

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 1, 2020

or

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

For the transition period from \_\_\_\_ to \_\_\_\_

Commission File Number: 001-38936



CHEWY, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

90-1020167

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

1855 Griffin Road, Suite B-428, Dania Beach, Florida

(Address of principal executive offices)

33004

(Zip Code)

(786) 320-7111

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, par value \$0.01 per share	CHWY	New York Stock Exchange

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

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

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

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

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

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

Class	Outstanding as of December 1, 2020
Class A Common Stock, \$0.01 par value per share	95,308,313
Class B Common Stock, \$0.01 par value per share	317,338,356

CHEWY, INC.  
FORM 10-Q

For the Quarterly Period Ended November 1, 2020

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## PART I. FINANCIAL INFORMATION

### CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements about us and our industry that involve substantial risks and uncertainties. All statements other than statements of historical facts contained in this Quarterly Report on Form 10-Q, including statements regarding our future results of operations or financial condition, business strategy and plans and objectives of management for future operations, are forward-looking statements. In some cases, you can identify forward-looking statements because they contain words such as “anticipate,” “believe,” “contemplate,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “should,” “target,” “will” or “would” or the negative of these words or other similar terms or expressions. These forward-looking statements include, but are not limited to, statements concerning our ability to:

- successfully manage risks relating to the spread of coronavirus (also known as COVID-19), including any adverse impacts on our supply chain, workforce, facilities, customer services and operations;
- sustain our recent growth rates and manage our growth effectively;
- acquire new customers in a cost-effective manner and increase our net sales per active customer;
- accurately predict economic conditions, particularly the impact on economic conditions of the spread of COVID-19, and their impact on consumer spending patterns, particularly in the pet products market, and accurately forecast net sales and appropriately plan our expenses in the future;
- introduce new products or offerings and improve existing products;
- successfully compete in the pet products and services retail industry, especially in the e-commerce sector;
- source additional, or strengthen our existing relationships with, suppliers;
- negotiate acceptable pricing and other terms with third-party service providers, suppliers and outsourcing partners and maintain our relationships with such entities;
- optimize, operate and manage the expansion of the capacity of our fulfillment centers, including risks from the spread of COVID-19 relating to our plans to expand capacity and develop new facilities;
- provide our customers with a cost-effective platform that is able to respond and adapt to rapid changes in technology;
- maintain adequate cybersecurity with respect to our systems and ensure that our third-party service providers do the same with respect to their systems;
- successfully manufacture and sell our own private brand products;
- maintain consumer confidence in the safety and quality of our vendor-supplied and private brand food products and hardgood products;
- comply with existing or future laws and regulations in a cost-efficient manner;
- attract, develop, motivate and retain well-qualified employees; and
- adequately protect our intellectual property rights and successfully defend ourselves against any intellectual property infringement claims or other allegations that we may be subject to.

You should not rely on forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Quarterly Report on Form 10-Q primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, and results of operations. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties and other factors described in the section titled “Risk Factors” in our annual report on Form 10-K for the fiscal year ended February 2, 2020 and our subsequent quarterly reports, and elsewhere in this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report on Form 10-Q. The results, events and circumstances reflected in the forward-looking statements may not be achieved or occur, and actual results, events or circumstances could differ materially from those described in the forward-looking statements.

In addition, statements that “we believe” and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based on information available to us as of the date of this Quarterly Report on Form 10-Q. While we believe that information provides a reasonable basis for these statements, that information may be limited or incomplete. Our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all relevant information. These statements are inherently uncertain, and investors are cautioned not to unduly rely on these statements.

The forward-looking statements made in this Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Quarterly Report on Form 10-Q to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect new information or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments.

Investors and others should note that we may announce material information to our investors using our investor relations website (<https://investor.chewy.com/>), SEC filings, press releases, public conference calls and webcasts. We use these channels, as well as social media, to communicate with our investors and the public about our company, our business and other issues. It is possible that the information that we post on social media could be deemed to be material information. We therefore encourage investors to visit these websites from time to time. The information contained on such websites and social media posts is not incorporated by reference into this filing. Further, our references to website URLs in this filing are intended to be inactive textual references only.

**Item 1. Financial Statements (Unaudited)**

**CHEWY, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share and per share data)

	As of	
	November 1, 2020	February 2, 2020
<b>Assets</b>	(Unaudited)	
Current assets:		
Cash and cash equivalents	\$ 505,828	\$ 212,088
Accounts receivable	97,920	80,478
Inventories	482,649	317,808
Due from Parent, net	20,689	626
Prepaid expenses and other current assets	29,457	18,789
Total current assets	1,136,543	629,789
Property and equipment, net	202,090	118,731
Operating lease right-of-use assets	297,871	179,052
Other non-current assets	6,736	4,749
Total assets	<u>\$ 1,643,240</u>	<u>\$ 932,321</u>
<b>Liabilities and stockholders' deficit</b>		
Current liabilities:		
Trade accounts payable	\$ 769,434	\$ 683,049
Accrued expenses and other current liabilities	549,302	417,489
Total current liabilities	1,318,736	1,100,538
Operating lease liabilities	323,948	200,439
Other long-term liabilities	56,977	35,318
Total liabilities	1,699,661	1,336,295
Commitments and contingencies (Note 4)		
Stockholders' deficit:		
Preferred stock, \$0.01 par value per share, 5,000,000 shares authorized, no shares issued and outstanding as of November 1, 2020 and February 2, 2020	—	—
Class A common stock, \$0.01 par value per share, 1,500,000,000 shares authorized, 95,275,138 and 66,445,422 shares issued and outstanding as of November 1, 2020 and February 2, 2020, respectively	953	665
Class B common stock, \$0.01 par value per share, 395,000,000 shares authorized, 317,338,356 and 334,922,454 shares issued and outstanding as of November 1, 2020 and February 2, 2020, respectively	3,173	3,349
Additional paid-in capital	1,897,459	1,436,484
Accumulated deficit	(1,958,006)	(1,844,472)
Total stockholders' deficit	(56,421)	(403,974)
Total liabilities and stockholders' deficit	<u>\$ 1,643,240</u>	<u>\$ 932,321</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

