

Petco Fourth Quarter and Fiscal 2020 Earnings Call

March 18, 2021



Safe Harbor and Non-GAAP Measures

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

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

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

Fiscal Year 2020 Key Messages

Petco's strong revenue growth validates complete pet ecosystem offering with sustained tailwinds from a high-growth category

3 million plus incremental pets in 2020 fuel an already resilient market that will provide an annuity for years to come

Our digital offerings and delivery advantages (Buy Online & Pick up in Store and Same Day Delivery) are driving 100%+ growth

Services and Vet are poised for multi-year expansion driven by our vet hospital expansion and a rebound of grooming and training

Revenue growth of 11% in 2020 is translating into stronger 14% Adjusted EBITDA¹ and improved Adjusted EPS¹ performance

Significant deleveraging of the business from proceeds from the IPO, related recapitalization and cash flow generation reduced Net Debt¹ / Adjusted EBITDA¹ ratio from 7.4x to 3.2x



Petco delivered enhanced growth & profitability throughout fiscal year 2020

	FY'20 Results		Q4'20 Results	
	Results	H/(L) FY'19	Results	H/(L) FY'19
Revenue (\$B)	\$4.9B	+11%	\$1.3B	+16%
Gross Margin %	42.8%	-17bps	42.6%	-79bps
Adj. EBITDA¹ (\$M)	\$484M	+14%	\$149M	+13%
Adj. EPS¹	\$0.28	+\$0.33	\$0.17	+\$0.08
Net Debt¹ / Adj. EBITDA¹	3.2x	-57%	3.2x	-57%

2020 Key Highlights

- ▶ Strong momentum in a great category with tailwinds from substantial increase in pet ownership fueling multi-year growth
- ▶ Q4'20 double-digit growth across lines of business with 92%, 13% and 10% growth in E-Comm, Services & Vet, and Pet Care Centers respectively reflecting our complete pet ecosystem-driven strategic transformation
- ▶ Revenue and gross profit growth and expense leverage generate meaningful profit growth and cash flow
- ▶ Excluding certain COVID-related impacts, FY'20 gross margin would have been up modestly
- ▶ Net leverage decreased by over half enhanced by recent IPO, related recapitalization and free cash flow generation

Fully integrated ecosystem driving growth and customer value

Proven track record of strong top-line acceleration... 9 consecutive quarters of sales growth



Health & Wellness

44

New Vet Hospitals launched in 2020 (125 in total)

800

Mobile Vaccinations in Pet Care Centers

50k

Vital Care Members



Purpose Driven Performance

400k

Animals saved per year

30k LBS

Reduction of plastic from orders fulfilled in PCCs

3.6M LBS*

Reduction in Cardboard



Omnichannel & Digital

13%

Q4'20 growth in Vet & Services Revenue

~200k

Spa Club members

80%

Digital orders processed through our **1,454** Pet Care Centers serving micro-distribution centers

