



EARNINGS RELEASE FINANCIAL SUPPLEMENT

FIRST QUARTER 2021

Q1 2021 Financial Statements

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Q1 2021 FINANCIAL STATEMENTS

PETCO HEALTH AND WELLNESS COMPANY, INC. CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands, except per share amounts)

(Unaudited and subject to reclassification)

	13 Weeks Ended		
	May 1, 2021	May 2, 2020	Percent Change
Net sales	\$ 1,414,994	\$ 1,113,521	27%
Cost of sales	818,009	647,239	26%
Gross profit	596,985	466,282	28%
Selling, general and administrative expenses	549,236	449,917	22%
Operating income	47,749	16,365	192%
Interest income	(21)	(184)	(89%)
Interest expense	20,529	60,808	(66%)
Loss on extinguishment and modification of debt	20,838	—	N/M
Income (loss) before income taxes and income from equity method investees	6,403	(44,259)	N/M
Income tax expense (benefit)	2,679	(10,555)	N/M
Income from equity method investees	(2,425)	(332)	630%
Net income (loss)	6,149	(33,372)	N/M
Net loss attributable to noncontrolling interest	(1,411)	(2,204)	(36%)
Net income (loss) attributable to Class A and B-1 common stockholders	\$ 7,560	\$ (31,168)	N/M
Net income (loss) per Class A and B-1 common share:			
Basic	\$ 0.03	\$ (0.15)	N/M
Diluted	\$ 0.03	\$ (0.15)	N/M
Weighted average shares used in computing net income (loss) per Class A and B-1 common share:			
Basic	264,215	209,015	26%
Diluted	265,028	209,015	27%

PETCO HEALTH AND WELLNESS COMPANY, INC.
CONSOLIDATED BALANCE SHEETS
(In Thousands, except per share amounts)
(Unaudited and subject to reclassification)

	May 1, 2021	January 30, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 174,034	\$ 111,402
Receivables, less allowance for credit losses ¹	38,079	41,827
Merchandise inventories, net	574,683	538,675
Prepaid expenses	46,724	40,032
Other current assets	42,355	45,613
Total current assets	875,875	777,549
Fixed assets	1,535,617	1,487,987
Less accumulated depreciation	(896,195)	(860,440)
Fixed assets, net	639,422	627,547
Operating lease right-of-use assets	1,330,816	1,328,108
Goodwill	2,179,310	2,179,310
Trade name	1,025,000	1,025,000
Other intangible assets	4,793	4,793
Less accumulated amortization	(4,164)	(4,079)
Other intangible assets, net	629	714
Other long-term assets	142,347	137,474
Total assets	\$ 6,193,399	\$ 6,075,702
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and book overdrafts	\$ 352,401	\$ 339,485
Accrued salaries and employee benefits	127,000	129,484
Accrued expenses and other liabilities	218,926	145,846
Current portion of operating lease liabilities	276,619	258,289
Current portion of long-term debt and other lease liabilities	20,234	2,203
Total current liabilities	995,180	875,307
Senior secured credit facilities, net, excluding current portion	1,649,509	1,646,281
Operating lease liabilities, excluding current portion	1,056,059	1,083,575
Deferred taxes, net	282,350	280,920
Other long-term liabilities	138,069	134,354
Total liabilities	4,121,167	4,020,437
Commitments and contingencies		
Stockholders' equity:		
Class A common stock ²	226	226
Class B-1 common stock ³	38	38
Class B-2 common stock ⁴	—	—
Preferred stock ⁵	—	—
Additional paid-in-capital	2,103,714	2,092,110
Accumulated deficit	(14,691)	(22,251)
Accumulated other comprehensive loss	(2,061)	(1,275)
Total stockholders' equity	2,087,226	2,068,848
Noncontrolling interest	(14,994)	(13,583)
Total equity	2,072,232	2,055,265
Total liabilities and equity	\$ 6,193,399	\$ 6,075,702

(1) Allowances for credit losses are \$2,217 as of May 1, 2021 and \$3,267 as of Jan 30, 2021

(2) Class A common stock, par value \$0.001 per share (1.0 billion shares authorized and 226.5 million shares issued and outstanding as of May 1, 2021 and 226.4 million shares issued and outstanding as of January 30, 2021)

(3) Class B-1 common stock, par value \$0.001 per share (75.0 million shares authorized and 37.8 million shares issued and outstanding)