**CHEWY, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in thousands, except per share data)  
(Unaudited)

	13 Weeks Ended		39 Weeks Ended	
	November 1, 2020	November 3, 2019	November 1, 2020	November 3, 2019
Net sales	\$ 1,782,000	\$ 1,229,801	\$ 5,103,252	\$ 3,492,218
Cost of goods sold	1,327,442	938,021	3,836,629	2,674,313
Gross profit	454,558	291,780	1,266,623	817,905
Operating expenses:				
Selling, general and administrative	352,250	258,488	1,015,488	684,948
Advertising and marketing	134,616	112,071	363,200	325,086
Total operating expenses	486,866	370,559	1,378,688	1,010,034
Loss from operations	(32,308)	(78,779)	(112,065)	(192,129)
Interest (expense) income, net	(539)	(221)	(1,469)	699
Loss before income tax provision	(32,847)	(79,000)	(113,534)	(191,430)
Income tax provision	—	—	—	—
Net loss	<u>\$ (32,847)</u>	<u>\$ (79,000)</u>	<u>\$ (113,534)</u>	<u>\$ (191,430)</u>
Net loss per share attributable to common Class A and Class B stockholders, basic and diluted	<u>\$ (0.08)</u>	<u>\$ (0.20)</u>	<u>\$ (0.28)</u>	<u>\$ (0.48)</u>
Weighted average common shares used in computing net loss per share attributable to common Class A and Class B stockholders, basic and diluted	<u>409,260</u>	<u>401,317</u>	<u>405,014</u>	<u>397,235</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

**CHEWY, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT**  
(in thousands)  
(Unaudited)

**13 Weeks Ended November 1, 2020**

	<b>Class A and Class B Common Stock</b>		<b>Additional Paid- in Capital</b>	<b>Accumulated Deficit</b>	<b>Total Stockholders' Deficit</b>
	<b>Shares</b>	<b>Amount</b>			
Balance as of August 2, 2020	406,566	\$ 4,066	\$ 1,543,481	\$ (1,925,159)	\$ (377,612)
Issuance of Class A common stock, net of offering costs	5,865	59	318,357	—	318,416
Share-based compensation expense	—	—	24,808	—	24,808
Vesting of share-based compensation awards	182	1	(1)	—	—
Contribution from Parent	—	—	325	—	325
Tax sharing agreement with Parent	—	—	10,489	—	10,489
Net loss	—	—	—	(32,847)	(32,847)
Balance as of November 1, 2020	<u>412,613</u>	<u>\$ 4,126</u>	<u>\$ 1,897,459</u>	<u>\$ (1,958,006)</u>	<u>\$ (56,421)</u>

**13 Weeks Ended November 3, 2019**

	<b>Class A and Class B Common Stock</b>		<b>Additional Paid- in Capital</b>	<b>Accumulated Deficit</b>	<b>Total Stockholders' Deficit</b>
	<b>Shares</b>	<b>Amount</b>			
Balance as of August 4, 2019	398,600	\$ 3,986	\$ 1,338,813	\$ (1,704,532)	\$ (361,733)
Issuance of common stock upon initial public offering, net of underwriting discounts, commissions and offering costs	—	—	(235)	—	(235)
Share-based compensation expense	—	—	39,348	—	39,348
Contribution from Parent	—	—	325	—	325
Tax sharing agreement with Parent	—	—	11,838	—	11,838
Net loss	—	—	—	(79,000)	(79,000)
Balance as of November 3, 2019	<u>398,600</u>	<u>\$ 3,986</u>	<u>\$ 1,390,089</u>	<u>\$ (1,783,532)</u>	<u>\$ (389,457)</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

**CHEWY, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT**  
(in thousands)  
(Unaudited)

**39 Weeks Ended November 1, 2020**

	<b>Class A and Class B Common Stock</b>		<b>Additional Paid- in Capital</b>	<b>Accumulated Deficit</b>	<b>Total Stockholders' Deficit</b>
	<b>Shares</b>	<b>Amount</b>			
Balance as of February 2, 2020	401,368	\$ 4,014	\$ 1,436,484	\$ (1,844,472)	\$ (403,974)
Issuance of Class A common stock, net of offering costs	5,865	59	318,357	—	318,416
Share-based compensation expense	—	—	100,188	—	100,188
Vesting of share-based compensation awards	5,193	51	(51)	—	—
Distribution to Parent	187	2	(2)	—	—
Contribution from Parent	—	—	975	—	975
Tax sharing agreement with Parent	—	—	41,508	—	41,508
Net loss	—	—	—	(113,534)	(113,534)
Balance as of November 1, 2020	<u>412,613</u>	<u>\$ 4,126</u>	<u>\$ 1,897,459</u>	<u>\$ (1,958,006)</u>	<u>\$ (56,421)</u>

**39 Weeks Ended November 3, 2019**

	<b>Class A and Class B Common Stock</b>		<b>Additional Paid- in Capital</b>	<b>Accumulated Deficit</b>	<b>Total Stockholders' Deficit</b>
	<b>Shares</b>	<b>Amount</b>			
Balance as of February 3, 2019	—	\$ —	\$ 1,256,160	\$ (1,592,102)	\$ (335,942)
Issuance of common stock upon initial public offering, net of underwriting discounts, commissions and offering costs	5,600	56	110,293	—	110,349
Change in capital structure	393,000	3,930	(3,930)	—	—
Share-based compensation expense	—	—	90,361	—	90,361
Contribution from Parent	—	—	975	—	975
Tax sharing agreement with Parent	—	—	15,740	—	15,740
Termination of loan from Parent	—	—	(79,510)	—	(79,510)
Net loss	—	—	—	(191,430)	(191,430)
Balance as of November 3, 2019	<u>398,600</u>	<u>\$ 3,986</u>	<u>\$ 1,390,089</u>	<u>\$ (1,783,532)</u>	<u>\$ (389,457)</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

