	<u>Consolidated Statements of Equity</u>	7
	<u>Consolidated Statements of Cash Flows</u>	8
	<u>Notes to Unaudited Consolidated Financial Statements</u>	9
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	26
Item 4.	<u>Controls and Procedures</u>	26
PART II.	<u>OTHER INFORMATION</u>	28
Item 1.	<u>Legal Proceedings</u>	28
Item 1A.	<u>Risk Factors</u>	28
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	28
Item 3.	<u>Defaults Upon Senior Securities</u>	28
Item 4.	<u>Mine Safety Disclosures</u>	28
Item 5.	<u>Other Information</u>	28
Item 6.	<u>Exhibits</u>	29
	<u>Signatures</u>	30

Forward-Looking Statements

This Quarterly Report on Form 10-Q (this “Form 10-Q”) contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 as contained in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements that are not statements of historical fact, including, but not limited to, statements regarding: our expectations with respect to our revenue, expenses, profitability, and other operating results; our growth plans; our ability to compete effectively in the markets in which we participate; the execution on our transformation initiatives; and the impact of certain macroeconomic factors, including inflationary and interest rate pressures, consumer spending patterns, global supply chain constraints, and global economic and geopolitical developments, on our business. Forward-looking and other statements in this Form 10-Q may also address our progress, plans, and goals with respect to sustainability initiatives, and the inclusion of such statements is not an indication that these contents are necessarily material to investors or required to be disclosed in our filings with the U.S. Securities and Exchange Commission (the “SEC”). Such plans and goals may change, and statements regarding such plans and goals are not guarantees or promises that they will be met. In addition, historical, current, and forward-looking sustainability-related statements may be based on standards for measuring progress that are still developing, internal controls and processes that continue to evolve, and assumptions that are subject to change in the future.

Such forward-looking statements can generally be identified by the use of forward-looking terms such as “believes,” “expects,” “may,” “intends,” “will,” “shall,” “should,” “anticipates,” “opportunity,” “illustrative”, or the negative thereof or other variations thereon or comparable terminology. Although we believe that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct or that any forward-looking results will occur or be realized. Nothing contained in this Form 10-Q is, or should be relied upon as, a promise or representation or warranty as to any future matter, including any matter in respect of our operations or business or financial condition. All forward-looking statements are based on current expectations and assumptions about future events that may or may not be correct or necessarily take place and that are by their nature subject to significant uncertainties and contingencies, many of which are outside of our control.

Forward-looking statements are subject to many risks, uncertainties and other factors that could cause actual results or events to differ materially from the potential results or events discussed in such forward-looking statements, including, without limitation, those identified in this Form 10-Q as well as the following: (i) increased competition (including from multi-channel retailers, mass and grocery retailers, and e-Commerce providers); (ii) reduced consumer demand for our products and/or services; (iii) our reliance on key vendors; (iv) our ability to attract and retain qualified employees; (v) risks arising from statutory, regulatory, and/or legal developments; (vi) macroeconomic pressures in the markets in which we operate, including inflation, prevailing interest rates and the impact of tariffs; (vii) failure to effectively manage our costs; (viii) our reliance on our information technology systems; (ix) our ability to prevent or effectively respond to a data privacy or security breach; (x) our ability to effectively manage or integrate strategic ventures, alliances, or acquisitions and realize the anticipated benefits of such transactions; (xi) economic or regulatory developments that might affect our ability to provide attractive promotional financing; (xii) business interruptions and other supply chain issues; (xiii) catastrophic events, political tensions, conflicts and wars (such as the ongoing conflicts in Ukraine and the Middle East), health crises, and pandemics; (xiv) our ability to maintain positive brand perception and recognition; (xv) product safety and quality concerns; (xvi) changes to labor or employment laws or regulations; (xvii) our ability to effectively manage our real estate portfolio; (xviii) constraints in the capital markets or our vendor credit terms; (xix) changes in our credit ratings; (xx) impairments of the carrying value of our goodwill and other intangible assets; (xxi) our ability to successfully implement our operational adjustments, achieve the expected benefits of our cost action plans and drive improved profitability; and (xxii) the other risks, uncertainties and other factors referred to under “Risk Factors” and identified elsewhere in this Form 10-Q and our other filings with the SEC. The occurrence of any such factors could significantly alter the results set forth in these statements.

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

In addition, statements such as “we believe” and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based on information available to us as of the date of this Form 10-Q. While we believe that information provides a reasonable basis for these statements, that information may be limited or

incomplete. Our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all relevant information. These statements are inherently uncertain, and investors are cautioned not to unduly rely on these statements.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

PETCO HEALTH AND WELLNESS COMPANY, INC.

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

	November 2, 2024 (Unaudited)	February 3, 2024
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 116,675	\$ 125,428
Receivables, less allowance for credit losses (\$1,623 and \$1,806, respectively)	40,432	44,369
Merchandise inventories, net	690,291	684,502
Prepaid expenses	46,720	58,615
Other current assets	37,665	38,830
Total current assets	931,783	951,744
Fixed assets		
Less accumulated depreciation	2,233,558	2,173,015
Fixed assets, net	(1,493,752)	(1,356,648)
Operating lease right-of-use assets	739,806	816,367
Goodwill	1,328,398	1,384,050
Trade name	980,064	980,297
Other long-term assets	1,025,000	1,025,000
Total assets	206,429	205,694
	<u>\$ 5,211,480</u>	<u>\$ 5,363,152</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and book overdrafts	\$ 447,673	\$ 485,131
Accrued salaries and employee benefits	129,486	101,265
Accrued expenses and other liabilities	190,789	200,278
Current portion of operating lease liabilities	340,437	310,507
Current portion of long-term debt and other lease liabilities	5,294	15,962
Total current liabilities	1,113,679	1,113,143
Senior secured credit facilities, net, excluding current portion	1,576,856	1,576,223
Operating lease liabilities, excluding current portion	1,064,322	1,116,615
Deferred taxes, net	210,708	251,629
Other long-term liabilities	123,077	121,113
Total liabilities	4,088,642	4,178,723
Commitments and contingencies (Notes 4 and 8)		
Stockholders' equity:		
Class A common stock, \$0.001 par value: Authorized - 1.0 billion shares; Issued and outstanding - 237.2 million and 231.2 million shares, respectively	237	231
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	2,271,052	2,229,582
Accumulated deficit	(1,135,221)	(1,047,243)
Accumulated other comprehensive (loss) income	(13,268)	1,821
Total stockholders' equity	1,122,838	1,184,429
Total liabilities and stockholders' equity	<u>\$ 5,211,480</u>	<u>\$ 5,363,152</u>

See accompanying notes to consolidated financial statements.

