



Petco Fourth Quarter 2021 Earnings Call

March 8, 2022



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, including statements regarding our fiscal year 2022 guidance, our growth plans, and execution on our transformation initiatives. 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 Petco 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 or that any forward-looking results will occur or be realized. 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. All forward-looking statements are based on 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 the control of Petco. Forward-looking statements are subject to a number of risks, uncertainties and other factors that could cause actual results or events to differ materially from the potential results or events discussed in the forward-looking statements, including, without limitation, those identified in this Presentation, as well as the following: (i) increased competition (including from multi-channel retailers and e-Commerce providers); (ii) reduced consumer demand for our products and/or services; (iii) our reliance on key vendors; (iv) our ability to attract and retain qualified employees; (v) risks arising from statutory, regulatory and/or legal developments; (vi) macroeconomic pressures in the markets in which we operate, including inflation; (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 or integrate strategic ventures, alliances or acquisitions and realize the anticipated benefits of such transactions; (xi) economic or regulatory developments that might affect our ability to provide attractive promotional financing; (xii) business interruptions and other supply chain issues; (xiii) catastrophic events, political tensions, conflicts and wars (such as the ongoing conflict in the Ukraine), 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; (xix) changes in our credit ratings; and (xx) the other risks, uncertainties and other factors identified under “Risk Factors” and elsewhere in our Securities and Exchange Commission filings. The occurrence of any such factors could significantly alter the results set forth in these statements.

Petco cautions 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. Petco undertakes 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.

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, Trailing Twelve Month 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.

High-performance continued through 2021

Delivered record 2021 revenue and profitability

Seven consecutive quarters of double-digit comp sales growth with thirteen consecutive quarters of comp sales growth

Strong Q4'21 results show continued momentum with 30% two-year stack revenue growth, inclusive of:

- 37% growth in Services and Vet,
- 143%¹ growth in Digital, and
- B&M Merchandise up 20%

Added ~800K net new customers in Q4'21 ending the year with over 24 million total active customers

18% revenue growth in FY'21, translating to 22% Adjusted EBITDA² growth driven by operating leverage

Expect FY'22 revenue growth of 6-8% to translate to growth in Adjusted EBITDA of 7-9%



Our customer acquisition engine remains a defining competitive advantage



Compelling Value Proposition

- Health and Wellness Focus
- Omnichannel Leadership
- Unique Digital Platform
- Powerful Loyalty Programs
- Training and Grooming
- Vet Hospital Buildout

**2 YR Comp
Growth**

30%

**Net New
Customers**

~800K

**Total Active
Customers¹**

24.1M

Recurring revenue and membership are driving increased retention and higher spend

+50% Growth in Recurring Customer Revenue¹



1.2M Grooming & Nutrition Perk Members



+30% Recurring Revenue¹ Customer Growth



~160K Vital Care Subscriptions



Strong growth and profitability powered by differentiated pet health & wellness ecosystem

Q4 2021 Key Highlights

- ▶ Strong performance reflects a robust category, unique ecosystem, omnichannel advantages, innovative offerings and power of our people
- ▶ Double-digit revenue growth driven by broad based strength:
 - Services & Vet: up 22% y/y and 37% on a 2-year stack
 - Digital: up 25% y/y and 143%² on a 2-year stack
 - B&M Merchandise: up 10% y/y and 20% on a 2-year stack
- ▶ Gross margin declined 60bps YoY primarily driven by business mix towards consumables, services and digital as well as supply chain impacts; increased 80bps QoQ
- ▶ Net leverage ratio reduced by 22% or 0.7x during 2021 driven by reduced net debt and Adj EBITDA expansion

FY'21 Results

Q4'21 Results

	Results	H/(L) FY'20	Results	B/(W) Q4'20
Net Revenue (\$B)	\$5.8	+18%	\$1.5	+13%
Gross Margin %	41.8%	(100) bps	42.0%	(60) bps
Adj. EBITDA¹ (\$M)	\$591	+22%	\$172	+16%
Adj. EPS¹	\$0.91	+\$0.63	\$0.28	+\$0.11
Net Debt¹/ TTM Adj. EBITDA¹	2.5x	(22)%	2.5x	(22)%

¹ Non-GAAP financial measure; see definition and reconciliation at the end of this Presentation.