**CHEWY, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)  
(Unaudited)

	<b>39 Weeks Ended</b>	
	<b>November 1, 2020</b>	<b>November 3, 2019</b>
<b>Cash flows from operating activities</b>		
Net loss	\$ (113,534)	\$ (191,430)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	24,598	22,716
Share-based compensation expense	100,188	90,361
Non-cash lease expense	18,020	13,571
Other	223	2,075
Net change in operating assets and liabilities:		
Accounts receivable	(17,442)	(45,348)
Inventories	(164,841)	(69,081)
Prepaid expenses and other current assets	(11,581)	(25,619)
Other non-current assets	(204)	(2,397)
Trade accounts payable	86,385	134,807
Accrued expenses and other current liabilities	123,232	46,899
Operating lease liabilities	(11,415)	(6,006)
Other long-term liabilities	21,659	1,699
Net cash provided by (used in) operating activities	<u>55,288</u>	<u>(27,753)</u>
<b>Cash flows from investing activities</b>		
Capital expenditures	(100,258)	(38,539)
Cash advances provided to Parent, net of reimbursements	(1,767)	(11,320)
Other	(2,000)	—
Net cash used in investing activities	<u>(104,025)</u>	<u>(49,859)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of common stock, net of offering costs	318,775	—
Proceeds from initial public offering, net of underwriting discounts, commissions and offering costs	—	110,576
Proceeds from tax sharing agreement with Parent	23,213	14,500
Payment of debt issuance costs	—	(781)
Contribution from Parent	975	975
Principal repayments of finance lease obligations	(486)	(118)
Net cash provided by financing activities	<u>342,477</u>	<u>125,152</u>
Net increase in cash and cash equivalents	293,740	47,540
Cash and cash equivalents, as of beginning of period	212,088	88,331
Cash and cash equivalents, as of end of period	<u>\$ 505,828</u>	<u>\$ 135,871</u>

See accompanying Notes to Condensed Consolidated Financial Statements.



**CHEWY, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**1. Description of Business**

Chewy, Inc. and its wholly-owned subsidiaries (collectively “Chewy” or the “Company”) is a pure play e-commerce business geared toward pet products for dogs, cats, fish, birds, small pets, horses, and reptiles. Chewy serves its customers through its retail website, www.chewy.com, and its mobile applications and focuses on delivering exceptional customer service, competitive prices, outstanding convenience (including Chewy’s Autoship subscription program, fast shipping, and hassle-free returns), and a large selection of high-quality pet food, treats and supplies, and pet healthcare products.

The Company is controlled by PetSmart, Inc. (“PetSmart” or the “Parent”). PetSmart is wholly-owned by a consortium including private investment funds advised by BC Partners, La Caisse de dépôt et placement du Québec, affiliates of GIC Special Investments Pte Ltd, affiliates of StepStone Group LP and funds advised by Longview Asset Management, LLC (collectively, the “Sponsors”), and controlled by affiliates of BC Partners.

**Initial Public Offering**

On June 18, 2019, the Company closed its initial public offering (“IPO”), in which it issued and sold 5.6 million shares of its Class A common stock. The price at IPO was \$22.00 per share. The Company received net proceeds of approximately \$110.3 million from the IPO after deducting underwriting discounts and commissions of \$6.2 million and offering costs.

Prior to the completion of the IPO, the Company amended and restated its certificate of incorporation to authorize Class A and Class B common stock and reclassify the 100 outstanding shares of common stock into 393,000,000 shares of Class B common stock. In connection with the IPO, 47,875,000 shares of the Company’s Class B common stock were reclassified into shares of Class A common stock on a one-to-one basis. Upon completion of the IPO, 53,475,000 shares of the Company’s Class A common stock and 345,125,000 shares of Class B common stock were outstanding. The Class A common stock outstanding includes the shares issued in the IPO.

**2020 Equity Offering**

On September 21, 2020, the Company issued and sold 5,100,000 shares of Class A common stock in an underwritten public offering at a price of \$54.40 per share to Morgan Stanley & Co. LLC, who acted as sole underwriter in the offering. The Company had granted the underwriter an option to purchase up to an additional 765,000 shares of Class A common stock at a price of \$54.40 per share (“Option Shares”), which was exercised on September 30, 2020. The Company raised \$318.4 million in net proceeds through the equity offering (including proceeds from the sale of the Option Shares) after deducting offering costs of approximately \$0.6 million.

**2. Basis of Presentation and Significant Accounting Policies**

**Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements and related notes include the accounts of Chewy, Inc. and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated. The unaudited condensed consolidated financial statements and notes thereto of Chewy, Inc. have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the “SEC”) for interim financial reporting and, therefore, omit or condense certain footnotes and other information normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) as set forth in the Financial Accounting Standards Board’s (“FASB”) accounting standards codification. In the opinion of management, all adjustments necessary for a fair statement of the financial information, which are of a normal and recurring nature, have been made for the interim periods reported. Results of operations for the quarterly period ended November 1, 2020 are not necessarily indicative of the results for the entire fiscal year. The unaudited condensed consolidated financial statements and notes thereto included in this Quarterly Report on Form 10-Q for the quarterly period ended November 1, 2020 (“10-Q Report”) should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended February 2, 2020 (“10-K Report”).

## Fiscal Year

The Company has a 52 or 53-week fiscal year ending each year on the Sunday that is closest to January 31 of that year. The Company's 2020 fiscal year ends on January 31, 2021 and is a 52-week year. The Company's 2019 fiscal year ended February 2, 2020 and was a 52-week year.

## Significant Accounting Policies

There have been no significant changes from the significant accounting policies disclosed in Note 2 of the "Notes to Consolidated Financial Statements" included in the 10-K Report.

## Use of Estimates

GAAP requires management to make certain estimates, judgments, and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates these estimates and judgments. Actual results could differ from those estimates.

Key estimates relate primarily to determining the net realizable value and demand for inventory, useful lives associated with property and equipment, valuation allowances with respect to deferred tax assets, contingencies, evaluation of sales tax positions, and the valuation and assumptions underlying share-based compensation. On an ongoing basis, management evaluates its estimates compared to historical experience and trends, which form the basis for making judgments about the carrying value of assets and liabilities.

## Accrued Expenses and Other Current Liabilities

The following table presents the components of accrued expenses and other current liabilities (in thousands):

	As of	
	November 1, 2020	February 2, 2020
Outbound fulfillment	\$ 281,297	\$ 182,589
Advertising and marketing	92,408	96,836
Accrued expenses and other	175,597	138,064
Total accrued expenses and other current liabilities	\$ 549,302	\$ 417,489

## Recent Accounting Pronouncements

### Recently Adopted Accounting Pronouncements

*ASU 2018-15, Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement.* In August 2018, the FASB issued this Accounting Standards Update ("ASU") to align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This update became effective at the beginning of the Company's 2020 fiscal year. The adoption of this ASU did not have a material impact on the Company's condensed consolidated financial statements and disclosures.

*ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* In June 2016, the FASB issued this ASU to amend the current accounting guidance which requires the measurement of all expected losses to be based on historical experience, current conditions and reasonable and supportable forecasts. For trade receivables, loans, and other financial instruments, the Company will be required to use a forward-looking expected loss model that reflects probable losses rather than the incurred loss model for recognizing credit losses. This update became effective at the beginning of the Company's 2020 fiscal year. The adoption of this ASU did not have a material impact on the Company's condensed consolidated financial statements and disclosures.

### Recently Issued Accounting Pronouncements

ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. In December 2019, the FASB issued this ASU to simplify the accounting for income taxes by eliminating certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period, and the recognition of deferred tax liabilities for outside basis differences. This ASU also clarifies and simplifies other aspects of the accounting for income taxes. This update is effective at the beginning of the Company's 2021 fiscal year, with early adoption permitted. The Company is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements.

### 3. Property and Equipment, net

The following is a summary of property and equipment, net (in thousands):

	As of	
	November 1, 2020	February 2, 2020
Furniture, fixtures and equipment	\$ 85,558	\$ 65,329
Computer equipment	42,099	32,259
Internal-use software	50,272	30,222
Leasehold improvements	77,684	39,447
Finance lease assets	3,102	2,565
Construction in progress	37,344	18,927
	296,059	188,749
Less: accumulated depreciation and amortization	93,969	70,018
Property and equipment, net	\$ 202,090	\$ 118,731

Internal-use software includes labor and license costs associated with software development for internal use. As of November 1, 2020 and February 2, 2020, the Company had accumulated amortization related to internal-use software of \$20.2 million and \$15.9 million, respectively.

Construction in progress is stated at cost, which includes the cost of construction and other directly attributable costs. No provision for depreciation is made on construction in progress until the relevant assets are completed and put into use.

For the thirteen weeks ended November 1, 2020 and November 3, 2019, the Company recorded depreciation expense on property and equipment of \$7.5 million, and \$5.6 million, respectively, and amortization expense related to internal-use software costs of \$1.8 million, and \$2.5 million, respectively. For the thirty-nine weeks ended November 1, 2020 and November 3, 2019, the Company recorded depreciation expense on property and equipment of \$20.2 million, and \$15.8 million, respectively, and amortization expense related to internal-use software costs of \$4.4 million, and \$6.9 million, respectively. The aforementioned depreciation and amortization expenses were included within selling, general and administrative expenses in the condensed consolidated statements of operations.

### 4. Commitments and Contingencies

As of November 1, 2020, there were no material changes to the Company's legal matters disclosed in Note 4 of the "Notes to Consolidated Financial Statements" included in the 10-K Report.

## 5. Debt

### *ABL Credit Facility*

On June 18, 2019, the Company entered into a five-year senior secured asset-backed credit facility (the “ABL Credit Facility”) which provides for non-amortizing revolving loans in an aggregate principal amount of up to \$300 million, subject to a borrowing base comprised of, among other things, inventory and sales receivables (subject to certain reserves). The ABL Credit Facility provides the right to request incremental commitments and add incremental asset-based revolving loan facilities in an aggregate principal amount of up to \$100 million, subject to customary conditions. The Company is required to pay a commitment fee of between 0.25% and 0.375% with respect to the undrawn portion of the commitments, which is generally based on average daily usage of the facility. As of November 1, 2020, the Company had no outstanding borrowings under the ABL Credit Facility.

## 6. Leases

The Company leases all of its fulfillment and customer service centers and corporate offices under non-cancelable operating lease agreements. The terms of the Company’s real estate leases generally range from 5 to 15 years and typically allow for the leases to be renewed for up to three additional five-year terms. Fulfillment and customer service centers and corporate office leases expire at various dates through 2034, excluding renewal options. The Company also leases certain equipment under operating and finance leases. The terms of equipment leases generally range from 3 to 5 years and do not contain renewal options. These leases expire at various dates through 2025.

The Company’s finance leases as of November 1, 2020 and February 2, 2020 were not material. The table below presents the operating lease-related assets and liabilities recorded on the condensed consolidated balance sheets (in thousands):

Leases	Balance Sheet Classification	As of	
		November 1, 2020	February 2, 2020
<b>Assets</b>			
Operating	Operating lease right-of-use assets	\$ 297,871	\$ 179,052
Total operating lease assets		<u>\$ 297,871</u>	<u>\$ 179,052</u>
<b>Liabilities</b>			
Current			
Operating	Accrued expenses and other current liabilities	\$ 16,927	\$ 15,491
Non-current			
Operating	Operating lease liabilities	323,948	200,439
Total operating lease liabilities		<u>\$ 340,875</u>	<u>\$ 215,930</u>

For the thirty-nine weeks ended November 1, 2020 and November 3, 2019, assets acquired in exchange for new operating lease liabilities were \$118.3 million and \$29.4 million, respectively. Lease expense primarily related to operating lease costs. Lease expense for the thirteen weeks ended November 1, 2020 and November 3, 2019 was \$16.9 million and \$12.3 million, respectively. Lease expense for the thirty-nine weeks ended November 1, 2020 and November 3, 2019 was \$45.2 million and \$35.2 million, respectively. The aforementioned lease expense was included within selling, general and administrative expenses in the condensed consolidated statements of operations.

Operating cash flows related to cash paid for operating leases were approximately \$39.1 million and \$27.4 million for the thirty-nine weeks ended November 1, 2020 and November 3, 2019, respectively.

On August 12, 2020, the Company finalized agreements with a local government agency for certain ad valorem tax benefits provided to the Company in connection with a maximum capital investment of \$70 million in property, plant, and equipment purchases for a new fulfillment center over a three-year timeframe. To facilitate the incentives, the government agency will issue its Taxable Industrial Development Revenue Bonds, Series 2020 (the “Bonds”), in a maximum aggregate principal amount of \$70 million. In exchange for the Bonds, the Company will convey the purchased equipment to the local government agency and will lease the equipment from this agency. The Company will not pay any cash for the Bonds nor receive any cash for the conveyance of the equipment. Upon termination of the lease, including early termination, the equipment will be conveyed to the Company for a nominal fee.