>100%

Digital growth in 2020, with **double-digit** multi-channel customer growth

3M

Mobile app downloads

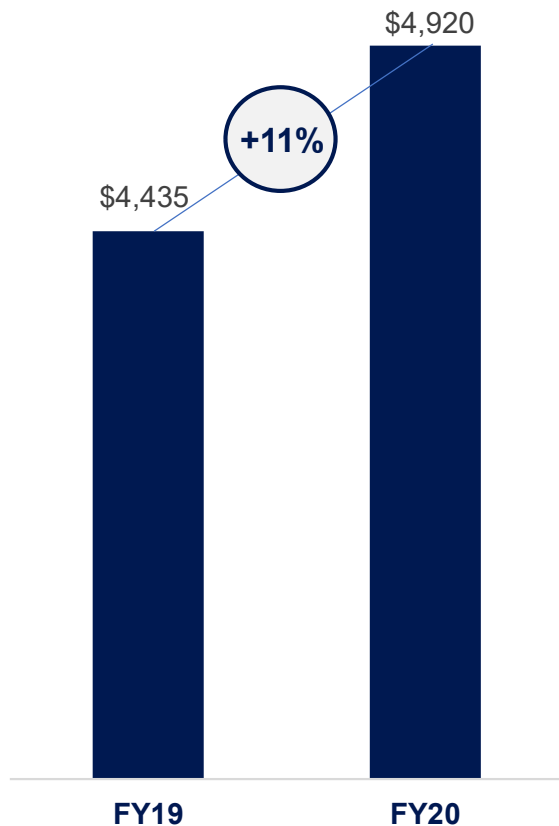
Double-Digit Growth



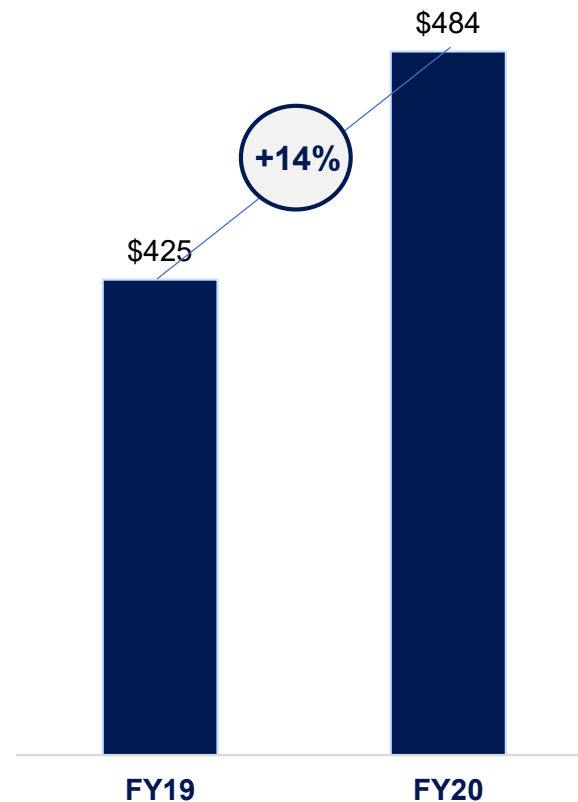
Owned Brand growth & launch of The Honest Kitchen

FY'20 revenue growth translated to strong Adjusted EBITDA¹ performance

Total Revenue (\$M)



Adjusted EBITDA¹ (\$M)