² Digital growth without excluding Live Aquaria is 25% Y/Y or 134% on a two-year stack

Strong track record of delivering growth

Net Revenue (\$M)



	Q1'20	Q2'20	Q3'20	Q4'20	Q1'21	Q2'21	Q3'21	Q4'21
Revenue Growth Y/Y	1%	10%	15%	16%	27%	19%	15%	13%
Comp Sales Growth	2%	11%	16%	17%	28%	20%	15%	14%
2Yr Comp Sales Growth	6%	15%	20%	20%	30%	30%	32%	30%

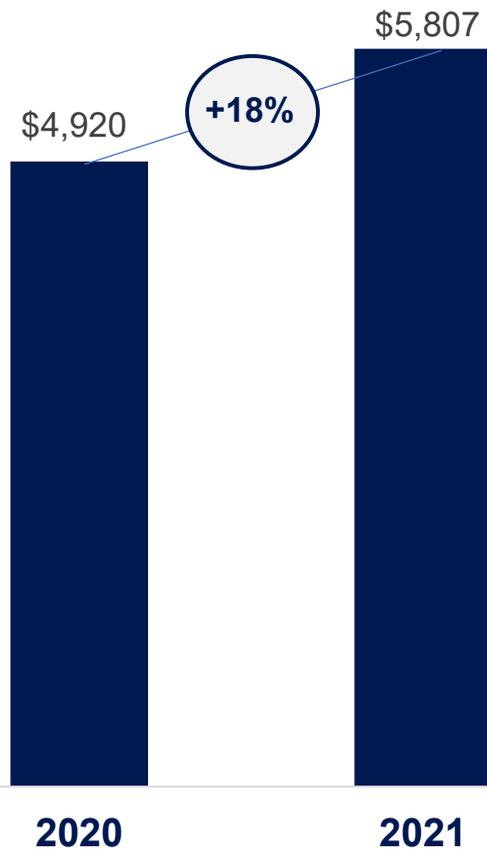
Q4 2021 Key Highlights

- ▶ Services and Vet revenue grew by 22% y/y and 37% on a 2-year stack as we continue to differentiate as the only integrated holistic provider of pet health and wellness
- ▶ Digital revenue increased 25% y/y and 143%¹ on a 2-year stack, reflecting growth in repeat delivery, our premium assortment, and BOPUS
- ▶ Pet Care Center revenue increased 10% y/y and 20% on a 2-year stack with sales mix shifting toward owned brands

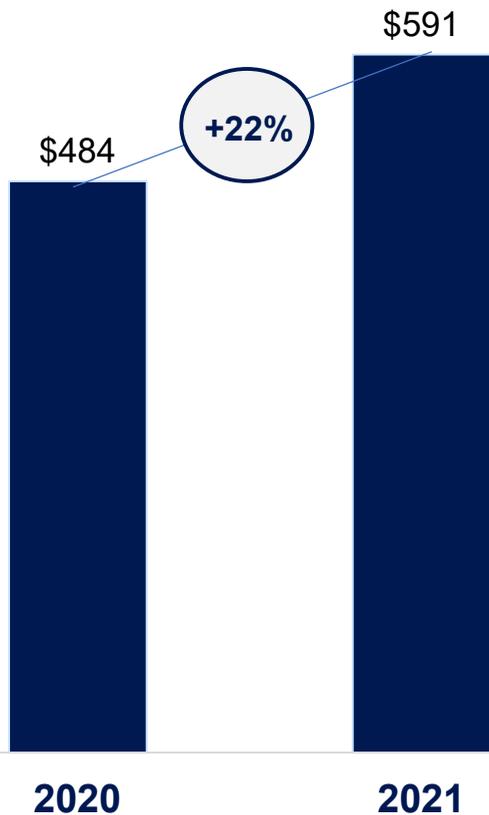
petco ¹ Digital growth without excluding Live Aquaria is 25% Y/Y or 134% on a two-year stack