(4) Class B-2 common stock, par value \$0.000001 per share (75.0 million shares authorized and 37.8 million shares issued and outstanding)

(5) Preferred stock, par value \$0.001 per share (25.0 million shares authorized and no shares issued or outstanding)

PETCO HEALTH AND WELLNESS COMPANY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(Unaudited and subject to reclassification)

	13 Weeks Ended	
	May 1, 2021	May 2, 2020
Cash flows from operating activities:		
Net income (loss)	\$ 6,149	\$ (33,372)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	41,607	43,567
Amortization of debt discounts and issuance costs	2,165	6,028
Provision for deferred taxes	1,708	(11,680)
Equity-based compensation	11,604	2,305
Impairments, write-offs and losses on sale of fixed and other assets	947	3,409
Loss on extinguishment and modification of debt	20,838	—
Income from equity method investees	(2,425)	(332)
Amounts reclassified out of accumulated other comprehensive income	—	2,337
Change in contingent consideration obligation	—	(553)
Non-cash operating lease costs	105,188	108,841
Changes in assets and liabilities:		
Receivables	3,748	(3,767)
Merchandise inventories	(36,008)	(3,307)
Prepaid expenses and other assets	(9,140)	(6,302)
Accounts payable and book overdrafts	20,119	(74,074)
Accrued salaries and employee benefits	(2,483)	(10,153)
Accrued expenses and other liabilities	66,120	5,853
Operating lease liabilities	(116,994)	(64,188)
Other long-term liabilities	1,859	3,099
Net cash provided by (used in) operating activities	<u>115,002</u>	<u>(32,289)</u>
Cash flows from investing activities:		
Cash paid for fixed assets	(47,351)	(27,895)
Net cash used in investing activities	<u>(47,351)</u>	<u>(27,895)</u>
Cash flows from financing activities:		
Borrowings under long-term debt agreements	1,700,000	397,000
Repayments of long-term debt	(1,678,111)	(142,313)
Debt refinancing costs and original issue discount	(24,665)	—
Payments for finance lease liabilities	(593)	(935)
Payment of offering costs	(3,844)	—
Net cash (used in) provided by financing activities	<u>(7,213)</u>	<u>253,752</u>
Net increase in cash, cash equivalents and restricted cash	60,438	193,568
Cash, cash equivalents and restricted cash at beginning of period	119,540	154,718
Cash, cash equivalents and restricted cash at end of period	<u>\$ 179,978</u>	<u>\$ 348,286</u>

HISTORICAL FINANCIAL STATEMENTS

PETCO HEALTH AND WELLNESS COMPANY, INC. CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands, except per share amounts)
(Quarters Unaudited)

	13 Weeks Ended				Fiscal Year Ended
	May 2, 2020	August 1, 2020	October 31, 2020	January 30, 2021	January 30, 2021
Net sales	\$ 1,113,521	\$ 1,208,971	\$ 1,259,997	\$ 1,337,713	\$ 4,920,202
Cost of sales	647,239	679,218	718,559	768,448	2,813,464
Gross profit	466,282	529,753	541,438	569,265	2,106,738
Selling, general and administrative expenses	449,917	464,706	495,401	502,290	1,912,314
Operating income	16,365	65,047	46,037	66,975	194,424
Interest income	(184)	(99)	(49)	(321)	(653)
Interest expense	60,808	54,493	53,795	49,987	219,083
Loss on extinguishment of debt	—	—	—	17,549	17,549
(Loss) income before income taxes and income from equity method investees	(44,259)	10,653	(7,709)	(240)	(41,555)
Income tax (benefit) expense	(10,555)	4,958	(7,940)	10,200	(3,337)
Income from equity method investees	(332)	(745)	(1,875)	(3,530)	(6,482)
Net (loss) income	(33,372)	6,440	2,106	(6,910)	(31,736)
Net loss attributable to noncontrolling interest	(2,204)	(1,001)	(1,297)	(751)	(5,253)
Net (loss) income attributable to Class A and B-1 common	\$ (31,168)	\$ 7,441	\$ 3,403	\$ (6,159)	\$ (26,483)

Net (loss) income per Class A and B-1 common share:

Basic	\$ (0.15)	\$ 0.04	\$ 0.02	\$ (0.03)	\$ (0.13)
Diluted	\$ (0.15)	\$ 0.04	\$ 0.02	\$ (0.03)	\$ (0.13)