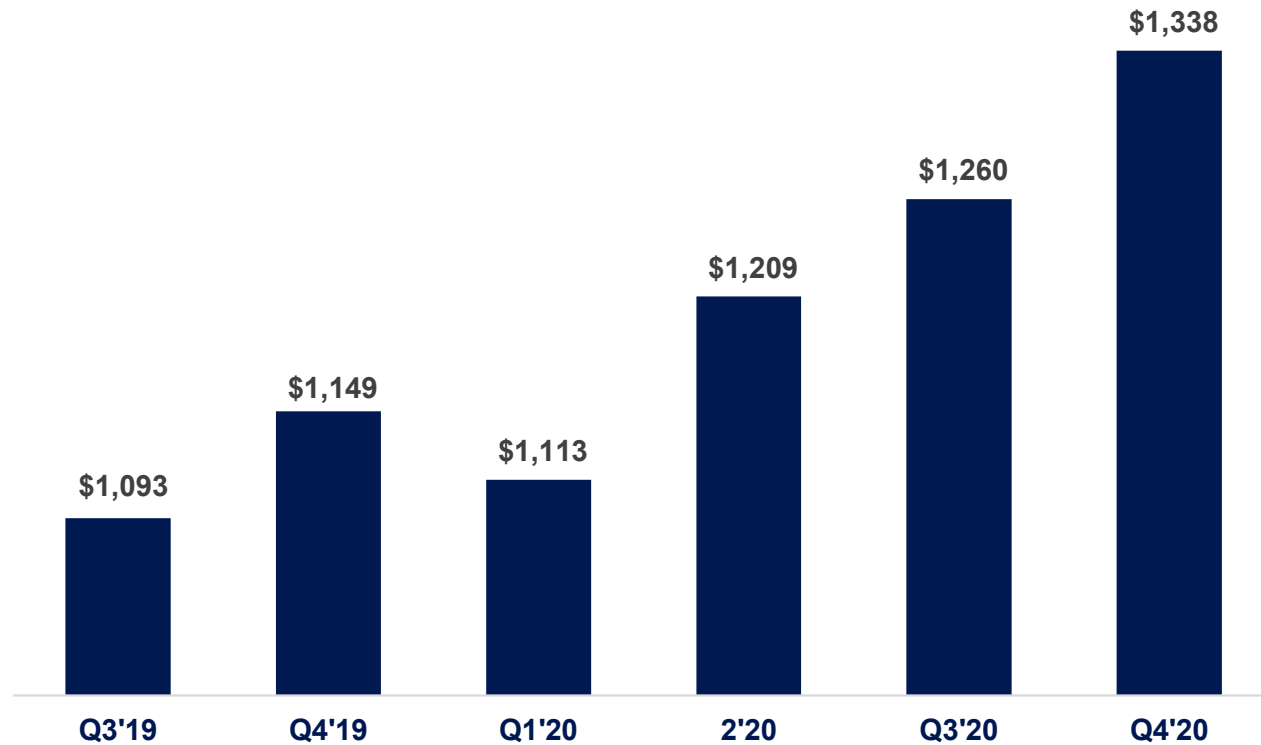


2020 Key Highlights

- ▶ Revenue grew 11% versus prior year with accelerating trends over the course of the year and driving 11% gross profit growth
- ▶ Strong revenue trends and expense leverage drove 14% Adjusted EBITDA growth while we meaningfully invested in:
 - ❖ Measures to keep partners healthy and safe during COVID
 - ❖ Strategic investments in Digital, Vets and Owned Brands
 - ❖ Our people through COVID bonus measures and other rewards

Growth continued to accelerate throughout FY'20

Total Revenue (\$M)



	Q3'19	Q4'19	Q1'20	2'20	Q3'20	Q4'20
Revenue Growth Y/Y	1%	1%	1%	10%	15%	16%
Comp Sales Growth	4%	4%	2%	11%	16%	17%
2Yr Comp Sales Growth	3%	5%	6%	15%	20%	20%

2020 Key Highlights

- ▶ Revenue growth accelerated on a quarterly basis throughout fiscal year 2020
- ▶ Pet Care Centers reached 10% growth in Q4'20
- ▶ We more than doubled our digital revenue in FY'20 reflecting our strategic investments and fulfillment advantages
- ▶ Even with three quarters of COVID related operational shutdowns and limitations, Services and Vet revenue grew modestly in 2020 fueled by continued scaling of vet hospitals and services return to growth in Q4

Our business is driving strong cash flow across market cycles with a strengthened balance sheet

	2019		2020
Free cash flow ¹	(\$47M)	+\$156M	\$109M
Net debt ¹	\$3.1B	-50%	\$1.5B
Net debt ¹ / adjusted EBITDA ¹	7.4x	-57%	3.2x
Liquidity ²	\$475M	+5%	\$499M

2020 Key Highlights

- ▶ 2020 free cash flow of \$109M improved significantly due to strong business performance
- ▶ Capital expenditures of \$160M were primarily associated with Vet Hospital scaling and investments in IT infrastructure and innovation
- ▶ Significant reduction of net debt and leverage was driven by the IPO transaction, related recapitalization and strong free cash flow generation

FY'21 Financial Guidance

Guidance ²		
2021	Revenue (\$B)	\$5.25B to \$5.35B
	Adj. EBITDA ¹ (\$M)	\$520M - \$530M
	Adj. EPS ¹	\$0.63 - \$0.66



Remaining steadfast in commitment to preserving health & safety of our partners

¹ Non-GAAP financial measure; See definition and reconciliation at the end of this presentation

² Guidance as of March 18, 2021. All guidance is subject to change without notice depending on a number of factors, including economic conditions, currency rates, the tax and regulatory landscape and other factors that are beyond Petco's control. Petco undertakes no obligation to affirm or update its guidance

NON-GAAP MEASURES



Non-GAAP Measures

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

Adjusted EBITDA: Adjusted EBITDA is considered a non-GAAP financial measure under the SEC's rules because it excludes certain charges included in net (loss) income calculated in accordance with GAAP. Management believes that Adjusted EBITDA is a meaningful measure to share with investors because it best allows comparison of the performance with that of the current period performance with that of the comparable period. In addition, Adjusted EBITDA affords investors a view of what management considers Petco's operating performance to be and the ability to make a more informed assessment of such operating performance as compared with that of the prior year. Please see the company's S-1 filed on January 6, 2021 for additional information on the reconciliation of Net Loss Attributable to Class A and B-1 Common Stockholders to Adjusted EBITDA. The table on page 12 of this presentation reflects the calculation of Adjusted EBITDA for the thirteen weeks and fiscal year ended January 30, 2021 compared to prior year ended February 1, 2020.