FY'21 revenue growth translated to strong Adjusted EBITDA¹ performance

Net Revenue (\$M)



Adjusted EBITDA¹ (\$M)



FY 2021 Key Highlights

- ▶ Net Revenue grew 18% versus the prior year with accelerating trends over the last year
- ▶ Strong revenue trends and expense leverage drove 22% Adjusted EBITDA growth while we meaningfully invested in:
 - ❖ Enhanced CRM and data analytics capabilities
 - ❖ Continued scaling of vet hospitals
 - ❖ Partners through increased hourly pay, higher bonuses and other benefits

Our business is driving strong cash flow while significantly deleveraging the balance sheet

	2021		2020
Free Cash Flow ¹	\$119M	+9%	\$109M
Net Debt ¹	\$1.48B	-5%	\$1.55B
Net Debt ¹ / TTM Adjusted EBITDA ¹	2.5x	-22%	3.2x
Liquidity ²	\$650M	+30%	\$499M

FY 2021 Key Highlights

- ▶ Capital expenditures of \$239M included investments in digital, buildout of vet hospitals, innovation and enhanced supply chain capacity
- ▶ Reduction of net debt and leverage driven by IPO proceeds, related recapitalization, and Free Cash Flow generation
- ▶ Strong liquidity of \$650M inclusive of \$212M of cash and cash equivalents and \$438M of availability on our revolving credit facility

2022 guidance reflects strong top and bottom-line momentum

Guidance ²		
2022	Revenue (\$B)	\$6.15B to \$6.25B +6% - 8% YoY
	Adj. EBITDA ¹ (\$B)	\$630M to \$645M +7% - 9% YoY
	Adj. EPS ¹	\$0.97 - \$1.00
	Capital Expenditures	\$275 - \$325M



Strong Top Line Growth and Operating Leverage is Expected to Translate to Strong Bottom Line Growth

¹ We have not reconciled Adjusted EBITDA and Adjusted EPS outlook to the most comparable GAAP outlook because it is not possible to do so without unreasonable efforts due to the uncertainty and potential variability of reconciling items, which are dependent on future events and often outside of management's control and which could be significant. Because such items cannot be reasonably predicted with the level of precision required, we are unable to provide outlook for the comparable GAAP measures. Forward-looking estimates of Adjusted EBITDA and Adjusted EPS are made in a manner consistent with the relevant definitions and assumptions noted herein.

² Guidance as of March 8, 2022. 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.

Petco's Purpose In Action in 2021



- Saved 396K pets from euthanasia
- >3K pets reunited through Petco Love Lost
- Petco Love with Merck completed >500K of the committed 1M life-saving free vaccines to under-resourced communities



- ~8M lbs of cardboard saved from same day, BOPUS and curbside fulfillment
- 6.6M+ plastic polybags saved in owned brands



- Raised minimum wage \$2 with average wage well above \$17 per hour
- Improved benefits while holding costs flat
- >50% director + new hires and promotions from under-represented populations



NON-GAAP MEASURES AND OTHER DEFINITIONS



Non-GAAP Measures and Other Definitions

The following information provides definitions and reconciliations of the non-GAAP financial measures presented in this Presentation 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 this 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 this Presentation. The non-GAAP financial measures in this Presentation may differ from similarly-titled measures used by other companies.

Adjusted EBITDA: Adjusted EBITDA, including Trailing Twelve Month Adjusted EBITDA, is considered a non-GAAP financial measure under the Securities and Exchange Commission's ("SEC") rules because it excludes certain amounts 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 facilitates comparison of the current period performance with that of the comparable prior period. In addition, Adjusted EBITDA affords investors a view of what management considers to be Petco's core operating performance 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 with the SEC for additional information on Adjusted EBITDA. The tables on pages 14 of this Presentation reflect the calculation of Adjusted EBITDA for the thirteen and fifty-two week period ended January 29, 2022 compared to the prior year thirteen and fifty-two week period ended January 30, 2021.