Weighted average shares used in computing net (loss) income per Class A and B-1 common share:

Basic	209,015	209,015	209,015	215,687	210,683
Diluted	209,015	209,015	209,015	215,687	210,683

	13 Weeks Ended				Fiscal Year Ended
	May 4, 2019	August 3, 2019	November 2, 2019	February 1, 2020	February 1, 2020
Net sales	\$ 1,097,157	\$ 1,095,632	\$ 1,093,069	\$ 1,148,656	\$ 4,434,514
Cost of sales	631,919	624,623	620,695	650,758	2,527,995
Gross profit	465,238	471,009	472,374	497,898	1,906,519
Selling, general and administrative expenses	451,671	438,982	448,501	437,765	1,776,919
Goodwill and indefinite-lived intangible impairment	—	—	—	19,000	19,000
Operating income	13,567	32,027	23,873	41,133	110,600
Interest income	(80)	(90)	(31)	(134)	(335)
Interest expense	64,472	64,600	63,150	60,796	253,018
(Loss) income before income taxes and income from equity method investees	(50,825)	(32,483)	(39,246)	(19,529)	(142,083)
Income tax benefit	(12,514)	(7,302)	(8,447)	(7,395)	(35,658)
(Income) loss from equity method investees	(18)	(420)	112	(2,115)	(2,441)
Net loss	(38,293)	(24,761)	(30,911)	(10,019)	(103,984)
Net loss attributable to noncontrolling interest	(812)	(1,759)	(2,692)	(2,848)	(8,111)
Net (loss) income attributable to Class A and B-1 common	\$ (37,481)	\$ (23,002)	\$ (28,219)	\$ (7,171)	\$ (95,873)

Net loss per Class A and B-1 common share:

Basic	\$ (0.18)	\$ (0.11)	\$ (0.14)	\$ (0.03)	\$ (0.46)
Diluted	\$ (0.18)	\$ (0.11)	\$ (0.14)	\$ (0.03)	\$ (0.46)

Weighted average shares used in computing net loss per Class A and B-1 common share:

Basic	208,814	208,887	209,015	209,015	208,933
Diluted	208,814	208,887	209,015	209,015	208,933

PETCO HEALTH AND WELLNESS COMPANY, INC.
CONSOLIDATED BALANCE SHEETS
(In Thousands, except per share amounts)
(Audited, except for Q1 2020 ending May 2, 2020)

	May 2, 2020	August 1, 2020	October 31, 2020	January 30, 2021
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 341,506	\$ 168,892	\$ 195,832	\$ 111,402
Receivables, less allowance for credit losses ¹	35,283	36,724	40,454	41,827
Merchandise inventories, net	482,275	489,095	541,352	538,675
Prepaid expenses	29,008	31,052	38,007	40,032
Other current assets	29,195	30,164	57,950	45,613
Total current assets	917,267	755,927	873,595	777,549
Fixed assets	1,383,680	1,402,808	1,447,294	1,487,987
Less accumulated depreciation	(752,232)	(787,946)	(828,364)	(860,440)
Fixed assets, net	631,448	614,862	618,930	627,547
Operating lease right-of-use assets	1,483,722	1,428,563	1,377,682	1,328,108
Goodwill	2,179,310	2,179,310	2,179,310	2,179,310
Trade name	1,025,000	1,025,000	1,025,000	1,025,000
Other intangible assets	4,792	4,792	4,792	4,793
Less accumulated amortization	(3,482)	(3,725)	(3,923)	(4,079)
Other intangible assets, net	1,310	1,067	869	714
Other long-term assets	116,692	120,080	128,428	137,474
Total assets	<u>\$ 6,354,749</u>	<u>\$ 6,124,809</u>	<u>\$ 6,203,814</u>	<u>\$ 6,075,702</u>
LIABILITIES AND EQUITY				
Current liabilities:				
Accounts payable and book overdrafts	\$ 219,129	\$ 274,232	\$ 347,789	\$ 339,485
Accrued salaries and employee benefits	85,035	98,304	129,288	129,484
Accrued expenses and other liabilities	147,737	182,342	182,502	145,846
Current portion of operating lease liabilities	313,789	275,065	246,319	258,289
Current portion of long-term debt and other lease liabilities	28,243	27,595	27,399	2,203
Total current liabilities	793,933	857,538	933,297	875,307
Senior secured credit facilities, net, excluding current portion	2,622,211	2,356,169	2,330,176	1,646,281
Senior notes, net	866,952	867,778	868,624	—
Operating lease liabilities, excluding current portion	1,189,999	1,149,642	1,127,717	1,083,575
Deferred taxes, net	252,387	243,119	272,821	280,920
Other long-term liabilities	102,567	112,922	125,562	134,354
Total liabilities	5,828,049	5,587,168	5,658,197	4,020,437
Commitments and contingencies				
Stockholders' equity:				
Members' interest ²	1,360,435	1,362,643	1,365,490	—
Class A common stock ³	—	—	—	226
Class B-1 common stock ⁴	—	—	—	38
Class B-2 common stock ⁵	—	—	—	—
Preferred stock ⁶	—	—	—	—
Additional paid-in-capital	—	—	—	2,092,110
Accumulated deficit ²	(811,634)	(804,193)	(800,790)	(22,251)
Accumulated other comprehensive loss	(11,567)	(9,274)	(6,251)	(1,275)
Total stockholders' equity	537,234	549,176	558,449	2,068,848
Noncontrolling interest	(10,534)	(11,535)	(12,832)	(13,583)
Total equity	526,700	537,641	545,617	2,055,265
Total liabilities and equity	<u>\$ 6,354,749</u>	<u>\$ 6,124,809</u>	<u>\$ 6,203,814</u>	<u>\$ 6,075,702</u>

