



# Petco Third Quarter 2021 Earnings Call

November 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, including statements regarding our fiscal year 2021 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; (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; (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.

# Third Quarter 2021 Key Messages

**Petco delivered record growth with 15% revenue growth, and comp sales of 15% and 32% on a two-year stack**

**6<sup>th</sup> consecutive quarter of double-digit and 12<sup>th</sup> quarter of overall comp sales growth driven by recurring revenue offerings, rapidly expanding vet business and digital growth**

**Top-line performance translated to 17% Adjusted EBITDA<sup>1</sup> and 186% Adjusted EPS<sup>1</sup> growth**

**Raising full year guidance on top- and bottom-line**

**Services & Vet revenue grew 24% YoY and 38% on a two-year basis poised for multi-year growth**

**Digital revenue grew 32% YoY and 159% on a two-year basis<sup>2</sup>; driven by repeat delivery, BOPUS and Same Day Delivery differentiation**



# Through strategic transformation we activated our customer acquisition engine



## 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**

**32%**

**Net New  
Customers**

**830K**

**Total Active  
Customers<sup>1</sup>**

**23.3M**

# Recurring revenue and loyalty are driving retention and higher spend

**+60%**

**Growth in Recurring Customer Revenue<sup>1</sup>**



**1.0M**

**Grooming & Nutrition Perk Members**



**+45%**

**Recurring Revenue<sup>1</sup> Customer Growth**



**130k**

**Vital Care Subscriptions**



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

## Q3'21 Results

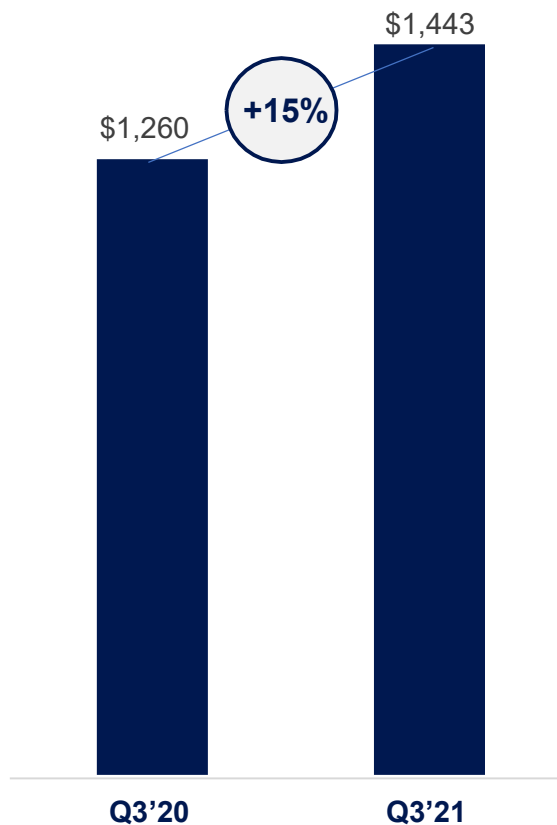
	Results	B/(W) Q3'20
<b>Net Revenue (\$B)</b>	<b>\$1.4</b>	<b>+15%</b>
<b>Gross Margin %</b>	<b>41.2%</b>	<b>(177) bps</b>
<b>Adj. EBITDA<sup>1</sup> (\$M)</b>	<b>\$139</b>	<b>+17%</b>
<b>Adj. EPS<sup>1</sup></b>	<b>\$0.20</b>	<b>+\$0.13</b>
<b>Net Debt<sup>1</sup> / TTM Adj. EBITDA<sup>1</sup></b>	<b>2.6x</b>	<b>(60)%</b>

- ### Q3 2021 Key Highlights
- ▶ Strong performance reflects the traction of transformation and stickiness of differentiated model
  - ▶ Double-digit revenue growth driven by broad based strength:
    - Services & Vet: up 24% y/y and 37% on a 2-year stack
    - Digital: up 32% y/y and 159% on a 2-year stack, excl. the sale of Live Aquaria
    - B&M Merchandise: up 11% y/y and 21% on a 2-year stack
  - ▶ Gross margin decrease driven by strength in consumables and services as well as higher supply chain costs
  - ▶ Revenue and expense leverage enabled improved profitability
  - ▶ Net leverage ratio reduced by 19% or 0.6x year to date in 2021

petco <sup>1</sup> Non-GAAP financial measure; see definition and reconciliation at the end of this Presentation.  
<sup>2</sup> Digital growth without excluding Live Aquaria is 11% Y/Y or 138% on a two-year stack