PETCO HEALTH AND WELLNESS COMPANY, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts) (Unaudited)

	Thirteen weeks ended		Thirty-nine weeks ended	
	November 2, 2024	October 28, 2023	November 2, 2024	October 28, 2023
Net sales:				
Products	\$ 1,263,194	\$ 1,257,803	\$ 3,806,674	\$ 3,852,997
Services and other	248,243	236,363	757,658	727,811
Total net sales	1,511,437	1,494,166	4,564,332	4,580,808
Cost of sales:				
Products	782,240	787,994	2,362,065	2,366,472
Services and other	153,440	156,171	467,125	466,849
Total cost of sales	935,680	944,165	2,829,190	2,833,321
Gross profit	575,757	550,001	1,735,142	1,747,487
Selling, general and administrative expenses	571,780	559,611	1,745,479	1,705,443
Goodwill impairment	—	1,222,524	—	1,222,524
Operating income (loss)	3,977	(1,232,134)	(10,337)	(1,180,480)
Interest income	(1,346)	(1,139)	(2,436)	(3,079)
Interest expense	35,797	36,557	109,420	111,251
Loss on partial extinguishment of debt	—	174	—	920
Other non-operating income	(8,465)	(113)	(5,800)	(4,727)
Loss before income taxes and income from equity method investees	(22,009)	(1,267,613)	(111,521)	(1,284,845)
Income tax benefit	(857)	(22,902)	(9,985)	(17,178)
Income from equity method investees	(4,479)	(3,574)	(13,557)	(10,032)
Net loss attributable to Class A and B-1 common stockholders	\$ (16,673)	\$ (1,241,137)	\$ (87,979)	\$ (1,257,635)
Net loss per Class A and B-1 common share:				
Basic	\$ (0.06)	\$ (4.63)	\$ (0.32)	\$ (4.71)
Diluted	\$ (0.06)	\$ (4.63)	\$ (0.32)	\$ (4.71)
Weighted average shares used in computing net loss per Class A and B-1 common share:				
Basic	274,495	267,852	272,446	267,167
Diluted	274,495	267,852	272,446	267,167

See accompanying notes to consolidated financial statements.

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

	Thirteen weeks ended		Thirty-nine weeks ended	
	November 2, 2024	October 28, 2023	November 2, 2024	October 28, 2023
Net loss attributable to Class A and B-1 common stockholders	\$ (16,673)	\$ (1,241,137)	\$ (87,979)	\$ (1,257,635)
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustment	(7,198)	407	(16,454)	2,571
Unrealized gain on derivatives	5,127	2,628	3,651	5,559
(Gains) losses on derivatives reclassified to income	(574)	(286)	(2,286)	508
Total other comprehensive (loss) income, net of tax	(2,645)	2,749	(15,089)	8,638
Comprehensive loss attributable to Class A and B-1 common stockholders	<u>\$ (19,318)</u>	<u>\$ (1,238,388)</u>	<u>\$ (103,068)</u>	<u>\$ (1,248,997)</u>

See accompanying notes to consolidated financial statements.

PETCO HEALTH AND WELLNESS COMPANY, INC.

CONSOLIDATED STATEMENTS OF EQUITY

(In thousands) (Unaudited)

	Common stock				Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total stockholders' equity
	Class A (shares)	Class B-1 (shares)	Class B-2 (shares)	Amount				
Balance at February 3, 2024	231,156	37,791	37,791	\$ 269	\$ 2,229,582	\$ (1,047,243)	\$ 1,821	\$ 1,184,429
Equity-based compensation expense (Note 7)	—	—	—	—	17,451	—	—	17,451
Net loss	—	—	—	—	—	(46,483)	—	(46,483)
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	1,665	1,665
Unrealized gain on derivatives (Note 5), net of tax	—	—	—	—	—	—	6,372	6,372
Gains on derivatives reclassified to income (Note 5), net of tax	—	—	—	—	—	—	(850)	(850)
Issuance of common stock, net of tax withholdings	1,793	—	—	2	(277)	—	—	(275)
Balance at May 4, 2024	<u>232,949</u>	<u>37,791</u>	<u>37,791</u>	<u>\$ 271</u>	<u>\$ 2,246,756</u>	<u>\$ (1,093,726)</u>	<u>\$ 9,008</u>	<u>\$ 1,162,309</u>
Equity-based compensation expense (Note 7)	—	—	—	—	11,879	—	—	11,879
Net loss	—	—	—	—	—	(24,823)	—	(24,823)
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	(10,921)	(10,921)
Unrealized loss on derivatives (Note 5), net of tax	—	—	—	—	—	—	(7,848)	(7,848)
Gains on derivatives reclassified to income (Note 5), net of tax	—	—	—	—	—	—	(862)	(862)
Issuance of common stock, net of tax withholdings	2,878	—	—	3	1,746	—	—	1,749
Balance at August 3, 2024	<u>235,827</u>	<u>37,791</u>	<u>37,791</u>	<u>\$ 274</u>	<u>\$ 2,260,381</u>	<u>\$ (1,118,548)</u>	<u>\$ (10,623)</u>	<u>\$ 1,131,484</u>
Equity-based compensation expense (Note 7)	—	—	—	—	11,330	—	—	11,330
Net loss	—	—	—	—	—	(16,673)	—	(16,673)
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	(7,198)	(7,198)
Unrealized gain on derivatives (Note 5), net of tax	—	—	—	—	—	—	5,127	5,127
Gains on derivatives reclassified to income (Note 5), net of tax	—	—	—	—	—	—	(574)	(574)
Issuance of common stock, net of tax withholdings	1,331	—	—	1	(659)	—	—	(658)
Balance at November 2, 2024	<u>237,158</u>	<u>37,791</u>	<u>37,791</u>	<u>\$ 275</u>	<u>\$ 2,271,052</u>	<u>\$ (1,135,221)</u>	<u>\$ (13,268)</u>	<u>\$ 1,122,838</u>

	Common stock				Additional paid-in capital	Retained earnings (Accumulated deficit)	Accumulated other comprehensive (loss) income	Total stockholders' equity
	Class A (shares)	Class B-1 (shares)	Class B-2 (shares)	Amount				
Balance at January 28, 2023	228,338	37,791	37,791	\$ 266	\$ 2,152,342	\$ 232,967	\$ (4,098)	2,381,477
Equity-based compensation expense (Note 6)	—	—	—	—	22,282	—	—	22,282
Net loss	—	—	—	—	—	(1,892)	—	(1,892)
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	1,057	1,057
Unrealized loss on derivatives (Note 4), net of tax	—	—	—	—	—	—	(984)	(984)
Losses on derivatives reclassified to income (Note 4), net of tax	—	—	—	—	—	—	433	433
Issuance of common stock, net of tax withholdings	727	—	—	1	(1,254)	—	—	(1,253)
Balance at April 29, 2023	<u>229,065</u>	<u>37,791</u>	<u>37,791</u>	<u>\$ 267</u>	<u>\$ 2,173,370</u>	<u>\$ 231,075</u>	<u>\$ (3,592)</u>	<u>\$ 2,401,120</u>
Equity-based compensation expense (Note 7)	—	—	—	—	24,322	—	—	24,322
Net loss	—	—	—	—	—	(14,606)	—	(14,606)
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	1,107	1,107
Unrealized gain on derivatives (Note 4), net of tax	—	—	—	—	—	—	3,915	3,915
Losses on derivatives reclassified to income (Note 4), net of tax	—	—	—	—	—	—	361	361
Issuance of common stock, net of tax withholdings	761	—	—	1	(1,457)	—	—	(1,456)
Balance at July 29, 2023	<u>229,826</u>	<u>37,791</u>	<u>37,791</u>	<u>\$ 268</u>	<u>\$ 2,196,235</u>	<u>\$ 216,469</u>	<u>\$ 1,791</u>	<u>\$ 2,414,763</u>
Equity-based compensation expense (Note 7)	—	—	—	—	18,678	—	—	18,678
Net loss	—	—	—	—	—	(1,241,137)	—	(1,241,137)
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	407	407
Unrealized gain on derivatives (Note 5), net of tax	—	—	—	—	—	—	2,628	2,628
Gains on derivatives reclassified to income (Note 5), net of tax	—	—	—	—	—	—	(286)	(286)
Issuance of common stock, net of tax withholdings	467	—	—	—	(2,200)	—	—	(2,200)
Balance at October 28, 2023	<u>230,293</u>	<u>37,791</u>	<u>37,791</u>	<u>\$ 268</u>	<u>\$ 2,212,713</u>	<u>\$ (1,024,668)</u>	<u>\$ 4,540</u>	<u>\$ 1,192,853</u>

See accompanying notes to consolidated financial statements.