- (1) Allowances for credit losses are \$2,110 as of May 2, 2020, \$2,099 as of August 1 2020, \$3,085 as of October 31, 2020, and \$3,267 as of January 30, 2021
- (2) Balances prior to the company's conversion to a Delaware corporation were reclassified to additional paid-in capital upon conversion
- (3) Class A common stock, par value \$0.001 per share (1.0 billion shares authorized and 226.4 million shares issued and outstanding as of January 30, 2021)
- (4) Class B-1 common stock, par value \$0.001 per share (75.0 million shares authorized and 37,790,781 shares issued and outstanding as of January 30, 2021)
- (5) Class B-2 common stock, par value \$0.000001 per share (75.0 million shares authorized and 37,790,781 shares issued and outstanding as of January 30, 2021)
- (6) Preferred stock, par value \$0.001 per share (25.0 million shares authorized and no shares issued or outstanding as of January 30, 2021)

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

	13 Weeks Ended				Fiscal Year
	May 2, 2020	August 1, 2020	October 31, 2020	January 30, 2021	Ended January 30, 2021
Cash flows from operating activities:					
Net (loss) income	\$ (33,372)	\$ 6,440	\$ 2,106	\$ (6,910)	\$ (31,736)
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:					
Depreciation and amortization	43,567	42,471	42,923	45,875	174,836
Amortization of debt discounts and issuance costs	6,028	6,097	6,166	5,946	24,237
Provision for deferred taxes	(11,680)	(10,073)	28,642	18,659	25,548
Equity-based compensation	2,305	2,312	2,847	5,451	12,915
Impairments, write-offs and losses on sale of fixed and other assets	3,409	2,852	1,390	7,955	15,606
Loss on extinguishment of debt	—	—	—	17,549	17,549
Income from equity method investees	(332)	(745)	(1,875)	(3,530)	(6,482)
Amounts reclassified out of accumulated other comprehensive income	2,337	2,729	2,832	2,895	10,793
Change in contingent consideration obligation	(553)	162	(34)	27	(398)
Non-cash operating lease costs	108,841	107,888	107,748	105,882	430,359
Changes in assets and liabilities:					
Receivables	(3,767)	(1,441)	(3,730)	(1,373)	(10,311)
Merchandise inventories	(3,307)	(7,749)	(52,257)	2,678	(60,635)
Prepaid expenses and other assets	(6,302)	(2,851)	(9,498)	4,809	(13,842)
Accounts payable and book overdrafts	(74,074)	55,119	73,478	(8,220)	46,303
Accrued salaries and employee benefits	(10,153)	13,269	30,984	195	34,295
Accrued expenses and other liabilities	5,853	29,894	(28,093)	(35,943)	(28,289)
Operating lease liabilities	(64,188)	(132,512)	(107,726)	(95,131)	(399,557)
Other long-term liabilities	3,099	10,816	13,188	321	27,424
Net cash (used in) provided by operating activities	(32,289)	124,678	109,091	67,135	268,615
Cash flows from investing activities:					
Cash paid for fixed assets	(27,895)	(22,148)	(46,246)	(63,271)	(159,560)
Cash paid for investments	—	—	(1,000)	—	(1,000)
Distributions from equity investees	—	73	—	—	73
Proceeds from sale of assets	—	1,296	—	2,006	3,302
Net cash used in investing activities	(27,895)	(20,779)	(47,246)	(61,265)	(157,185)
Cash flows from financing activities:					
Borrowings under long-term debt agreements	397,000	43,000	—	36,000	476,000
Repayments of long-term debt	(142,313)	(314,312)	(31,313)	(1,066,952)	(1,554,890)
Payments for finance and capital lease liabilities	(935)	(1,154)	(742)	(573)	(3,404)
Proceeds from initial public offering, net of issuance costs	—	—	—	936,041	936,041
Repurchase of equity	—	(105)	—	—	(105)
Payment of contingent consideration	—	(250)	—	—	(250)
Net cash provided by (used in) financing activities	253,752	(272,821)	(32,055)	(95,484)	(146,608)
Net increase (decrease) in cash, cash equivalents and restricted cash	193,568	(168,922)	29,790	(89,614)	(35,178)
Cash, cash equivalents and restricted cash at beginning of period	154,718	348,286	179,364	209,154	154,718
Cash, cash equivalents and restricted cash at end of period	\$ 348,286	\$ 179,364	\$ 209,154	\$ 119,540	\$ 119,540