Adjusted Net Income and Adjusted EPS: Adjusted net Income and Adjusted diluted earnings per share attributable to Petco (Adjusted Net Income and Adjusted EPS respectively) are considered non-GAAP financial measures under the SEC's rules because they exclude certain amounts included in the net loss attributable to common stockholders and diluted earnings per share attributable to Petco calculated in accordance with GAAP (net loss and EPS respectively), the most directly comparable financial measures calculated in accordance with GAAP. Management believes that Adjusted Net Income and Adjusted EPS are meaningful measures to share with investors because they best allow comparison of the performance with that of the comparable period. In addition, Adjusted Net Income and Adjusted EPS afford investors a view of what management considers Petco's earnings performance to be and the ability to make a more informed assessment of such earnings performance with that of the prior year. The tables on page 13 of this presentation reflect the calculation of Adjusted Net Income and Adjusted EPS for the thirteen weeks and fiscal year ended January 30, 2021 compared to prior year ended February 1, 2020.

Free Cash Flow: Free cash flow is a non-GAAP financial measure that is calculated as net cash generated by operations less cash paid for fixed assets. Management believes that free cash flow, which measures the ability to generate additional cash from business operations, is an important financial measure for use in evaluating the company's financial performance. Although other companies report their free cash flow, numerous methods exist for calculating a company's free cash flow. As a result, the method used by Petco's management to calculate free cash flow may differ from the methods used by other companies to calculate their free cash flow. The following table sets forth a reconciliation of free cash flow, to net cash provided by operating activities, which Petco believes to be the GAAP financial measure most directly comparable to free cash flow. The table on page 14 of this presentation reflects the calculation of free cash flow for the thirteen weeks and fiscal year ended January 30, 2021 compared to prior year ended February 1, 2020.

Net Debt: Net Debt is a non-GAAP financial measure that is calculated as the sum of current and non-current debt, less cash and cash equivalents. Management considers this adjustment useful because it reduces the volatility of total debt caused by fluctuations between cash paid against the company's revolving credit facility and cash held on hand in cash and cash equivalents. Although other companies report their Net Debt, numerous methods exist for calculating a company's net debt. As a result, the method used by Petco's management to calculate net debt may differ from the methods used by other companies to calculate their Net Debt. The table on page 15 of this presentation sets forth a reconciliation of Net Debt, to total debt, which Petco believes to be the GAAP financial measure most directly comparable to Net Debt. The table reflects the calculation of Net Debt as of the period ended January 30, 2021 compared to prior year ended February 1, 2020.

Non-GAAP Measures: Adjusted EBITDA¹

(In Thousands)	13 Weeks Ended		52 Weeks Ended	
	January 30, 2021	February 1, 2020	January 30, 2021	February 1, 2020
Reconciliation of Net Loss Attributable to Class A and B-1 Common Stockholders to Adjusted EBITDA				
Net loss attributable to Class A and B-1 common stockholders	\$ (6,159)	\$ (7,171)	\$ (26,483)	\$ (95,873)
Add (deduct):				
Interest expense, net	49,666	60,662	218,430	252,683
Income tax expense (benefit)	10,200	(7,395)	(3,337)	(35,658)
Depreciation and amortization	45,875	43,944	174,836	173,544
Income from equity method investees	(3,530)	(2,115)	(6,482)	(2,441)
Loss on debt extinguishment	17,549	-	17,549	-
Goodwill & indefinite-lived intangible impairment	-	19,000	-	19,000
Asset impairments and write offs	7,955	2,615	15,606	11,871
Equity-based compensation	5,451	2,487	12,915	9,489
Mexico Joint Venture EBITDA	6,655	4,787	19,074	14,227
Store pre-opening expenses	2,218	2,280	9,228	10,325
Store closing expenses	1,835	2,540	7,782	4,068
Severance	1,524	1,602	5,283	10,164
Non-cash occupancy-related costs	2,151	6,757	19,240	32,763
Non-recurring costs	7,209	1,926	20,707	20,385
Adjusted EBITDA	\$ 148,599	\$ 131,919	\$ 484,348	\$ 424,547
Net sales	\$ 1,337,713	\$ 1,148,656	\$ 4,920,202	\$ 4,434,514
<i>Net margin</i>	<i>(0.5%)</i>	<i>(0.6%)</i>	<i>(0.5%)</i>	<i>(2.2%)</i>
<i>Adjusted EBITDA Margin</i>	<i>11.1%</i>	<i>11.5%</i>	<i>9.8%</i>	<i>9.6%</i>