Adjusted Net Income and Adjusted EPS: Adjusted Net Income and Adjusted diluted earnings per share attributable to Petco common stockholders (Adjusted EPS) are considered non-GAAP financial measures under the SEC's rules because they exclude certain amounts included in the net income (loss) attributable to Petco common stockholders and diluted earnings per share attributable to Petco common stockholders calculated in accordance with GAAP. Management believes that Adjusted Net Income and Adjusted EPS are meaningful measures to share with investors because they facilitate comparison of the current period performance with that of the comparable prior period. In addition, Adjusted Net Income and Adjusted EPS afford investors a view of what management considers to be Petco's core earnings performance as well as the ability to make a more informed assessment of such earnings performance with that of the prior period. The tables on page 15 of this Presentation reflect the calculation of Adjusted Net Income and Adjusted EPS for the thirteen and fifty-two weeks ended January 29, 2022 compared to the thirteen and fifty-two weeks ended January 30, 2021.

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 the ability to generate additional cash from business operations, is an important financial measure for use in evaluating the company's financial performance. The table on page 16 of this Presentation reflects the calculation of free cash flow for the thirteen and fifty-two weeks ended January 29, 2022 compared to the thirteen and fifty-two weeks ended January 30, 2021.

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. The table on page 17 reflects the calculation of Net Debt as of the period ended January 29, 2022 compared to the prior quarter ended January 30, 2021.

Total Active Customers: Total Active Customers is the total number of customers (including Pals members and eComm customers) trackable by certain personal information that have made at least one transaction with us during the prior 12-month period. It reflects the inflow of new customers as well as the outflow of customers who have not made a transaction during the prior 12-month period. Net New Customers is the change in Total Active Customers between this quarter end and the prior quarter end. Previously, Total Active Customers and Net New Customers included Pals members whose transactions were tracked by member numbers only as opposed to other personal information. Currently, only Pals members accounts with certain personal information are counted.

Non-GAAP Measures: Adjusted EBITDA*

(dollars in thousands)	13 Weeks Ended		52 Weeks Ended	
	January 29, 2022	January 30, 2021	January 29, 2022	January 30, 2021
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	\$ 28,994	\$ (6,159)	\$ 164,417	\$ (26,483)
Add (deduct):				
Interest expense, net	18,884	49,666	77,335	218,430
Income tax expense (benefit)	9,689	10,200	53,473	(3,337)
Depreciation and amortization	46,794	45,875	172,431	174,836
Income from equity method investees	(3,393)	(3,530)	(10,883)	(6,482)
Loss on debt extinguishment and modification	—	17,549	20,838	17,549
Asset impairments and write offs	5,000	7,955	10,918	15,606
Equity-based compensation	12,774	5,451	49,265	12,915
Other non-operating loss (income)	30,437	—	(34,497)	—
Mexico joint venture EBITDA (1)	8,314	6,655	26,837	19,074
Store pre-opening expenses	3,026	2,218	14,765	9,228
Store closing expenses	1,699	1,835	5,028	7,782
Non-cash occupancy-related costs (2)	2,550	2,151	8,114	19,240
Non-recurring costs (3)	7,382	8,733	33,437	25,990
Adjusted EBITDA	\$ 172,150	\$ 148,599	\$ 591,478	\$ 484,348
Net sales	\$ 1,514,357	\$ 1,337,713	\$ 5,807,149	\$ 4,920,202
Net margin (4)	1.9%	(0.5%)	2.8%	(0.5%)
Adjusted EBITDA Margin	11.4%	11.1%	10.2%	9.8%

Non-GAAP Measures: Adjusted Net Income and Adjusted EPS*

(in thousands, except per share amounts)