RECONCILIATIONS OF NON-GAAP TO GAAP FINANCIAL MEASURES

The following information provides definitions and reconciliations of the non-GAAP financial measures presented in this earnings release 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, which is not calculated or presented in accordance with GAAP, as information supplemental and in addition to the financial measures presented in the earnings release 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 release. The non-GAAP financial measures in the earnings release 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 income (loss) 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 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 as well as the ability to make a more informed assessment of such operating performance as compared with that of the prior period.

Please see the company's 10-K filed on April 5, 2021, for additional information on the reconciliation of Net Income (Loss) Attributable to Class A and B-1 Common Stockholders to Adjusted EBITDA. The tables below reflect the calculation of Adjusted EBITDA for the thirteen weeks and trailing twelve months ended May 1, 2021 compared to the prior year quarter and twelve-month period ended May 2, 2020, respectively.

(In Thousands)	13 Weeks Ended	
	May 1, 2021	May 2, 2020
Reconciliation of Net Income (Loss) Attributable to Class A and B-1 Common Stockholders to Adjusted EBITDA		
Net income (loss) attributable to Class A and B-1 common stockholders	\$ 7,560	\$ (31,168)
Add (deduct):		
Interest expense, net	20,508	60,624
Income tax expense (benefit)	2,679	(10,555)
Depreciation and amortization	41,607	43,567
Income from equity method investees	(2,425)	(332)
Loss on debt extinguishment and modification	20,838	—
Asset impairments and write offs	947	3,409
Equity-based compensation	11,604	2,305
Mexico joint venture EBITDA ¹	6,006	4,019
Store pre-opening expenses	4,029	1,908
Store closing expenses	1,103	1,027
Severance	818	3,084
Non-cash occupancy-related costs ²	1,139	7,200
Non-recurring costs ³	9,333	1,748
Adjusted EBITDA	\$ 125,746	\$ 86,836
Net sales	\$ 1,414,994	\$ 1,113,521
Net margin ⁴	0.5%	(2.8%)
Adjusted EBITDA Margin	8.9%	7.8%