## 7. Share-Based Compensation

### *2019 Omnibus Incentive Plan*

In June 2019, the Company’s board of directors adopted and approved the 2019 Omnibus Incentive Plan (the “2019 Plan”). The 2019 Plan became effective on June 13, 2019 and allows for the issuance of up to 31,864,865 shares of Class A common stock. No awards may be granted under the 2019 Plan after June 2029.

The 2019 Plan provides for the grant of stock options, including incentive stock options, non-qualified stock options, restricted stock, dividend equivalents, stock payments, restricted stock units, performance shares, other incentive awards, stock appreciation rights, and cash awards (collectively “awards”). The awards may be granted to the Company’s employees, consultants, and directors, and the employees and consultants of the Company’s affiliates and subsidiaries.

### *Service and Performance-Based Awards*

Beginning in June 2019, the Company granted restricted stock units that vest upon satisfaction of both a service-based vesting condition and a performance-based vesting condition (“PRSUs”) as described below.

The service-based vesting condition was or will be satisfied with respect to 25% of an employee’s PRSUs on either (i) the first anniversary of the registration date (as defined in the 2019 Plan) or (ii) the first anniversary of the vesting commencement date, and will then be satisfied with respect to 12.5% of an employee’s PRSUs at the end of each six month period thereafter, subject to the employee’s continued employment with the Company through the applicable vesting date.

The performance-based vesting condition shall be satisfied with respect to a percentage of an employee’s PRSUs, as and when the price per share of Class A common stock specified is achieved, on a volume adjusted weighted-average basis, on every trading day during a consecutive 45-trading day period completed prior to the fifth anniversary of the 2019 Plan’s effective date subject to the employee’s continued employment with the Company through the applicable vesting date. As of June 13, 2020, the performance-based vesting condition was fully satisfied.

### *Service-Based Awards*

During the thirty-nine weeks ended November 1, 2020, the Company granted restricted stock units with a service-based vesting condition (“RSUs”). The service-based vesting condition for employees will be satisfied with respect to 25% of an employee’s RSUs on the one-year anniversary of the vesting commencement date and 12.5% of an employee’s RSUs at the end of each six month period thereafter, subject to the employee’s continued employment with the Company through the applicable vesting date. The Company records share-based compensation expense for RSUs on a straight-line basis over the requisite service period. The Company accounts for forfeitures as they occur.

### Service and Performance-Based Awards Activity

The following table summarizes the activity related to the Company's PRSUs for the thirty-nine weeks ended November 1, 2020 (in thousands, except for weighted average grant date fair value):

	Number of PRSUs	Weighted Average Grant Date Fair Value
Outstanding as of February 2, 2020	21,284	\$ 36.20
Granted	805	\$ 32.30
Vested	(5,389)	\$ 36.37
Forfeited	(959)	\$ 34.86
Unvested and outstanding as of November 1, 2020	<u>15,741</u>	<u>\$ 36.03</u>

The total fair value of PRSUs that vested during the thirty-nine weeks ended November 1, 2020 was \$577.3 million. As of November 1, 2020, total unrecognized compensation expense related to unvested PRSUs was \$104.9 million and is expected to be recognized over a weighted-average expected performance period of 1.8 years.

During the thirty-nine weeks ended November 1, 2020, vesting occurred for 186,617 PRSUs previously granted to a director of the Company. For accounting purposes, the issuance of Class A common stock upon vesting of these PRSUs is treated as a distribution to the Parent because such director is an employee of the Parent.

The fair value of the PRSUs with share price hurdles was determined on the date of grant using a Monte Carlo model to simulate total stockholder return for the Company and peer companies with the following assumptions:

Performance period	5 years
Weighted-average risk-free interest rate	1.8%
Weighted-average volatility	49.7%
Weighted-average dividend yield	—%

The risk-free interest rate utilized is based on a 5-year term-matched zero-coupon U.S. Treasury security yield at the time of grant. Expected volatility is based on historical volatility of the stock of the Company's peer firms.

### Service-Based Awards Activity

The following table summarizes the activity related to the Company's RSUs for the thirty-nine weeks ended November 1, 2020 (in thousands, except for weighted average grant date fair value):

	Number of RSUs	Weighted Average Grant Date Fair Value
Outstanding as of February 2, 2020	—	\$ —
Granted	674	\$ 42.85
Forfeited	(25)	\$ 39.20
Unvested and outstanding as of November 1, 2020	<u>649</u>	<u>\$ 42.85</u>

As of November 1, 2020, total unrecognized compensation expense related to unvested RSUs was \$24.2 million and is expected to be recognized over a weighted-average expected performance period of 3.5 years.

The fair value for RSUs is established based on the market price of the Company's Class A common stock on the date of grant.

As of November 1, 2020, there were 7.3 million additional shares of Class A common stock reserved for future issuance under the 2019 Plan.

### ***Citrus Profits Interest Plan***

Subsequent to PetSmart's acquisition of the Company in 2017, the Company's share-based compensation included profits interests units ("PIUs") granted by Citrus Intermediate Holdings L.P. (the "Citrus Partnership"), a Delaware limited partnership (the "Citrus Profits Interest Plan"). The Citrus Partnership is a parent company of PetSmart and a wholly-owned subsidiary of the Sponsors. The Company recognizes share-based compensation as equity contributions from the Citrus Partnership in its condensed consolidated financial statements for awards granted under the Citrus Profits Interest Plan as it relates to grantees' services as employees of the Company.

As of June 13, 2019, an aggregate of 768,785 profits interests units under the Citrus Profits Interest Plan were held by employees of Chewy, Inc. and were canceled.

### ***Share-Based Compensation Expense***

Share-based compensation expense is included within selling, general and administrative expenses in the condensed consolidated statements of operations. The Company recognized share-based compensation expense as follows (in thousands):

	<b>13 Weeks Ended</b>		<b>39 Weeks Ended</b>	
	<b>November 1, 2020</b>	<b>November 3, 2019</b>	<b>November 1, 2020</b>	<b>November 3, 2019</b>
PRSUs	\$ 22,463	\$ 39,348	\$ 96,611	\$ 80,196
RSUs	2,345	—	3,577	—
PIUs	—	—	—	10,165
Total share-based compensation expense	<u>\$ 24,808</u>	<u>\$ 39,348</u>	<u>\$ 100,188</u>	<u>\$ 90,361</u>

## **8. Income Taxes**

Income taxes are presented in the Company's condensed consolidated financial statements using the separate return method. The Company did not maintain a net current or deferred provision for income taxes for any taxing jurisdiction during the thirteen and thirty-nine weeks ended November 1, 2020, and November 3, 2019. Additionally, the Company maintained a full valuation allowance on its net deferred tax assets.