# Q3'21 revenue growth translated to strong Adjusted EBITDA<sup>1</sup> performance

Net Revenue (\$M)



Adjusted EBITDA<sup>1</sup> (\$M)

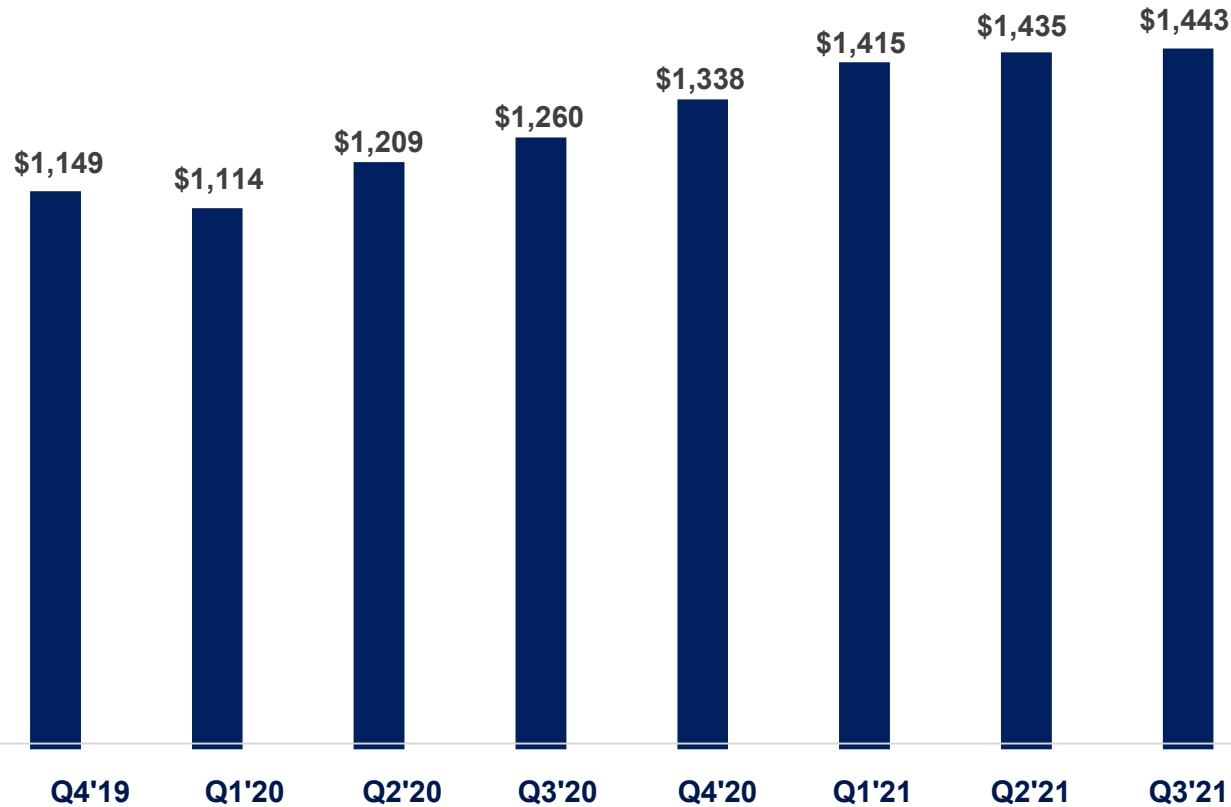


## Q3 2021 Key Highlights

- ▶ Net Revenue grew 15% versus prior year with accelerating trends over the last year
- ▶ Strong revenue trends and expense leverage drove 17% 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

# Strong track record of delivering growth

Net Revenue (\$M)



	Q4'19	Q1'20	Q2'20	Q3'20	Q4'20	Q1'21	Q2'21	Q3'21
Revenue Growth Y/Y	1%	1%	10%	15%	16%	27%	19%	15%
Comp Sales Growth	4%	2%	11%	16%	17%	28%	20%	15%
2Yr Comp Sales Growth	5%	6%	15%	20%	20%	30%	30%	32%

## Q3 2021 Key Highlights

- ▶ Services and Vet revenue grew by 24% y/y and 37% on a 2-year stack as we continue to differentiate as the only holistic provider of pet health and wellness
- ▶ Digital revenue increased 32% y/y and 159% on a 2-year stack excl. sale of Live Aquaria, reflecting our expanded brand assortment and enhanced personalization
- ▶ Pet Care Center revenue increased 11% y/y and 21% on a 2-year stack with higher retail traffic and strong execution