(In Thousands)	Trailing Twelve Months	
	May 1, 2021	May 2, 2020
Reconciliation of Net Income (Loss) Attributable to Class A and B-1 Common Stockholders to Adjusted EBITDA		
Net income (loss) attributable to Class A and B-1 common stockholders	\$ 12,245	\$ (89,560)
Add (deduct):		
Interest expense, net	178,314	248,915
Income tax expense (benefit)	9,897	(33,699)
Depreciation and amortization	172,876	171,593
Income from equity method investees	(8,575)	(2,755)
Loss on debt extinguishment and modification	38,387	—
Goodwill & indefinite-lived intangible impairment	—	19,000
Asset impairments and write offs	13,144	10,523
Equity-based compensation	22,214	10,067
Mexico joint venture EBITDA ¹	21,061	15,199
Store pre-opening expenses	11,349	9,648
Store closing expenses	7,858	4,914
Severance	3,017	10,567
Non-cash occupancy-related costs ²	13,179	30,911
Non-recurring costs ³	28,292	8,328
Adjusted EBITDA	\$ 523,258	\$ 413,651
Net sales	\$ 5,221,675	\$ 4,450,878
Net margin ⁴	0.2%	(2.0%)
Adjusted EBITDA Margin	10.0%	9.3%

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 income (loss) attributable to common stockholders and diluted earnings per share attributable to Petco calculated in accordance with GAAP (net income (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 current period 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 as well as the ability to make a more informed assessment of such earnings performance with that of the prior period.

The tables below reflect the calculation of Adjusted Net Income (Loss) and Adjusted EPS for the thirteen weeks ended May 1, 2021 compared to the prior year quarter ended May 2, 2020.

(In Thousands, except per share amounts) Reconciliation of Diluted Income (Loss) per Share to Adjusted EPS	13 Weeks Ended			
	May 1, 2021		May 2, 2020	
	Amount	Per share	Amount	Per share
Net income (loss) attributable to common stockholders / diluted income (loss) per share	\$ 7,560	\$ 0.03	\$ (31,168)	\$ (0.15)
Add (deduct):				
Income tax expense (benefit)	2,679	0.01	(10,555)	(0.05)
Loss on debt extinguishment and modification	20,838	0.08	—	—
Asset impairments and write offs	947	0.00	3,409	0.02
Equity-based compensation	11,604	0.04	2,305	0.01
Store pre-opening expenses	4,029	0.02	1,908	0.01
Store closing expenses	1,103	0.00	1,027	0.01
Severance	818	0.00	3,084	0.01
Non-cash occupancy-related costs ²	1,139	0.01	7,200	0.03
Non-recurring costs ³	9,333	0.04	1,748	0.01
Adjusted pre-tax income (loss) / diluted earnings (loss) per share	\$ 60,050	\$ 0.23	\$ (21,042)	\$ (0.10)
Income tax expense (benefit) at 26% normalized tax rate	15,613	0.06	(5,471)	(0.03)
Adjusted Net Income (Loss) / Adjusted EPS	\$ 44,437	\$ 0.17	\$ (15,571)	\$ (0.07)

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 (used in) operating activities, which Petco believes to be the GAAP financial measure most directly comparable to Free Cash Flow. The table below reflects the calculation of Free Cash Flow for the thirteen weeks ended May 1, 2021 compared to the prior year quarter ended May 2, 2020.

(In Thousands)	13 Weeks Ended	
	May 1, 2021	May 2, 2020
Net cash provided by (used in) operating activities	\$ 115,002	\$ (32,289)
Cash paid for fixed assets	(47,351)	(27,895)
Free Cash Flow	\$ 67,651	\$ (60,184)

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 following table 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 below reflects the calculation of Net Debt as of the period ended May 1, 2021 compared to the prior year period ended May 2, 2020.

(In Thousands)	May 1, 2021	May 2, 2020
Total debt:		
Senior secured credit facilities, net, including current portion	\$ 1,666,509	\$ 2,647,461
Senior notes, net	—	866,952
Finance leases, including current portion	16,409	15,504
Total debt	1,682,918	3,529,917
Less: cash and cash equivalents	(174,034)	(341,506)
Net Debt	\$ 1,508,884	\$ 3,188,411
Trailing Twelve Month Adjusted EBITDA	\$ 523,258	\$ 413,651
Net Debt / Trailing Twelve Month Adjusted EBITDA ratio	2.9x	7.7x

Adjusted EBITDA, Adjusted Net Income and Adjusted EPS Footnotes

- (1) Mexico joint venture EBITDA represents 50% of the entity's operating results for all periods, as adjusted to reflect the results on a basis comparable to 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 the calculation of Adjusted EBITDA, we include the 50% interest in the company's 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.