Non-GAAP Measures: Adjusted Net Income and Adjusted EPS¹

(In Thousands, except per share amounts)

Reconciliation of GAAP Diluted Loss per Share to Non-GAAP Diluted EPS	13 Weeks Ended				52 Weeks Ended			
	January 30, 2021		February 1, 2020		January 30, 2021		February 1, 2020	
	Amount	Per share	Amount	Per share	Amount	Per share	Amount	Per share
GAAP net loss attributable to common stockholders / diluted loss per share	\$ (6,159)	\$ (0.03)	\$ (7,171)	\$ (0.03)	\$ (26,483)	\$ (0.13)	\$ (95,873)	\$ (0.46)
Add (deduct):								
Income tax expense (benefit)	10,200	0.05	(7,395)	(0.04)	(3,337)	(0.02)	(35,658)	(0.17)
Loss on debt extinguishment	17,549	0.08	-	-	17,549	0.08	-	-
Goodwill & indefinite-lived intangible impairment	-	-	19,000	0.09	-	-	19,000	0.09
Asset impairments and write offs	7,955	0.03	2,615	0.01	15,606	0.07	11,871	0.06
Equity-based compensation	5,451	0.03	2,487	0.01	12,915	0.06	9,489	0.04
Store pre-opening expenses	2,218	0.01	2,280	0.01	9,228	0.05	10,325	0.05
Store closing expenses	1,835	0.01	2,540	0.01	7,782	0.04	4,068	0.02
Severance	1,524	0.01	1,602	0.01	5,283	0.03	10,164	0.05
Non-cash occupancy-related costs	2,151	0.01	6,757	0.04	19,240	0.09	32,763	0.16
Non-recurring costs	7,209	0.03	1,926	0.01	20,707	0.10	20,385	0.10
Non-GAAP adjusted pre-tax income (loss) / diluted earnings (loss) per share	\$ 49,933	\$ 0.23	\$ 24,641	\$ 0.12	\$ 78,490	\$ 0.37	\$ (13,466)	\$ (0.06)
Income tax expense (benefit) at 26% normalized tax rate	12,983	0.06	6,407	0.03	20,407	0.09	(3,501)	(0.01)
Non-GAAP Adjusted Net Income (Loss) / Adjusted EPS	\$ 36,950	\$ 0.17	\$ 18,234	\$ 0.09	\$ 58,083	\$ 0.28	\$ (9,965)	\$ (0.05)

Non-GAAP Measures: Free Cash Flow

(In Thousands)

	13 Weeks Ended		52 Weeks Ended	
	January 30, 2021	February 1, 2020	January 30, 2021	February 1, 2020
Net cash provided by operating activities	\$ 67,135	\$ 144,585	\$ 268,615	\$ 110,337
Cash paid for fixed assets	(63,271)	(37,706)	(159,560)	(156,906)
Free cash flow	\$ 3,864	\$ 106,879	\$ 109,055	\$ (46,569)

Non-GAAP Measures: Net Debt

(In Thousands)	January 30, 2021	February 1, 2020
Total Debt:		
Senior secured credit facilities, net, including current portion	\$ 1,646,281	\$ 2,387,552
Senior notes, net	-	866,145
Finance leases	13,639	16,434
Total debt	<u>1,659,920</u>	<u>3,270,131</u>
Less cash and cash equivalents	(111,402)	(148,785)
Net Debt	<u>\$ 1,548,518</u>	<u>\$ 3,121,346</u>
Adjusted EBITDA	\$ 484,348	\$ 424,547
<i>Net debt / adjusted EBITDA ratio</i>	3.2x	7.4x

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