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

	Thirty-nine weeks ended	
	November 2, 2024	October 28, 2023
Cash flows from operating activities:		
Net loss	\$ (87,979)	\$ (1,257,635)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	149,414	148,593
Amortization of debt discounts and issuance costs	3,661	3,658
Provision for deferred taxes	(35,629)	(35,164)
Equity-based compensation	40,705	64,431
Impairments, write-offs and losses on sale of fixed and other assets	8,449	2,202
Loss on partial extinguishment of debt	—	920
Income from equity method investees	(13,557)	(10,032)
Amounts reclassified out of accumulated other comprehensive (loss) income	(3,035)	674
Goodwill impairment	—	1,222,524
Non-cash operating lease costs	311,347	316,355
Other non-operating income	(5,800)	(4,727)
Changes in assets and liabilities:		
Receivables	4,287	(600)
Merchandise inventories	(6,194)	(77,718)
Prepaid expenses and other assets	1,601	(6,004)
Accounts payable and book overdrafts	(36,427)	105,421
Accrued salaries and employee benefits	28,986	11,586
Accrued expenses and other liabilities	(817)	(1,098)
Operating lease liabilities	(280,101)	(312,935)
Other long-term liabilities	2,769	(1,755)
Net cash provided by operating activities	<u>81,680</u>	<u>168,696</u>
Cash flows from investing activities:		
Cash paid for fixed assets	(91,041)	(176,532)
Cash paid for acquisitions, net of cash acquired	(464)	(4,495)
Cash paid for investment	(457)	—
Proceeds from investment	998	24,878
Proceeds from sale of assets	1,252	—
Cash received from partial surrender of officers' life insurance	206	—
Net cash used in investing activities	<u>(89,506)</u>	<u>(156,149)</u>
Cash flows from financing activities:		
Borrowings under long-term debt agreements	201,000	—
Repayments of long-term debt	(201,000)	(75,000)
Debt refinancing costs	(3,028)	—
Payments for finance lease liabilities	(4,608)	(4,627)
Proceeds from employee stock purchase plan and stock option exercises	2,585	3,324
Tax withholdings on stock-based awards	(5,251)	(7,737)
Proceeds from issuance of common stock	2,500	—
Net cash used in financing activities	<u>(7,802)</u>	<u>(84,040)</u>
Net decrease in cash, cash equivalents and restricted cash	(15,628)	(71,493)
Cash, cash equivalents and restricted cash at beginning of period	136,649	213,727
Cash, cash equivalents and restricted cash at end of period	<u>\$ 121,021</u>	<u>\$ 142,234</u>
Supplemental cash flow disclosures:		
Interest paid, net	\$ 105,252	\$ 107,229
Income taxes paid	\$ 24,652	\$ 31,261
Supplemental non-cash investing and financing activities disclosure:		
Accounts payable and accrued expenses for capital expenditures	\$ 14,936	\$ 26,621

See accompanying notes to consolidated financial statements.

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

1. Summary of Significant Accounting Policies

Basis of Presentation

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

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

There have been no significant changes from the significant accounting policies disclosed in Note 1 of the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2024.

The accompanying consolidated financial statements have been prepared in accordance with GAAP for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. Interim financial results are not necessarily indicative of results anticipated for the full year. The accompanying consolidated financial statements and these Notes to Consolidated Financial Statements should be read in conjunction with the audited consolidated financial statements and Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2024, from which the prior year balance sheet information herein was derived.

Use of Estimates

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

Derivative Instruments

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

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

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

In December 2023, the Company entered into an interest rate collar agreement to limit the maximum interest on a portion of the Company's variable-rate debt and decrease its exposure to interest rate variability relating to three-month Term SOFR. The interest rate collar becomes effective December 31, 2024 and expires on December 31, 2026.

In March 2024, the Company entered into two interest rate collar agreements to limit the maximum interest on a portion of the Company's variable-rate debt and decrease its exposure to interest rate variability relating to three-month Term SOFR. The interest rate collars become effective on December 31, 2024 and expire on December 31, 2026.

The interest rate collars are accounted for as cash flow hedges, and changes in the fair value of the interest rate collars are reported as a component of AOCI.

In August 2024, the Company entered into an interest rate swap agreement to fix the interest rate on a portion of the Company's variable-rate debt and decrease its exposure to interest rate variability relating to three-month Term SOFR. The interest rate swap became effective September 30, 2024 and expires on December 31, 2026. The interest rate swap is accounted for as a cash flow hedge, and changes in the fair value of the interest rate swap are reported as a component of AOCI.

Cash and Cash Equivalents

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

	November 2, 2024	February 3, 2024
Cash and cash equivalents	\$ 116,675	\$ 125,428
Restricted cash included in other current assets	4,346	11,221
Total cash, cash equivalents and restricted cash in the statement of cash flows	<u>\$ 121,021</u>	<u>\$ 136,649</u>

2. Revenue Recognition

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

	Thirteen weeks ended		Thirty-nine weeks ended	
	November 2, 2024	October 28, 2023	November 2, 2024	October 28, 2023
Consumables	\$ 753,230	\$ 733,277	\$ 2,261,970	\$ 2,230,405
Supplies and companion animals	509,964	524,526	1,544,704	1,622,592
Services and other	248,243	236,363	757,658	727,811
Net sales	<u>\$ 1,511,437</u>	<u>\$ 1,494,166</u>	<u>\$ 4,564,332</u>	<u>\$ 4,580,808</u>

3. Goodwill

The changes in the carrying amount of the Company's goodwill were as follows (in thousands):

	Thirty-nine weeks ended	
	November 2, 2024	October 28, 2023
Beginning balance	\$ 980,297	\$ 2,193,941
Activity from acquisitions and divestiture	(233)	4,830
Impairment	—	(1,222,524)
Ending Balance	<u>\$ 980,064</u>	<u>\$ 976,247</u>

The Company has one reporting unit. The Company performs its annual impairment test during the fourth quarter of each fiscal year or more frequently when warranted by events or changes in circumstances.

During the third quarter of fiscal 2023, the Company concluded that indicators of impairment existed due to declines in the Company's share price, as well as macroeconomic conditions, and performed an interim impairment test. The fair value of the Company's reporting unit was estimated by management with the assistance of a third-party valuation specialist. Fair value estimates used in the quantitative impairment test were calculated using a combination of discounted cash flow analysis and a public company analysis. The discounted cash flow analysis measures the value of an asset by the present value of its future estimated cash flows. The Company makes estimates and assumptions about sales, gross margins, selling, general and administrative percentages and profit margins, based on budgets and forecasts, business plans, economic projections, anticipated future cash flows, and marketplace data. The public company analysis analyzes transactional and financial data of publicly traded companies to develop valuation multiples. These multiples are then applied to the Company to develop an indication of fair value.

Significant assumptions used in the determination of fair value of the reporting unit generally include prospective financial information, discount rates, terminal growth rates, and earnings multiples. The discounted cash flow model used to determine the fair value of the reporting unit during the third quarter of fiscal 2023 reflected the Company's most recent cash flow projections, a discount rate of 16.4% and a terminal growth rate of 3%.

As a result of the impairment test, the Company concluded that the carrying value of the Company's reporting unit exceeded its fair value and recorded a pre-tax goodwill impairment charge of \$1,222.5 million for the thirteen week period ended October 28, 2023. This charge was recorded in goodwill impairment in the consolidated statements of operations.