(In Thousands)	13 Weeks Ended	
	May 1, 2021	May 2, 2020
Net income	\$ 4,849	\$ 728
Depreciation	3,400	3,154
Income tax expense	2,780	1,295
Foreign currency (gain) loss	(145)	1,557
Interest expense, net	1,128	1,304
EBITDA	\$ 12,012	\$ 8,038
50% of EBITDA	\$ 6,006	\$ 4,019

- (2) Non-cash occupancy-related costs include the difference between cash and straight-line rent for all periods. Beginning in fiscal 2019, in connection with our adoption of the lease accounting standard, favorable lease rights of \$125.2 million and unfavorable lease rights of \$30.8 million were reclassified from intangible assets and other long-term liabilities, respectively, to right-of-use lease assets and the related amortization is now included in non-cash occupancy costs. In addition to the reclassification, the amortization period of these lease right assets has decreased to align with the terms of the underlying right-of-use lease assets, thus resulting in an acceleration of expense compared to prior years. The overall adoption of the lease accounting standard did not have an impact on our Adjusted EBITDA, as this increase in addback was completely offset in other impacted lines such as lower depreciation and amortization, asset impairments and write-offs, and store closing expenses.
- (3) Non-recurring costs include: unrealized fair market value adjustments on non-operating investments; class action settlements and related legal fees; one-time consulting and other costs associated with our strategic transformation initiatives; discontinuation and liquidation costs; and costs related to the initial public offering. While we incurred significant costs associated with the COVID-19 pandemic during fiscal 2020, we have not classified any of these costs as non-recurring due to the uncertainty surrounding the pandemic's length and long-term impact on the macroeconomic operating environment.
- (4) We define net margin as net income (loss) attributable to Class A and B-1 common stockholders divided by net sales and Adjusted EBITDA margin as Adjusted EBITDA divided by net sales

HISTORICAL RECONCILIATION OF NON-GAAP TO GAAP FINANCIAL MEASURES

Adjusted EBITDA

(In Thousands)	13 Weeks Ended				Fiscal Year
	May 2, 2020	August 1, 2020	October 31, 2020	January 30, 2021	Ended January 30, 2021
Reconciliation of Net (Loss) Income Attributable to Class A and B-1 Common Stockholders to Adjusted EBITDA					
Net (loss) income attributable to Class A and B-1 common stockholders	\$ (31,168)	\$ 7,441	\$ 3,403	\$ (6,159)	\$ (26,483)
Add (deduct):					
Interest expense, net	60,624	54,394	53,746	49,666	218,430
Income tax (benefit) expense	(10,555)	4,958	(7,940)	10,200	(3,337)
Depreciation and amortization	43,567	42,471	42,923	45,875	174,836
Income from equity method investees	(332)	(745)	(1,875)	(3,530)	(6,482)
Loss on debt extinguishment	—	—	—	17,549	17,549
Asset impairments and write offs	3,409	2,852	1,390	7,955	15,606
Equity-based compensation	2,305	2,312	2,847	5,451	12,915
Mexico joint venture EBITDA ¹	4,019	3,483	4,917	6,655	19,074
Store pre-opening expenses	1,908	1,477	3,625	2,218	9,228
Store closing expenses	1,027	2,609	2,311	1,835	7,782
Severance	3,084	331	344	1,524	5,283
Non-cash occupancy-related costs ²	7,200	5,969	3,920	2,151	19,240
Non-recurring costs ³	1,748	3,260	8,490	7,209	20,707
Adjusted EBITDA	\$ 86,836	\$ 130,812	\$ 118,101	\$ 148,599	\$ 484,348
Net sales	\$ 1,113,521	\$ 1,208,971	\$ 1,259,997	\$ 1,337,713	\$ 4,920,202
Net margin ⁴	(2.8%)	0.6%	0.3%	(0.5%)	(0.5%)
Adjusted EBITDA Margin	7.8%	10.8%	9.4%	11.1%	9.8%