Concurrent with the IPO, the Company and PetSmart entered into a tax sharing agreement which governs the respective rights, responsibilities, and obligations of the Company and PetSmart with respect to tax matters, including taxes attributable to PetSmart, entitlement to refunds, allocation of tax attributes, preparation of tax returns, certain tax elections, control of tax contests and other tax matters regarding U.S. federal, state, local, and foreign income taxes. During the thirty-nine weeks ended November 1, 2020 and November 3, 2019, the Company collected \$23.2 million and \$14.5 million, respectively, pursuant to the tax sharing agreement. However, in connection with the Forward Purchase Agreement (as defined below), it was determined that the Company will no longer be included in PetSmart's consolidated federal tax return and as such the Company anticipates that future cash receipts pursuant to the tax sharing agreement, if any, will not be significant.

## **9. Net Loss per Share**

Basic and diluted net loss per share attributable to common stockholders is presented using the two class method required for participating securities. Under the two class method, net loss attributable to common stockholders is determined by allocating undistributed earnings between common stock and participating securities. Undistributed earnings for the periods presented are calculated as net loss less distributed earnings.

Basic and diluted net loss per share is calculated by dividing net loss attributable to common stockholders by the weighted-average shares outstanding during the period. The weighted-average shares outstanding during the periods presented reflects the reclassification of the 100 outstanding shares of pre-IPO common stock into 393,000,000 shares of Class B common stock.

For the thirteen and thirty-nine weeks ended November 1, 2020 and November 3, 2019, the Company's basic and diluted net loss per share attributable to common Class A and Class B stockholders are the same because the Company has generated a net loss to common stockholders and common stock equivalents are excluded from diluted net loss per share as they have an antidilutive impact. The computation of diluted net loss per share attributable to common stockholders does not include 16.4 million potential common shares for the thirteen and thirty-nine weeks ended November 1, 2020 and 20.9 million potential common shares for the thirteen and thirty-nine weeks ended November 3, 2019, as the effect of their inclusion would have been antidilutive.

#### *Conversion of Class B Common Stock*

On May 8, 2020, Buddy Chester Sub LLC, a wholly-owned subsidiary of PetSmart, converted 17,584,098 shares of the Company's Class B common stock into Class A common stock. On May 11, 2020, Buddy Chester Sub LLC entered into a variable forward purchase agreement (the "Forward Purchase Agreement") to deliver up to 17,584,098 shares of the Company's Class A common stock at the exchange date, which is expected to be May 16, 2023, determined by reference to the trading price of the common stock at that time.

### **10. Certain Relationships and Related Party Transactions**

The Company's condensed consolidated financial statements include management fee expenses of \$0.3 million and \$1.0 million allocated to the Company by the Parent for organizational oversight and certain limited corporate functions provided by its sponsors for the thirteen and thirty-nine weeks ended November 1, 2020 and November 3, 2019, respectively. Allocated costs are included within selling, general and administrative expenses in the condensed consolidated statements of operations.

Certain of the Company's pharmacy operations are currently, and have been since launch on July 2, 2018, conducted through a wholly-owned subsidiary of PetSmart. The Company has entered into a services agreement with PetSmart that provides for the payment of a management fee due from PetSmart with respect to this arrangement. The Company recognized \$8.6 million and \$30.2 million during the thirteen and thirty-nine weeks ended November 1, 2020 within net sales in the condensed consolidated statements of operations for the services provided compared to \$9.9 million and \$31.4 million during the thirteen and thirty-nine weeks ended November 3, 2019.

#### **PetSmart Guarantees**

PetSmart currently provides a guarantee of payment with respect to certain equipment and other leases that the Company has entered into and serves as a guarantor in respect of the Company's obligations under a credit insurance policy in favor of certain of the Company's current or future suppliers.



## **Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the Unaudited Condensed Consolidated Financial Statements and related notes thereto included in this Quarterly Report on Form 10-Q for the quarterly period ended November 1, 2020 ("10-Q Report") and our audited consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K for fiscal year ended February 2, 2020 ("10-K Report"). This discussion contains forward-looking statements that involve risks and uncertainties. As a result of many factors, such as those set forth under the "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements" sections herein and in our 10-K Report, our actual results may differ materially from those anticipated in these forward-looking statements. Unless the context requires otherwise, references in this Quarterly Report on Form 10-Q to "Chewy," "the Company," "we," "our," or "us" refer to Chewy, Inc. and its consolidated subsidiaries.*

*Investors and others should note that we may announce material information to our investors using our investor relations website (<https://investor.chewy.com/>), Securities and Exchange Commission (the "SEC") filings, press releases, public conference calls and webcasts. We use these channels, as well as social media, to communicate with our investors and the public about our company, our business and other issues. It is possible that the information that we post on social media could be deemed to be material information. We therefore encourage investors to visit these websites from time to time. The information contained on such websites and social media posts is not incorporated by reference into this filing. Further, our references to website URLs in this filing are intended to be inactive textual references only.*

### **Overview**

We are the largest pure-play pet e-tailer in the United States, offering virtually every product a pet needs. We launched Chewy in 2011 to bring the best of the neighborhood pet store shopping experience to a larger audience, enhanced by the depth and wide selection of products and around-the-clock convenience that only e-commerce can offer. We believe that we are the preeminent online destination for pet parents as a result of our broad selection of high-quality products, which we offer at great prices and deliver with an exceptional level of care and a personal touch. We are the trusted source for pet parents and continually develop innovative ways for our customers to engage with us. We partner with more than 2,000 of the best and most trusted brands in the pet industry, and we create and offer our own outstanding private brands. Through our website and mobile applications, we offer our customers more than 60,000 products, compelling merchandising, an easy and enjoyable shopping experience, and exceptional customer service.

### **Coronavirus**

The coronavirus (also known as COVID-19) pandemic has been a highly disruptive economic and societal event that has affected our business and has had a significant impact on consumer shopping behavior. To serve our pet parents while also providing for the safety and well-being of our team members, we have adapted aspects of our logistics, transportation, supply chain and purchasing processes accordingly. As reflected in the discussion below, we have seen customers shift more of their total shopping spend to online channels since the COVID-19 outbreak, which has led to increased sales and order activity for our business. While the COVID-19 outbreak has not had a material adverse impact on our operations to date, it is difficult to predict all of the positive or negative impacts the COVID-19 outbreak will ultimately have on our business.