During the first quarter of fiscal 2024, due to declines in the Company's share price, the Company performed an interim impairment test. As the estimated fair value of the Company's reporting unit was in excess of its carrying value, the Company concluded that goodwill was not impaired during the first quarter of fiscal 2024. The fair value of the Company's reporting unit was based upon an equal weighting of the income and market approaches, utilizing estimated cash flows and a terminal value, discounted at a rate of return that reflects the relative risk of the cash flows, as well as valuation multiples derived from comparable publicly traded companies that are applied to operating performance of the reporting unit.

The discounted cash flow model used to determine the fair value of the reporting unit during the first quarter of fiscal 2024 reflected the Company's most recent cash flow projections, a discount rate of 13.2%, and a terminal growth rate of 3%. The reporting unit fair value measurement is classified as Level 3 in the fair value hierarchy because it involves significant unobservable inputs.

4. Senior Secured Credit Facilities

On March 4, 2021, the Company entered into a \$1,700.0 million secured term loan facility maturing on March 4, 2028 (the "First Lien Term Loan") and a secured asset-based revolving credit facility with availability of up to \$500.0 million, subject to a borrowing base, originally maturing on March 4, 2026 (as amended from time to time, the "ABL Revolving Credit Facility"). In March 2024, the Company amended the ABL Revolving Credit Facility, which now consists of two tranches, to increase its total availability from \$500.0 million to \$581.0 million and extend the maturity on a portion of this availability. The first tranche has availability of up to \$35.0 million, subject to a borrowing base, maturing on March 4, 2026. The second tranche has availability of up to \$546.0 million, subject to a borrowing base, maturing on March 29, 2029. Interest on the ABL Revolving Credit Facility is now based on, at the Company's option, either the base rate subject to a 1% floor, or Term SOFR subject to a floor of 0%, plus an applicable margin. All other key terms of the ABL Revolving Credit Facility remained unchanged.

As of November 2, 2024, the Company was in compliance with its covenants under the First Lien Term Loan and the ABL Revolving Credit Facility.

Term Loan Facilities

Interest on the First Lien Term Loan is based on, at the Company's option, either a base rate or Term SOFR plus the credit spread adjustment recommended by the Alternative Reference Rates Committee ("Adjusted Term SOFR"), subject to a 0.75% floor, payable upon maturity of the SOFR contract, in either case plus the applicable

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

The Company voluntarily repaid \$35.0 million, \$25.0 million and \$15.0 million of the principal of the First Lien Term Loan using existing cash on hand in March 2023, May 2023, and August 2023, respectively. The repayments were applied to the remaining principal payments in order of scheduled payment date and, as a result, the entire remaining balance was included in senior secured credit facilities, net, excluding current portion in the consolidated balance sheets as of February 3, 2024. The Company accounted for the repayments as partial extinguishments and recognized losses on debt extinguishment of \$0.2 million and \$0.9 million during the thirteen and thirty-nine week periods ended October 28, 2023, respectively.

As of November 2, 2024, the outstanding principal balance of the First Lien Term Loan was \$1,595.3 million (\$1,581.5 million, net of the unamortized discount and debt issuance costs). As of February 3, 2024, the outstanding principal balance of the First Lien Term Loan was \$1,595.3 million (\$1,578.6 million, net of the unamortized discount and debt issuance costs). The weighted average interest rate on the borrowings outstanding was 8.2% and 9.0% as of November 2, 2024 and February 3, 2024, 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 November 2, 2024 and February 3, 2024, the estimated fair value of the First Lien Term Loan was approximately \$1,509.6 million and \$1,497.6 million, respectively, based upon Level 2 fair value hierarchy inputs.

Revolving Credit Facilities

In March 2024, the Company amended the ABL Revolving Credit Facility to increase its total availability and extend the maturity on a portion of the availability. Fees of \$3.0 million relating to the Company's entry into the amendment were capitalized as debt issuance costs. These fees consisted of arranger fees and other third-party expenses. The unamortized portion of the debt issuance costs of the ABL Revolving Credit Facility previously capitalized is being amortized over the amended contractual term.

As of November 2, 2024 and February 3, 2024, no amounts were outstanding under the ABL Revolving Credit Facility. As of November 2, 2024, \$527.6 million was available under the ABL Revolving Credit Facility, which is net of \$53.4 million of outstanding letters of credit issued in the normal course of business and no borrowing base reduction for a shortfall in qualifying assets. As of November 2, 2024 and February 3, 2024, unamortized debt issuance costs of \$4.6 million and \$2.4 million, respectively, relating to the ABL Revolving Credit Facility were outstanding and were being amortized using the straight-line method over the remaining term of the agreement.

The ABL Revolving Credit Facility has availability up to \$581.0 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.

Prior to the March 2024 amendment, interest on the ABL Revolving Credit Facility was based on, at the Company's option, either the base rate or Adjusted Term SOFR subject to a floor of 0%, in either case, plus an applicable margin. Following the March 2024 amendment, interest on the ABL Revolving Credit Facility is now based on, at the Company's option, either the base rate subject to a 1% floor, or Term SOFR subject to a floor of 0%, 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 Term SOFR loans.

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

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

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

5. Derivative Instruments

The interest rate swap, caps and collars are accounted for as cash flow hedges because they are expected to be highly effective in hedging variable rate interest payments. Changes in the fair value of the cash flow hedges are reported as a component of AOCI. As of November 2, 2024, AOCI included unrealized losses of \$0.4 million (\$0.3 million, net of tax). As of February 3, 2024, AOCI included unrealized losses of \$2.2 million (\$1.7 million, net of tax). Approximately \$0.8 million and \$3.0 million of pre-tax gains deferred in AOCI were reclassified to interest expense during the thirteen and thirty-nine week periods ended November 2, 2024, respectively. Approximately \$0.4 million of pre-tax gains and \$0.7 million of pre-tax losses deferred in AOCI were reclassified to interest expense during the thirteen and thirty-nine week periods ended October 28, 2023, respectively. The Company currently estimates that \$1.1 million of losses related to trade date costs on its cash flow hedges that are currently deferred in AOCI will be reclassified to interest expense in the consolidated statement of operations within the next twelve months. This estimate could vary based on actual amounts as a result of changes in market conditions.

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

Assets (Liabilities)	Balance sheet location	November 2, 2024	February 3, 2024
Current asset portion of cash flow hedges	Other current assets	\$ 1,538	\$ 2,259
Non-current asset portion of cash flow hedges	Other long-term assets	\$ 532	\$ —
Current liability portion of cash flow hedges	Accrued expenses and other liabilities	\$ (584)	\$ (124)
Non-current liability portion of cash flow hedges	Other long-term liabilities	\$ (1,051)	\$ (3,067)

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):

	November 2, 2024		
	Level 1	Level 2	Level 3
Assets (liabilities):			
Money market mutual funds	\$ 64,231	\$ —	\$ —
Investments of officers' life insurance	\$ —	\$ 16,598	\$ —
Non-qualified deferred compensation plan	\$ —	\$ (21,860)	\$ —

	February 3, 2024		
	Level 1	Level 2	Level 3
Assets (liabilities):			
Money market mutual funds	\$ 80,186	\$ —	\$ —
Investments of officers' life insurance	\$ —	\$ 14,945	\$ —
Non-qualified deferred compensation plan	\$ —	\$ (20,355)	\$ —

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 \$60.5 million and \$69.6 million as of November 2, 2024 and February 3, 2024, respectively. Also included in the Company's money market mutual funds balances were \$3.7 million and \$10.6 million as of November 2, 2024 and February 3, 2024, respectively, which relate to the Company's restricted cash, and are included in other current assets in the consolidated balance sheets.