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

## Q3 2021 YTD Key Highlights

- ▶ Capital expenditures of \$164M included investments in digital, buildout of vet hospitals, innovation and enhanced supply chain capacity
- ▶ Reduction of net debt and leverage was driven by the proceeds generated from the IPO, related recapitalization, and Free Cash Flow generation
- ▶ Strong liquidity of \$663M inclusive of \$222M of cash and cash equivalents and \$441M of availability

	3Q21 YTD		3Q20 YTD	
Free Cash Flow <sup>1</sup>	\$124M	+18%	\$105M	
Net Debt <sup>1</sup>	\$1.5B	-52%	\$3.0B	
Net Debt <sup>1</sup> / TTM Adjusted EBITDA <sup>1</sup>	2.6x	-60%	6.5x	
Liquidity <sup>2</sup>	\$663M	+13%	\$586M	

# Raised guidance reflecting strong business momentum

		Guidance <sup>2</sup>	
		Current	Previous
2021	Revenue (\$B)	\$5.725B - \$5.775B +16% - 17% YoY	\$5.6B - \$5.7B +14% - 16% YoY
	Adj. EBITDA <sup>1</sup> (\$M)	\$577M - \$582M +19% - 20% YoY	\$565M - \$575M +17% - 19% YoY
	Adj. EPS <sup>1</sup>	\$0.86 - \$0.88	\$0.81 - \$0.85
	Capital Expenditures	\$220 - \$235M	Near Top End of \$185M - \$235M Range



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

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

<sup>2</sup> Guidance as of November 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.

# Petco's Purpose In Action



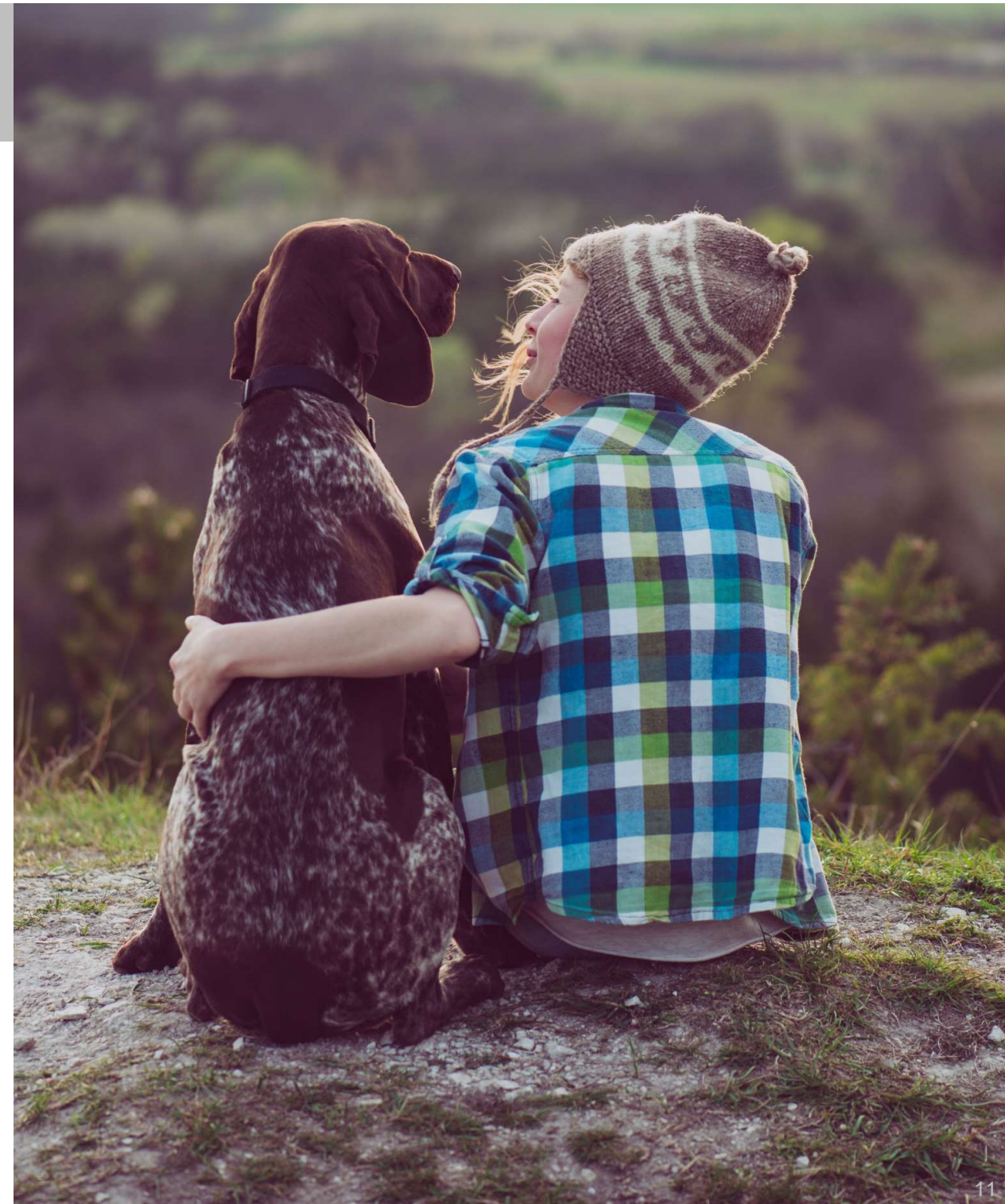
- Saved >100K pets from euthanasia
- Reunited 1,600 of pets through Love Lost
- Petco Love with Merck completed >250K of the committed 1M life-saving vaccinations to under-resourced communities