As this crisis has unfolded, we have continued to monitor conditions and adapt our operations to meet federal, state and local standards. We have done so to continue meeting the needs of our rapidly growing community of pets and pet parents and to ensure the safety and well-being of our team members. We cannot predict the duration or severity of COVID-19 or its ultimate impact on the broader economy or our operations and liquidity. As such, the situation remains unpredictable and risks still remain. Please refer to the "Cautionary Note Regarding Forward-Looking Statements" in this 10-Q Report and the "Risk Factors" disclosed in our Annual Report on Form 10-K for the fiscal year ended February 2, 2020.

### **Fiscal Year End**

We have a 52 or 53-week fiscal year ending each year on the Sunday that is closest to January 31 of that year. Our 2020 fiscal year ends on January 31, 2021 and is a 52-week year. Our 2019 fiscal year ended February 2, 2020 and was a 52-week year.

## Key Financial and Operating Data

We measure our business using both financial and operating data and use the following metrics and measures to assess the near-term and long-term performance of our overall business, including identifying trends, formulating financial projections, making strategic decisions, assessing operational efficiencies, and monitoring our business.

<i>(in thousands, except net sales per active customer and percentages)</i>	13 Weeks Ended			39 Weeks Ended		
	November 1, 2020	November 3, 2019	% Change	November 1, 2020	November 3, 2019	% Change
<b>Financial and Operating Data</b>						
Net sales	\$ 1,782,000	\$ 1,229,801	44.9 %	\$ 5,103,252	\$ 3,492,218	46.1 %
Net loss <sup>(1)</sup>	\$ (32,847)	\$ (79,000)	58.4 %	\$ (113,534)	\$ (191,430)	40.7 %
<i>Net margin <sup>(1)</sup></i>	<i>(1.8)%</i>	<i>(6.4)%</i>		<i>(2.2)%</i>	<i>(5.5)%</i>	
Adjusted EBITDA <sup>(2)</sup>	\$ 5,502	\$ (30,228)	118.2 %	\$ 24,403	\$ (75,177)	132.5 %
<i>Adjusted EBITDA margin <sup>(2)</sup></i>	<i>0.3 %</i>	<i>(2.5)%</i>		<i>0.5 %</i>	<i>(2.2)%</i>	
Net cash provided by (used in) operating activities	\$ 63,433	\$ 1,581	n/m	\$ 55,288	\$ (27,753)	299.2 %
Free cash flow <sup>(2)</sup>	\$ 32,898	\$ (12,794)	n/m	\$ (44,970)	\$ (66,292)	32.2 %
Active customers	17,788	12,723	39.8 %	17,788	12,723	39.8 %
Net sales per active customer	\$ 363	\$ 360	0.8 %	\$ 363	\$ 360	0.8 %
Autoship customer sales	\$ 1,232,743	\$ 865,190	42.5 %	\$ 3,495,535	\$ 2,408,661	45.1 %
Autoship customer sales as a percentage of net sales	69.2 %	70.4 %		68.5 %	69.0 %	

n/m - not meaningful

<sup>(1)</sup> Includes share-based compensation expense, including related taxes, of \$25.1 million and \$105.2 million for the thirteen and thirty-nine weeks ended November 1, 2020 compared to \$39.3 million and \$90.4 million for the thirteen and thirty-nine weeks ended November 3, 2019.

<sup>(2)</sup> Adjusted EBITDA, adjusted EBITDA margin and free cash flow are non-GAAP financial measures.

We define net margin as net loss divided by net sales and adjusted EBITDA margin as adjusted EBITDA divided by net sales.

## Non-GAAP Financial Measures

### *Adjusted EBITDA and Adjusted EBITDA Margin*

To provide investors with additional information regarding our financial results, we have disclosed here and elsewhere in this 10-Q Report adjusted EBITDA, a non-GAAP financial measure that we calculate as net loss excluding depreciation and amortization; share-based compensation expense and related taxes; income tax provision; interest income (expense), net; management fee expense; transaction costs and other items that we do not consider representative of our underlying operations. We have provided a reconciliation below of adjusted EBITDA to net loss, the most directly comparable GAAP financial measure.

We have included adjusted EBITDA in this 10-Q Report because it is a key measure used by our management and board of directors to evaluate our operating performance, generate future operating plans and make strategic decisions regarding the allocation of capital. In particular, the exclusion of certain expenses in calculating adjusted EBITDA facilitates operating performance comparability across reporting periods by removing the effect of non-cash expenses and certain variable charges. Accordingly, we believe that adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors.

We believe it is useful to exclude non-cash charges, such as depreciation and amortization, share-based compensation expense and management fee expense from our adjusted EBITDA because the amount of such expenses in any specific period may not directly correlate to the underlying performance of our business operations. We believe it is useful to exclude income tax provision; interest income (expense), net; and transaction and other costs as these items are not components of our core business operations. Adjusted EBITDA has limitations as a financial measure and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future and adjusted EBITDA does not reflect capital expenditure requirements for such replacements or for new capital expenditures;
- adjusted EBITDA does not reflect share-based compensation and related taxes. Share-based compensation has been, and will continue to be for the foreseeable future, a recurring expense in our business and an important part of our compensation strategy;
- adjusted EBITDA does not reflect interest income (expense), net; or changes in, or cash requirements for, our working capital;
- adjusted EBITDA does not reflect transaction and other costs which are generally incremental costs that result from an actual or planned transaction and include transaction costs (i.e. IPO costs), integration consulting fees, internal salaries and wages (to the extent the individuals are assigned full-time to integration and transformation activities) and certain costs related to integrating and converging IT systems; and
- other companies, including companies in our industry, may calculate adjusted EBITDA differently, which reduces its usefulness as a comparative measure.

Because of these limitations, you should consider adjusted EBITDA and adjusted EBITDA margin alongside other financial performance measures, including various cash flow metrics, net loss, net margin, and our other GAAP results.

The following table presents a reconciliation of net loss to adjusted EBITDA for each of the periods indicated.