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

In February 2022, the Company amended a collaboration agreement with a vendor, and as part of the amendment the Company was granted a right to receive equity and warrants for common shares of the vendor that is subject to certain performance conditions and other contingencies. The warrants were exercised in July 2024, following the satisfaction of the related performance conditions and contingencies. Cash consideration for the exercise of the warrants was de minimis. The Company's interest is accounted for as an investment in an equity security without a readily determinable fair value. When an upward or downward adjustment occurs, the resulting gains or losses are included in other non-operating income in the consolidated statements of operations.

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

Assets Measured on a Non-Recurring Basis

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

The Company's trade name has an indefinite life. The Company performs its annual impairment test during the fourth quarter of each fiscal year, or more frequently when warranted by events or changes in circumstances. During the third quarter of fiscal 2023 and the first quarter of fiscal 2024, the Company performed interim impairment tests of its goodwill and indefinite-lived trade name due to declines in the Company's share price. Refer to Note 3 for further discussion of the results of impairment testing performed on the Company's goodwill.

During the third quarter of fiscal 2023, the Company concluded that the fair value of its trade name exceeded its carrying value, and therefore no trade name impairment charge was recorded. The fair value of the Company's trade name was estimated by management with the assistance of a third-party valuation specialist using the relief from royalty valuation method, which estimates the hypothetical royalties that would have to be paid if the trade name was not owned. The fair value of the Company's trade name reflected the Company's most recent revenue projections at the time of the analysis, a discount rate of 17.4% and a terminal growth rate of 3%.

During the first quarter of fiscal 2024, the Company concluded that the fair value of its trade name exceeded its carrying value, and therefore no trade name impairment charge was recorded. The fair value of the Company's trade name was estimated by management using the relief from royalty valuation method. The fair value of the

Company's trade name reflected the Company's most recent revenue projections at the time of the analysis, a discount rate of 14.2% and a terminal growth rate of 3%. The Company's trade name fair value measurement is classified as Level 3 in the fair value hierarchy because it involves significant unobservable inputs.

There were no triggering events identified and no indications of impairment of the Company's goodwill, indefinite-lived trade name, other intangible assets or equity and other investments during the thirteen week period ended November 2, 2024. There were no indications of impairment of the Company's other intangible assets or equity and other investments during the thirty-nine week period ended November 2, 2024. There were no indications of impairment of the Company's other intangible assets or equity and other investments during the thirteen or thirty-nine week periods ended October 28, 2023. During the thirteen and thirty-nine week periods ended November 2, 2024, the Company recorded fixed asset and right-of-use asset impairment charges of \$1.3 million and \$8.2 million, respectively. During the thirteen and thirty-nine week periods ended October 28, 2023, the Company recorded fixed asset and right-of-use asset impairment charges of \$1.0 million and \$2.1 million, respectively.

7. Stockholders' Equity

Equity-Based Compensation

Equity-based compensation awards under the Company's current equity incentive plan (as amended, the "2021 Equity Incentive Plan") include restricted stock units ("RSUs," which include performance-based stock units), restricted stock awards ("RSAs"), non-qualified stock options, and other equity compensation awards. In addition, the Company has made equity-based compensation awards of RSUs and non-qualified stock options outside of the 2021 Equity Incentive Plan as employment inducement awards (collectively, the "Inducement Awards"). The Company also has an employee stock purchase plan ("ESPP").

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

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

	Thirteen weeks ended		Thirty-nine weeks ended	
	November 2, 2024	October 28, 2023	November 2, 2024	October 28, 2023
RSUs and RSAs	\$ 8,210	\$ 12,917	\$ 27,879	\$ 44,191
Options	2,175	4,098	10,193	14,100
ESPP	746	264	1,380	1,118
Other awards	226	904	1,253	5,022
Total equity-based compensation expense	\$ 11,357	\$ 18,183	\$ 40,705	\$ 64,431

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

	RSUs and RSAs	Options
Nonvested/outstanding, February 3, 2024	9,618	6,310
Granted	14,841	15,213
Vested and delivered/exercised	(4,483)	—
Forfeited/expired	(5,328)	(9,403)
Nonvested/outstanding, November 2, 2024	14,648	12,120
Unrecognized compensation expense as of November 2, 2024	\$ 44,288	\$ 11,959
Weighted average remaining expense period as of November 2, 2024	2.0 years	2.4 years

The ESPP allows eligible employees to contribute up to 15% of their base earnings towards purchases of Class A common stock, subject to an annual maximum. The purchase price will be 85% of the lower of (i) the fair

market value of the stock on the associated lookback date and (ii) the fair market value of the stock on the last day of the related purchase period.

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

	<u>Units</u>
Outstanding, February 3, 2024	198,145
Granted	—
Forfeited	<u>(5,202)</u>
Outstanding, November 2, 2024	192,943
Vested, November 2, 2024	<u>189,564</u>

No additional Series C Units have been or will be awarded following the Company's initial public offering. As of November 2, 2024, unrecognized compensation expense related to the unvested portion of Scooby LP's Series C Units was \$0.6 million, which is expected to be recognized over a weighted average period of 0.6 years. In addition to acceleration upon a change in control, a portion of grantees' Series C Units may vest upon certain levels of direct or indirect sales by Scooby LP of the Company's Class A common stock, and all unvested Series C Units will fully accelerate in the event Scooby LP sells 90% of its direct or indirect holdings of the Company's Class A common stock.

(Loss) Income Per Share

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

All outstanding equity awards were excluded from the calculation of diluted loss per Class A and B-1 common share in the thirty-nine weeks ended November 2, 2024 and October 28, 2023, as their effect would be antidilutive in a net loss period.

8. Commitments and Contingencies

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

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the accompanying notes included elsewhere in this Quarterly Report on Form 10-Q (this “Form 10-Q”), as well as the corresponding Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the fiscal year ended February 3, 2024 (the “2023 Form 10-K”). The discussion and analysis below contains certain forward-looking statements about our business and operations that are subject to the risks, uncertainties, and other factors referred to in Part II, Item 1A, “*Risk Factors*” of this Form 10-Q. These risks, uncertainties, and other factors could cause our actual results to differ materially from those expressed in, or implied by, the forward-looking statements. The risks described in this Form 10-Q and in other documents we file from time to time with the U.S. Securities and Exchange Commission (the “SEC”), including the section entitled “Forward-Looking Statements” in this Form 10-Q, should be carefully reviewed. All amounts herein are unaudited.

Overview

Petco Health and Wellness Company, Inc. (“Petco”, the “Company”, “we”, “our” and “us”) is a pet health and wellness company focused on improving the lives of pets, pet parents, and our own partners. Through our omnichannel ecosystem, we provide our customers with a comprehensive offering of products and services to fulfill their pets’ health and wellness needs through our more than 1,500 pet care centers in the U.S., Mexico, and Puerto Rico, including a network of in-store veterinary hospitals, our digital channel, and our flexible fulfillment options.

Our multicategory strategy integrates our digital assets with our nationwide physical footprint to meet the needs of pet parents who are looking for a single source for all their pets’ needs. Our e-commerce site and 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.

We strive to be a company, that is improving millions of pet lives as well as the lives of pet parents and the partners who work for us. In tandem with Petco Love, a life-changing independent nonprofit organization, we work with and support thousands of local animal welfare groups across the country and, through in-store adoption events, we have helped find homes for nearly 7 million animals.