- 1.9M+ lbs of cardboard saved in Q3 from same day, BOPUS and curbside
- 1.2M+ plastic polybags saved in owned brands
- Received Earth Hero Award from the Pet Sustainability Coalition



- 40% higher than target bonuses for Pet Care Centers Partners demonstrating that as Petco does better so will our Partners
- Increased wages and improved benefits, while the company absorbed certain healthcare costs



# 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 and 15 of this Presentation reflect the calculation of Adjusted EBITDA for the thirteen weeks and trailing twelve months ended October 30, 2021 compared to the prior year quarter and twelve-month period ended October 31, 2020, respectively, as well as the twelve month 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 16 of this Presentation reflect the calculation of Adjusted Net Income and Adjusted EPS for the thirteen weeks ended October 30, 2021 compared to the prior year quarter ended October 31, 2020.

**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 17 of this Presentation reflects the calculation of free cash flow for the thirteen and thirty-nine weeks ended October 30, 2021 compared to the thirteen and thirty-nine weeks ended October 31, 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. The table on page 18 reflects the calculation of Net Debt as of the period ended October 30, 2021 compared to the prior quarters ended January 30, 2021 and October 31, 2020.

**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 member accounts with certain personal information are counted.

# Non-GAAP Measures: Adjusted EBITDA\*

(dollars in thousands)	13 Weeks Ended	
	October 30, 2021	October 31, 2020
<b>Reconciliation of Net Income Attributable to Class A and B-1 Common Stockholders to Adjusted EBITDA</b>		
<b>Net income attributable to Class A and B-1 common stockholders</b>	<b>\$ 52,752</b>	<b>\$ 3,403</b>
Add (deduct):		
Interest expense, net	18,751	53,746
Income tax expense (benefit)	14,095	(7,940)
Depreciation and amortization	42,792	42,923
Income from equity method investees	(2,637)	(1,875)
Asset impairments and write offs	3,228	1,390
Equity-based compensation	13,381	2,847
Other non-operating income	(19,773)	—
Mexico joint venture EBITDA (1)	6,661	4,917
Store pre-opening expenses	4,222	3,625
Store closing expenses	1,264	2,311
Non-cash occupancy-related costs (2)	1,540	3,920
Non-recurring costs (3)	2,233	8,834
<b>Adjusted EBITDA</b>	<b>\$ 138,509</b>	<b>\$ 118,101</b>
Net sales	\$ 1,443,264	\$ 1,259,997
Net margin (4)	3.7%	0.3%
Adjusted EBITDA Margin	9.6%	9.4%

# Non-GAAP Measures: Trailing Twelve Month Adjusted EBITDA\*

(dollars in thousands)	Trailing Twelve Months		
	October 30, 2021	January 30, 2021	October 31, 2020
<b>Reconciliation of Net Income (Loss) Attributable to Class A and B-1 Common Stockholders to Adjusted EBITDA</b>			
<b>Net income (loss) attributable to Class A and B-1 common stockholders</b>	<b>\$ 129,264</b>	<b>\$ (26,483)</b>	<b>\$ (27,495)</b>
Add (deduct):			
Interest expense, net	108,117	218,430	229,426
Income tax expense (benefit)	53,984	(3,337)	(20,932)
Depreciation and amortization	171,512	174,836	172,905
Income from equity method investees	(11,020)	(6,482)	(5,067)
Loss on debt extinguishment and modification	38,387	17,549	—
Goodwill & indefinite-lived intangible impairment	—	—	19,000
Asset impairments and write offs	13,873	15,606	10,266
Equity-based compensation	41,942	12,915	9,951
Other non-operating income	(64,934)	—	—
Mexico joint venture EBITDA (1)	25,178	19,074	17,206
Store pre-opening expenses	13,957	9,228	9,290
Store closing expenses	5,164	7,782	8,487
Non-cash occupancy-related costs (2)	7,715	19,240	23,846
Non-recurring costs (3)	34,788	25,990	20,785
<b>Adjusted EBITDA</b>	<b>\$ 567,927</b>	<b>\$ 484,348</b>	<b>\$ 467,668</b>
Net sales	\$ 5,630,505	\$ 4,920,202	\$ 4,731,145
Net margin (4)	2.3%	(0.5%)	(0.6%)
Adjusted EBITDA Margin	10.1%	9.8%	9.9%