(In Thousands)	13 Weeks Ended				Fiscal Year
	May 4, 2019	August 3, 2019	November 2, 2019	February 1, 2020	Ended 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	\$ (37,481)	\$ (23,002)	\$ (28,219)	\$ (7,171)	\$ (95,873)
Add (deduct):					
Interest expense, net	64,392	64,510	63,119	60,662	252,683
Income tax benefit	(12,514)	(7,302)	(8,447)	(7,395)	(35,658)
Depreciation and amortization	45,518	40,096	43,986	43,944	173,544
(Income) loss from equity method investees	(18)	(420)	112	(2,115)	(2,441)
Goodwill & indefinite-lived intangible impairment	—	—	—	19,000	19,000
Asset impairments and write offs	4,757	927	3,572	2,615	11,871
Equity-based compensation	1,727	2,525	2,750	2,487	9,489
Mexico joint venture EBITDA ¹	3,047	3,100	3,293	4,787	14,227
Store pre-opening expenses	2,585	2,868	2,592	2,280	10,325
Store closing expenses	181	413	934	2,540	4,068
Severance	2,681	946	4,935	1,602	10,164
Non-cash occupancy-related costs ²	9,052	10,196	6,758	6,757	32,763
Non-recurring costs ³	13,805	255	4,399	1,926	20,385
Adjusted EBITDA	\$ 97,732	\$ 95,112	\$ 99,784	\$ 131,919	\$ 424,547
Net sales	\$ 1,097,157	\$ 1,095,632	\$ 1,093,069	\$ 1,148,656	\$ 4,434,514
Net margin ⁴	(3.4%)	(2.1%)	(2.6%)	(0.6%)	(2.2%)
Adjusted EBITDA Margin	8.9%	8.7%	9.1%	11.5%	9.6%

- (1) Mexico joint venture EBITDA represents 50% of the entity's operating results for all periods, as adjusted to reflect the results on a basis comparable to 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 the calculation of Adjusted EBITDA, we include the 50% interest in the company's 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.

	13 Weeks Ended				Fiscal Year
	May 2, 2020	August 1, 2020	October 31, 2020	January 30, 2021	January 30, 2021
Net income	\$ 728	\$ 2,384	\$ 4,053	\$ 7,060	\$ 14,225
Depreciation	3,154	2,702	2,915	3,478	12,249
Income tax expense	1,295	1,129	2,103	1,702	6,229
Foreign currency loss (gain)	1,557	(295)	(395)	(163)	704
Interest expense, net	1,304	1,046	1,158	1,232	4,740
EBITDA	\$ 8,038	\$ 6,966	\$ 9,834	\$ 13,309	\$ 38,147
50% of EBITDA	\$ 4,019	\$ 3,483	\$ 4,917	\$ 6,655	\$ 19,074

	13 Weeks Ended				Fiscal Year
	May 4, 2019	August 3, 2019	November 2, 2019	February 1, 2020	February 1, 2020
Net income	\$ 1,559	\$ 1,519	\$ 1,482	\$ 4,102	\$ 8,662
Depreciation	2,560	2,674	2,788	3,276	11,298
Income tax expense	1,042	1,022	1,161	882	4,107
Foreign currency (gain) loss	(75)	(46)	39	(324)	(406)
Interest expense, net	1,008	1,031	1,116	1,638	4,793
EBITDA	\$ 6,094	\$ 6,200	\$ 6,586	\$ 9,574	\$ 28,454
50% of EBITDA	\$ 3,047	\$ 3,100	\$ 3,293	\$ 4,787	\$ 14,227

- (2) Non-cash occupancy-related costs include the difference between cash and straight-line rent for all periods. Beginning in fiscal 2019, in connection with our adoption of the lease accounting standard, favorable lease rights of \$125.2 million and unfavorable lease rights of \$30.8 million were reclassified from intangible assets and other long-term liabilities, respectively, to right-of-use lease assets and the related amortization is now included in non-cash occupancy costs. In addition to the reclassification, the amortization period of these lease right assets has decreased to align with the terms of the underlying right-of-use lease assets, thus resulting in an acceleration of expense compared to prior years. The overall adoption of the lease accounting standard did not have an impact on our Adjusted EBITDA, as this increase in addback was completely offset in other impacted lines such as lower depreciation and amortization, asset impairments and write-offs, and store closing expenses.
- (3) Non-recurring costs include: unrealized fair market value adjustments on non-operating investments; class action settlements and related legal fees; one-time consulting and other costs associated with our strategic transformation initiatives; discontinuation and liquidation costs; and costs related to the initial public offering. While we incurred significant costs associated with the COVID-19 pandemic during fiscal 2020, we have not classified any of these costs as non-recurring due to the uncertainty surrounding the pandemic's length and long-term impact on the macroeconomic operating environment.
- (4) We define net margin as net income (loss) attributable to Class A and B-1 common stockholders divided by net sales and Adjusted EBITDA margin as Adjusted EBITDA divided by net sales.