Macroeconomic factors, including rising interest rates, inflationary pressures, supply chain constraints, and global economic and geopolitical developments have had varying impacts on our results of operations, such as decreases in sales of discretionary items like supplies, that are difficult to isolate and quantify. We cannot predict the duration or ultimate severity of these macroeconomic factors or the ultimate impact on our operations and liquidity. Please refer to the risk factors referred to in Part II, Item 1A, “*Risk Factors*” of this Form 10-Q.

How We Assess the Performance of Our Business

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

Comparable Sales

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

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

Non-GAAP Financial Measures

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

Executive Summary

Comparing the thirteen weeks ended November 2, 2024 with the thirteen weeks ended October 28, 2023 (unless otherwise noted), our results included the following:

- an increase in net sales from \$1.49 billion to \$1.51 billion, representing a period-over-period increase of 1.2%;
- operating income of \$4.0 million, compared to an operating loss of \$1,232.1 million resulting primarily from goodwill impairment of \$1,222.5 million in the prior year period;
- net loss attributable to Class A and B-1 common stockholders of \$16.7 million, compared to net loss attributable to Class A and B-1 common stockholders of \$1,241.1 million impacted by goodwill impairment in the prior year period; and
- an increase in Adjusted EBITDA from \$72.2 million to \$81.2 million.

Results of Operations

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

	Thirteen weeks ended		Thirty-nine weeks ended	
	November 2, 2024	October 28, 2023	November 2, 2024	October 28, 2023
Net sales:				
Products	\$ 1,263,194	\$ 1,257,803	\$ 3,806,674	\$ 3,852,997
Services and other	248,243	236,363	757,658	727,811
Total net sales	1,511,437	1,494,166	4,564,332	4,580,808
Cost of sales:				
Products	782,240	787,994	2,362,065	2,366,472
Services and other	153,440	156,171	467,125	466,849
Total cost of sales	935,680	944,165	2,829,190	2,833,321
Gross profit	575,757	550,001	1,735,142	1,747,487
Selling, general and administrative expenses	571,780	559,611	1,745,479	1,705,443
Goodwill impairment	—	1,222,524	—	1,222,524
Operating income (loss)	3,977	(1,232,134)	(10,337)	(1,180,480)
Interest income	(1,346)	(1,139)	(2,436)	(3,079)
Interest expense	35,797	36,557	109,420	111,251
Loss on partial extinguishment of debt	—	174	—	920
Other non-operating income	(8,465)	(113)	(5,800)	(4,727)
Loss before income taxes and income from equity method investees	(22,009)	(1,267,613)	(111,521)	(1,284,845)
Income tax benefit	(857)	(22,902)	(9,985)	(17,178)
Income from equity method investees	(4,479)	(3,574)	(13,557)	(10,032)
Net loss attributable to Class A and B-1 common stockholders	\$ (16,673)	\$ (1,241,137)	\$ (87,979)	\$ (1,257,635)

is primarily due to a decrease in spending on certain non-essential items. The increase in services and other sales was primarily driven by a 8.6% and 9.7% increase in service-related sales during the thirteen and thirty-nine week periods ended November 2, 2024, respectively, reflecting maturity of our veterinary hospital footprint and growth in our veterinary and grooming businesses.

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

Gross Profit

Gross profit increased \$25.8 million, or 4.7%, to \$575.8 million in the thirteen weeks ended November 2, 2024 compared to gross profit of \$550.0 million for the thirteen weeks ended October 28, 2023. As a percentage of sales, our gross profit rate was 38.1% for the thirteen weeks ended November 2, 2024 compared with 36.8% for the thirteen weeks ended October 28, 2023, reflecting improvement in product mix and continued progress on product cost management. Gross profit decreased \$12.3 million, or 0.7%, to \$1,735.1 million in the thirty-nine weeks ended November 2, 2024 compared to gross profit of \$1,747.5 million for the thirty-nine weeks ended October 28, 2023. As a percentage of sales, our gross profit rate was 38.0% for the thirty-nine weeks ended November 2, 2024 compared with 38.1% for the thirty-nine weeks ended October 28, 2023. The decrease in gross profit rate between the thirty-nine week periods was primarily due to the mix impact of higher consumables and services sales and softer supplies and companion animal sales during the thirty-nine weeks ended November 2, 2024. We are unable to quantify the factors impacting gross profit rate described above due to the fact that such factors are based on input measures or qualitative information that do not lend themselves to quantification.

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

SG&A expenses increased \$12.2 million, or 2.2%, to \$571.8 million for the thirteen weeks ended November 2, 2024 compared to \$559.6 million for the thirteen weeks ended October 28, 2023. As a percentage of net sales, SG&A expenses were 37.8% for the thirteen weeks ended November 2, 2024 compared with 37.5% for the thirteen weeks ended October 28, 2023. The increase in SG&A expenses period-over-period included higher pet care center payroll and fringe benefits and bonuses, which was partially offset by a decrease in stock compensation and advertising expenses.

SG&A expenses increased \$40.0 million, or 2.3%, to \$1,745.5 million for the thirty-nine weeks ended November 2, 2024 compared to \$1,705.4 million for the thirty-nine weeks ended October 28, 2023. As a percentage of net sales, SG&A expenses were 38.2% for the thirty-nine weeks ended November 2, 2024 compared with 37.2% for the thirty-nine weeks ended October 28, 2023. The increase in SG&A expenses included higher pet care center payroll and fringe benefits, bonuses, and store occupancy costs. This increase was partially offset by a decrease in stock compensation and advertising expenses.

Goodwill Impairment

In the thirteen weeks ended October 28, 2023, the Company recorded a pre-tax goodwill impairment charge of \$1.22 billion as a result of performing an interim impairment test in the third quarter of fiscal 2023 due to the identification of certain triggering events. For more information on this charge, refer to Note 3, “*Goodwill*,” to the Notes to Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q.

Interest Expense

Interest expense decreased \$0.8 million, or 2.1%, to \$35.8 million in the thirteen weeks ended November 2, 2024 compared with \$36.6 million in the thirteen weeks ended October 28, 2023. Interest expense decreased \$1.9 million, or 1.6%, to \$109.4 million in the thirty-nine weeks ended November 2, 2024 compared with \$111.3 million in the thirty-nine weeks ended October 28, 2023. The decrease was primarily driven by pre-tax gains recognized in interest expense related to the Company's cash flow hedges during the thirteen and thirty-nine week periods ended November 2, 2024. For more information on derivative instruments, refer to Note 5, “*Derivative Instruments*,” to the Notes to Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q.

Loss on Partial Extinguishment of Debt

There was no loss on debt extinguishment and modification for the thirteen and thirty-nine weeks ended November 2, 2024. Loss on partial extinguishment of debt was \$0.2 million and \$0.9 million for the thirteen and thirty-nine weeks ended October 28, 2023, respectively. This loss was recognized in conjunction with the \$35.0 million, \$25.0 million and \$15.0 million repayments on the First Lien Term Loan in March 2023, May 2023 and August 2023, respectively. For more information regarding these activities, refer to Note 4, “*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 \$8.5 million and \$5.8 million for the thirteen and thirty-nine weeks ended November 2, 2024, respectively, and were related to remeasurements of an equity investment without a readily determinable fair value. Other non-operating income was \$0.1 million and 4.7 million for the thirteen and thirty-nine weeks ended October 28, 2023. 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 Benefit

Our effective tax rates were 4.9% and 10.2%, resulting in income tax benefit of \$0.9 million and \$10.0 million for the thirteen and thirty-nine weeks ended November 2, 2024, respectively, compared to effective tax rates of 1.8% and 1.3%, resulting in income tax benefit of \$22.9 million and \$17.2 million for the thirteen and thirty-nine weeks ended October 28, 2023, respectively. The change in effective tax rates for the thirteen and thirty-nine weeks ended November 2, 2024 was primarily driven by non-deductible goodwill impaired during the third quarter ending October 28, 2023, in addition to a shortfall in tax deductions resulting from the exercise and vesting of equity-based compensation awards for the periods.