# 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			
	October 30, 2021		October 31, 2020	
	Amount	Per share	Amount	Per share
<b>Net income attributable to common stockholders / diluted EPS</b>	<b>\$ 52,752</b>	<b>\$ 0.20</b>	<b>\$ 3,403</b>	<b>\$ 0.02</b>
Add (deduct):				
Income tax expense (benefit)	14,095	0.05	(7,940)	(0.04)
Asset impairments and write offs	3,228	0.01	1,390	0.01
Equity-based compensation	13,381	0.05	2,847	0.01
Other non-operating income	(19,773)	(0.08)	—	—
Store pre-opening expenses	4,222	0.02	3,625	0.02
Store closing expenses	1,264	0.00	2,311	0.01
Non-cash occupancy-related costs (2)	1,540	0.01	3,920	0.02
Non-recurring costs (3)	2,233	0.01	8,834	0.04
<b>Adjusted pre-tax income / diluted earnings per share</b>	<b>\$ 72,942</b>	<b>\$ 0.27</b>	<b>\$ 18,390</b>	<b>\$ 0.09</b>
Income tax expense at 26% normalized tax rate	18,965	0.07	4,781	0.02
<b>Adjusted Net Income / Adjusted EPS</b>	<b>\$ 53,977</b>	<b>\$ 0.20</b>	<b>\$ 13,609</b>	<b>\$ 0.07</b>



# Non-GAAP Measures: Free Cash Flow

(in thousands)

	13 Weeks Ended		39 Weeks Ended	
	October 30, 2021	October 31, 2020	October 30, 2021	October 31, 2020
<b>Net cash provided by operating activities</b>	<b>\$ 86,040</b>	<b>\$ 109,091</b>	<b>\$ 288,444</b>	<b>\$ 201,480</b>
Cash paid for fixed assets	(64,447)	(46,246)	(164,330)	(96,289)
<b>Free Cash Flow</b>	<b>\$ 21,593</b>	<b>\$ 62,845</b>	<b>\$ 124,114</b>	<b>\$ 105,191</b>

## Non-GAAP Measures: Net Debt

(dollars in thousands)	October 30, 2021	January 30, 2021	October 31, 2020
Total debt:			
Senior secured credit facilities, net, including current portion	\$ 1,660,423	\$ 1,646,281	\$ 2,355,426
Senior notes, net	—	—	868,624
Finance leases, including current portion	14,828	13,639	13,615
<b>Total debt</b>	<b>1,675,251</b>	<b>1,659,920</b>	<b>3,237,665</b>
Less: cash and cash equivalents	(221,484)	(111,402)	(195,832)
<b>Net Debt</b>	<b>\$ 1,453,767</b>	<b>\$ 1,548,518</b>	<b>\$ 3,041,833</b>
Adjusted EBITDA (TTM)	\$ 567,927	\$ 484,348	\$ 467,668
Net Debt / Adjusted EBITDA ratio	2.6x	3.2x	6.5x

# Net Sales by Category

(dollars in thousands)

	Thirteen weeks ended				Thirty-nine weeks ended			
	October 30, 2021	October 31, 2020	\$ Change	% Change	October 30, 2021	October 31, 2020	\$ Change	% Change
Consumables	\$ 643,125	\$ 529,989	\$ 113,136	21%	\$ 1,850,203	\$ 1,548,015	\$ 302,188	20%
Supplies and companion animals	635,278	601,520	33,758	6%	1,957,022	1,707,884	249,138	15%
Services and other	164,861	128,488	36,373	28%	485,567	326,590	158,977	49%
<b>Net sales</b>	<b>\$ 1,443,264</b>	<b>\$ 1,259,997</b>	<b>\$183,267</b>	<b>15%</b>	<b>\$ 4,292,792</b>	<b>\$ 3,582,489</b>	<b>\$710,303</b>	<b>20%</b>

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THE HEALTH +  
WELLNESS CO.