Reconciliation of Diluted EPS to Adjusted EPS	13 Weeks Ended				52 Weeks Ended			
	January 29, 2022		January 30, 2021		January 29, 2022		January 30, 2021	
	Amount	Per share	Amount	Per share	Amount	Per share	Amount	Per share
Net income (loss) attributable to common stockholders / diluted EPS	\$ 28,994	\$ 0.11	\$ (6,159)	\$ (0.03)	\$ 164,417	\$ 0.62	\$ (26,483)	\$ (0.13)
Add (deduct):								
Income tax expense	9,689	0.04	10,200	0.05	53,473	0.20	(3,337)	(0.02)
Loss on debt extinguishment and modification	—	—	17,549	0.08	20,838	0	17,549	0.08
Asset impairments and write offs	5,000	0.02	7,955	0.03	10,918	0.04	15,606	0.07
Equity-based compensation	12,774	0.05	5,451	0.03	49,265	0.19	12,915	0.06
Other non-operating loss	30,437	0.11	—	—	(34,497)	(0.13)	—	—
Store pre-opening expenses	3,026	0.01	2,218	0.01	14,765	0.06	9,228	0.05
Store closing expenses	1,699	0.01	1,835	0.01	5,028	0.02	7,782	0.04
Non-cash occupancy-related costs (2)	2,550	0.01	2,151	0.01	8,114	0.03	19,240	0.09
Non-recurring costs (3)	7,382	0.02	8,733	0.04	33,437	0.12	25,990	0.13
Adjusted pre-tax income / diluted earnings per share	\$ 101,551	\$ 0.38	\$ 49,933	\$ 0.23	\$ 325,758	\$ 1.23	\$ 78,490	\$ 0.37
Income tax expense at 26% normalized tax rate	26,403	0.10	12,983	0.06	84,697	0.32	20,407	0.09
Adjusted Net Income / Adjusted EPS	\$ 75,148	\$ 0.28	\$ 36,950	\$ 0.17	\$ 241,061	\$ 0.91	\$ 58,083	\$ 0.28

Non-GAAP Measures: Free Cash Flow

(in thousands)

	13 Weeks Ended		52 Weeks Ended	
	January 29, 2022	January 30, 2021	January 29, 2022	January 30, 2021
Net cash provided by operating activities	\$ 69,771	\$ 67,135	\$ 358,215	\$ 268,615
Cash paid for fixed assets	(74,780)	(63,271)	(239,110)	(159,560)
Free Cash Flow	\$ (5,009)	\$ 3,864	\$ 119,105	\$ 109,055

Non-GAAP Measures: Net Debt

(dollars in thousands)	January 29, 2022	January 30, 2021
Total debt:		
Senior secured credit facilities, net, including current portion	\$ 1,657,390	\$ 1,646,281
Finance leases, including current portion	29,816	13,639
Total debt	1,687,206	1,659,920
Less: cash and cash equivalents	(211,602)	(111,402)
Net Debt	\$ 1,475,604	\$ 1,548,518
Adjusted EBITDA (TTM)	\$ 591,478	\$ 484,348
Net Debt / Adjusted EBITDA ratio	2.5x	3.2x

Net Sales by Category

(dollars in thousands)

	13 Weeks Ended						
	January 29, 2022	January 30, 2021	\$ Change	% Change	February 1, 2020	\$ Change (2 yr)	% Change (2 yr)
Consumables	\$ 683,552	\$ 575,484	\$ 108,068	18.8%	\$ 530,433	\$ 153,119	28.9%
Supplies and companion animals	646,082	620,779	25,303	4.1%	505,728	140,354	27.8%
Services and other	184,723	141,450	43,273	30.6%	112,495	72,228	64.2%
Net sales	\$ 1,514,357	\$ 1,337,713	\$ 176,644	13.2%	\$ 1,148,656	\$ 365,701	31.8%

	52 Weeks Ended						
	January 29, 2022	January 30, 2021	\$ Change	% Change	February 1, 2020	\$ Change (2 yr)	% Change (2 yr)
Consumables	\$ 2,533,755	\$ 2,123,499	\$ 410,256	19.3%	\$ 2,054,280	\$ 479,475	23.3%
Supplies and companion animals	2,603,104	2,328,663	274,441	11.8%	1,938,904	664,200	34.3%
Services and other	670,290	468,040	202,250	43.2%	441,330	228,960	51.9%
Net sales	\$ 5,807,149	\$ 4,920,202	\$ 886,947	18.0%	\$ 4,434,514	\$ 1,372,635	31.0%

petco®

THE HEALTH +
WELLNESS CO.