Reconciliation of Non-GAAP Financial Measures to GAAP Measures

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

Adjusted EBITDA

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

Adjusted EBITDA is not a substitute for net loss, 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 2023 Form 10-K for more information regarding how we define Adjusted EBITDA.

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

(dollars in thousands)	Thirteen weeks ended		Thirty-nine weeks ended	
	November 2, 2024	October 28, 2023	November 2, 2024	October 28, 2023
Net loss attributable to Class A and B-1 common stockholders	\$ (16,673)	\$ (1,241,137)	\$ (87,979)	\$ (1,257,635)
Interest expense, net	34,451	35,418	106,984	108,172
Income tax benefit	(857)	(22,902)	(9,985)	(17,178)
Depreciation and amortization	50,109	50,674	149,414	148,593
Income from equity method investees	(4,479)	(3,574)	(13,557)	(10,032)
Loss on partial extinguishment of debt	—	174	—	920
Goodwill impairment	—	1,222,524	—	1,222,524
Asset impairments and write offs	1,380	1,167	8,449	2,202
Equity-based compensation	11,357	18,183	40,705	64,431
Other non-operating income	(8,465)	(113)	(5,800)	(4,727)
Mexico joint venture EBITDA (1)	9,984	9,189	30,382	26,467
Acquisition and divestiture-related costs (2)	—	—	3,719	—
Other costs (3)	4,429	2,556	18,071	12,026
Adjusted EBITDA	\$ 81,236	\$ 72,159	\$ 240,403	\$ 295,763
Net sales	\$ 1,511,437	\$ 1,494,166	\$ 4,564,332	\$ 4,580,808
Net margin (4)	(1.1)%	(83.1)%	(1.9)%	(27.5)%
Adjusted EBITDA Margin	5.4%	4.8%	5.3%	6.5%

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

(dollars in thousands)	Thirteen weeks ended		Thirty-nine weeks ended	
	November 2, 2024	October 28, 2023	November 2, 2024	October 28, 2023
Net income	\$ 8,958	\$ 7,149	\$ 27,335	\$ 20,064
Depreciation	6,880	6,920	20,824	19,071
Income tax expense	3,637	2,470	10,996	8,908
Foreign currency (gain) loss	(106)	441	(7)	963
Interest expense, net	599	1,397	1,615	3,927
EBITDA	\$ 19,968	\$ 18,377	\$ 60,763	\$ 52,933
50% of EBITDA	\$ 9,984	\$ 9,189	\$ 30,382	\$ 26,467

- (2) Acquisition and divestiture-related costs include direct costs resulting from acquiring, integrating, or divesting businesses. These include third-party professional and legal fees, losses on sales of divestitures, and other integration-related costs that would not have otherwise been incurred as part of the Company's operations.
- (3) Other costs include, as incurred: restructuring costs and restructuring-related severance costs; legal reserves associated with significant, non-ordinary course legal or regulatory matters; and costs related to certain significant strategic transactions.
- (4) We define net margin as net loss attributable to Class A and B-1 common stockholders divided by net sales and Adjusted EBITDA margin as Adjusted EBITDA divided by net sales.

Free Cash Flow

Free Cash Flow is a non-GAAP financial measure that is calculated as net cash provided by operating activities less cash paid for fixed assets. Management believes that Free Cash Flow, which measures our ability to generate additional cash from our business operations, is an important financial measure for use in evaluating the Company's financial performance.

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

	Thirty-nine weeks ended	
	November 2, 2024	October 28, 2023
<i>(dollars in thousands)</i>		
Net cash provided by operating activities	\$ 81,680	\$ 168,696
Cash paid for fixed assets	(91,041)	(176,532)
Free Cash Flow	<u>\$ (9,361)</u>	<u>\$ (7,836)</u>

Liquidity and Capital Resources

Overview

Our primary sources of liquidity are funds generated by operating activities and available capacity for borrowings on our \$581 million secured asset-based revolving credit facility (as amended, 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 November 2, 2024 was \$644.3 million, inclusive of cash and cash equivalents of \$116.7 million and \$527.6 million of availability on the ABL Revolving Credit Facility.

We are a party to contractual obligations involving commitments to make payments to third parties. These obligations impact our short-term and long-term liquidity and capital resource needs. We believe that our current resources, together with anticipated cash flows from operations and borrowing capacity under the ABL Revolving Credit Facility will be sufficient to finance our operations, meet our current cash requirements, and fund anticipated capital investments for at least the next 12 months. We may, however, seek additional financing to fund future growth or refinance our existing indebtedness through the debt capital markets, but we cannot be assured that such financing will be available on favorable terms, or at all.

Cash Flows

The following table summarizes our consolidated cash flows:

	Thirty-nine weeks ended	
	November 2, 2024	October 28, 2023
<i>(dollars in thousands)</i>		
Total cash provided by (used in):		
Operating activities	\$ 81,680	\$ 168,696
Investing activities	(89,506)	(156,149)
Financing activities	(7,802)	(84,040)
Net decrease in cash, cash equivalents and restricted cash	<u>\$ (15,628)</u>	<u>\$ (71,493)</u>

Operating Activities

Our primary source of operating cash is sales of products and services to customers, which are substantially all on a cash basis, and therefore provide us with a significant source of liquidity. Our primary uses of cash in operating activities include: purchases of inventory; freight and warehousing costs; employee-related expenditures; occupancy-related costs for our pet care centers, distribution centers and corporate support centers; credit card fees; interest under our debt agreements; and marketing expenses. Net cash provided by operating activities is impacted by our net 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 \$81.7 million in the thirty-nine weeks ended November 2, 2024 compared with net cash provided by operating activities of \$168.7 million in the thirty-nine weeks ended October 28, 2023. The decrease in operating cash flow was driven by an increase in cash paid for inventory, which was

partially offset by decreases in cash paid for advertising, freight, and operating leases as well as other timing differences in accounts payable.

Investing Activities

Net cash used in investing activities was \$89.5 million and \$156.1 million for the thirty-nine weeks ended November 2, 2024 and October 28, 2023, respectively. This decrease was primarily driven by reductions in capital spend, reflecting fewer anticipated hospital build-outs and a balanced approach between focused investments and cash flow.

Financing Activities

Net cash used in financing activities was \$7.8 million for the thirty-nine weeks ended November 2, 2024, compared with \$84.0 million used in financing activities in the thirty-nine weeks ended October 28, 2023.

Financing cash flows in the thirty-nine weeks ended November 2, 2024 primarily consisted of borrowings and repayments on the ABL Revolving Credit Facility.

Financing cash flows in the thirty-nine weeks ended October 28, 2023 primarily consisted of \$75.0 million in principal repayments on the term loan.

Sources of Liquidity

Senior Secured Credit Facilities

On March 4, 2021, the Company completed a refinancing transaction by entering into a \$1,700 million secured term loan facility maturing on March 4, 2028 (the "First Lien Term Loan") and the ABL Revolving Credit Facility, maturing on March 4, 2026 with availability of up to \$500.0 million, subject to a borrowing base.

In March 2024, the Company amended the ABL Revolving Credit Facility, which now consists of two tranches, to increase its total availability from \$500.0 million to \$581.0 million and extend the maturity on a portion of this availability. The first tranche has availability of up to \$35.0 million, subject to a borrowing base, maturing on March 4, 2026. The second tranche has availability of up to \$546.0 million, subject to a borrowing base, maturing on March 29, 2029. Interest on the ABL Revolving Credit Facility is now based on, at the Company's option, either the base rate subject to a 1% floor, or Term SOFR subject to a floor of 0%, plus an applicable margin. All other key terms of the ABL Revolving Credit Facility remained unchanged.

Interest on the First Lien Term Loan is based on, at the Company's option, either a base rate or Adjusted Term SOFR, subject to a 0.75% floor, payable upon maturity of the SOFR contract, in either case plus the applicable rate. The base rate is the greater of the bank prime rate, federal funds effective rate plus 0.5% or Adjusted Term SOFR plus 1.0%. The applicable rate is 2.25% per annum for a base rate loan or 3.25% per annum for an Adjusted Term SOFR loan. Principal and interest payments commenced on June 30, 2021. Principal payments are typically \$4.25 million quarterly. During the thirty-nine weeks ended October 28, 2023, the Company repaid \$75.0 million in principal of the First Lien Term Loan using existing cash on hand. The repayments were applied to remaining principal payments in order of scheduled payment date.

For more information regarding this indebtedness, refer to Note 4, "*Senior Secured Credit Facilities*," to the Notes to Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q.

Derivative Instruments

The Company entered into interest rate cap, collar and swap agreements to limit the maximum interest on a portion of the Company's variable-rate debt and decrease its exposure to interest rate variability relating to three-month Term SOFR. For more information regarding derivative instruments, refer to Note 5, "*Derivative Instruments*," to the Notes to Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q.

Critical Accounting Policies and Estimates

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

Goodwill and Trade Name Intangible Assets

Goodwill

We evaluate goodwill annually in our fourth quarter or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. We have identified one reporting unit and selected our fourth fiscal quarter to perform our annual goodwill impairment testing. Goodwill impairment guidance provides entities the option to perform a qualitative assessment to determine whether further impairment testing is necessary. The qualitative assessment requires significant judgments about economic conditions, including the entity’s operating environment, its industry and other market conditions, entity-specific events related to financial performance or loss of key personnel, and other events that could impact the reporting unit. If management concludes, based on assessment of relevant events, facts, and circumstances, that it is more likely than not that a reporting unit’s fair value is greater than its carrying value, no further impairment testing is required.

If management’s assessment of qualitative factors indicates that it is more likely than not that the fair value of a reporting unit is less than its carrying value, then a quantitative assessment is performed. We also have the option to bypass the qualitative assessment described above and proceed directly to the quantitative assessment, where we compare the fair value of the reporting unit to its carrying value. If the fair value of the reporting unit exceeds the carrying value of our net assets assigned to that unit, goodwill is not considered impaired, and we are not required to perform further testing. If the carrying value of net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we would record an impairment loss equal to the difference. If a quantitative assessment is performed, the evaluation includes management estimates of cash flow projections based on internal future projections and/or use of a market approach by reviewing transactional and financial data of publicly traded companies. The assumptions used in the impairment analysis are inherently subject to uncertainty and small changes in these assumptions could have a significant impact on the concluded value. The Company’s market capitalization is also considered as part of the analysis, in order to further validate the reasonableness of the fair values concluded for the reporting unit. Factors that may trigger an interim impairment test may include, but are not limited to, current economic and market conditions or a significant decline in the Company’s share price and market capitalization compared to net book value.

Indefinite-lived trade name

We consider the Petco trade name to be an indefinite-lived intangible asset, as we currently anticipate that this trade name will contribute cash flows to us indefinitely. We perform our annual impairment test during the fourth quarter of each year or whenever events or changes in circumstances indicate the carrying value may not be recoverable. Management has the option to first perform a qualitative assessment of its trade name asset to determine whether it is necessary to perform a quantitative impairment test. We also have the option to bypass the qualitative assessment described above and proceed directly to quantitative assessment.

Factors that may trigger an interim impairment test may include, but are not limited to, a significant decline in the Company’s share price and market capitalization compared to net book value, or changes in the pattern of utilization of the intangible asset. Significant assumptions used in the determination of fair value of the trade name generally include prospective financial information, growth rates, discount rates and comparable multiples from publicly traded companies in similar industries. An impairment charge is recorded for the amount by which the carrying amount of the trade name exceeds its fair value.

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 2023 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 November 2, 2024, we had \$1,595.3 million outstanding under the First Lien Term Loan and no amounts outstanding under the ABL Revolving Credit Facility. The First Lien Term Loan and the ABL Revolving Credit Facility each bear interest at variable rates. An increase of 100 basis points in the variable rates on the First Lien Term Loan and the ABL Revolving Credit Facility as of November 2, 2024 would have increased annual cash interest in the aggregate by approximately \$16.2 million. Additionally, we entered into cash flow hedges to limit the maximum interest rate on a portion of our variable-rate debt and limit our exposure to interest rate variability, refer to Note 5, “*Derivative Instruments*,” to the Notes to Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q.

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

Credit Risk

As of November 2, 2024, 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, with a small amount denominated in foreign currencies. Our expenses are generally denominated in the currencies of the jurisdictions in which we conduct our operations. Our results of current and future operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates. We do not enter into forward currency contracts to hedge our foreign currency exposure. A hypothetical 10% change in foreign currency exchange rates applicable to our business would not 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 November 2, 2024.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the quarter ended November 2, 2024 which has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls

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

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

See Note 8, “*Commitments and Contingencies*,” to the Notes to Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q for a description of legal proceedings, which is incorporated herein by reference.

Item 1A. Risk Factors.

Reference is made to Part I, Item 1A, “*Risk Factors*” included in the 2023 Form 10-K and Part II, Item 1A, “*Risk Factors*” included in our Quarterly Report on Form 10-Q for the quarter ended May 4, 2024 (the “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 the 2023 Form 10-K. You should carefully consider such factors, which could materially and adversely affect our business, financial condition and/or results of operations. The risks described in the Q1 Form 10-Q and the 2023 Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or results of operations.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None of our directors or Section 16 officers adopted or terminated a Rule 10b5-1 trading arrangement (as defined in Item 408(a) of Regulation S-K) or a non-Rule 10b5-1 trading arrangement (as defined in Item 408(c) of Regulation S-K) during the quarterly period covered by this Form 10-Q.

Item 6. Exhibits.

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

Exhibit Number	Description
31.1	<u>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</u>
31.2	<u>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</u>
32.1*	<u>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</u>
32.2*	<u>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</u>
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
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, or incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

SIGNATURES

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

Petco Health and Wellness Company, Inc.

Date: December 6, 2024

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

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

I, Joel Anderson, certify that:

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

Date: December 6, 2024

By: _____ /s/ Joel Anderson

Joel Anderson
Chief Executive Officer
(Principal Executive Officer)

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

I, Brian LaRose, certify that:

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

Date: December 6, 2024

By: _____

/s/ Brian LaRose

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

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

In connection with the accompanying Quarterly Report on Form 10-Q of Petco Health and Wellness Company, Inc. (the "Company") for the quarter ended November 2, 2024, 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: December 6, 2024

By: _____ /s/ Joel Anderson
Joel Anderson
Chief Executive Officer
(Principal Executive Officer)

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

In connection with the accompanying Quarterly Report on Form 10-Q of Petco Health and Wellness Company, Inc. (the "Company") for the quarter ended November 2, 2024, 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: December 6, 2024

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