(\$ in thousands, except percentages)

Reconciliation of Net Loss to Adjusted EBITDA	13 Weeks Ended		39 Weeks Ended	
	November 1, 2020	November 3, 2019	November 1, 2020	November 3, 2019
Net loss	\$ (32,847)	\$ (79,000)	\$ (113,534)	\$ (191,430)
Add (deduct):				
Depreciation and amortization	9,262	8,137	24,598	22,716
Share-based compensation expense and related taxes	25,090	39,348	105,228	90,361
Interest expense (income), net	539	221	1,469	(699)
Management fee expense <sup>(1)</sup>	325	325	975	975
Transaction related costs	—	—	—	1,396
Other	3,133	741	5,667	1,504
Adjusted EBITDA	\$ 5,502	\$ (30,228)	\$ 24,403	\$ (75,177)
Net sales	\$ 1,782,000	\$ 1,229,801	\$ 5,103,252	\$ 3,492,218
Net margin	(1.8)%	(6.4)%	(2.2)%	(5.5)%
Adjusted EBITDA margin	0.3 %	(2.5)%	0.5 %	(2.2)%

<sup>(1)</sup> Management fee expense allocated to us by PetSmart, Inc. (“PetSmart”) for organizational oversight and certain limited corporate functions provided by its sponsors. Although we are not a party to the agreement governing the management fee, this management fee is reflected as an expense in our condensed consolidated financial statements.

#### Free Cash Flow

To provide investors with additional information regarding our financial results, we have also disclosed here and elsewhere in this 10-Q Report free cash flow, a non-GAAP financial measure that we calculate as net cash provided by (used in) operating activities less capital expenditures (which consist of purchases of property and equipment, including servers and networking equipment, capitalization of labor related to our website, mobile applications, and software development, and leasehold improvements). We have provided a reconciliation below of free cash flow to net cash provided by (used in) operating activities, the most directly comparable GAAP financial measure.

We have included free cash flow in this 10-Q Report because it is an important indicator of our liquidity as it measures the amount of cash we generate. Accordingly, we believe that free cash flow provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors.

Free cash flow has limitations as a financial measure and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. There are limitations to using non-GAAP financial measures, including that other companies, including companies in our industry, may calculate free cash flow differently. Because of these limitations, you should consider free cash flow alongside other financial performance measures, including net cash provided by (used in) operating activities, capital expenditures and our other GAAP results.

The following table presents a reconciliation of net cash provided by (used in) operating activities to free cash flow for each of the periods indicated.

*(\$ in thousands)*

<b>Reconciliation of Net Cash Provided by (Used in) Operating Activities to Free Cash Flow</b>	<b>13 Weeks Ended</b>		<b>39 Weeks Ended</b>	
	<b>November 1, 2020</b>	<b>November 3, 2019</b>	<b>November 1, 2020</b>	<b>November 3, 2019</b>
Net cash provided by (used in) operating activities	\$ 63,433	\$ 1,581	\$ 55,288	\$ (27,753)
Deduct:				
Capital expenditures	(30,535)	(14,375)	(100,258)	(38,539)
Free Cash Flow	<u>\$ 32,898</u>	<u>\$ (12,794)</u>	<u>\$ (44,970)</u>	<u>\$ (66,292)</u>

Free cash flow may be affected in the near to medium term by the timing of capital investments (such as the launch of new fulfillment centers, customer service centers, and corporate offices and purchases of IT and other equipment), fluctuations in our growth and the effect of such fluctuations on working capital, and changes in our cash conversion cycle due to increases or decreases of vendor payment terms as well as inventory turnover.

## Key Operating Metrics

### *Active Customers*

As of the last date of each reporting period, we determine our number of active customers by counting the total number of individual customers who have ordered, and for whom an order has shipped, at least once during the preceding 364-day period. The change in active customers in a reporting period captures both the inflow of new customers as well as the outflow of customers who have not made a purchase in the last 364 days. We view the number of active customers as a key indicator of our growth—acquisition and retention of customers—as a result of our marketing efforts and the value we provide to our customers. The number of active customers has grown over time as we acquired new customers and retained previously acquired customers.

### *Net Sales Per Active Customer*

We define net sales per active customer as the aggregate net sales for the preceding four fiscal quarters, divided by the total number of active customers at the end of that period. We view net sales per active customer as a key indicator of our customers' purchasing patterns, including their initial and repeat purchase behavior.

### *Autoship and Autoship Customer Sales*

We define Autoship customers as customers in a given fiscal quarter for whom an order has shipped through our Autoship subscription program during the preceding 364-day period. We define Autoship as our subscription program, which provides automatic ordering, payment, and delivery of products to our customers. We view our Autoship subscription program as a key driver of recurring net sales and customer retention. For a given fiscal quarter, Autoship customer sales consist of sales and shipping revenues from all Autoship subscription program purchases and purchases outside of the Autoship subscription program by Autoship customers, excluding taxes collected from customers, excluding any refund allowance, and net of any promotional offers (such as percentage discounts off current purchases and other similar offers), for that quarter. For a given fiscal year, Autoship customer sales equal the sum of the Autoship customer sales for each of the fiscal quarters in that fiscal year.

### *Autoship Customer Sales as a Percentage of Net Sales*

We define Autoship customer sales as a percentage of net sales as the Autoship customer sales in a given reporting period divided by the net sales from all orders in that period. We view Autoship customer sales as a percentage of net sales as a key indicator of our recurring sales and customer retention.

## **Components of Results of Consolidated Operations**

### *Net Sales*

We derive net sales primarily from sales of both third-party brand and private brand pet food, pet products, pet medications and other pet health products, and related shipping fees. Sales of third-party brand and private brand pet food, pet products and shipping revenues are recorded when products are shipped, net of promotional discounts and refund allowances. Taxes collected from customers are excluded from net sales. Net sales is primarily driven by growth of new customers and active customers, and the frequency with which customers purchase and subscribe to our Autoship subscription program.

We also periodically provide promotional offers, including discount offers, such as percentage discounts off current purchases and other similar offers. These offers are treated as a reduction to the purchase price of the related transaction and are reflected as a net amount in net sales.

### *Cost of Goods Sold*

Cost of goods sold consists of the cost of third-party brand and private brand products sold to customers, inventory freight, shipping supply costs, inventory shrinkage costs, and inventory valuation adjustments, offset by reductions for promotions and percentage or volume rebates offered by our vendors, which may depend on reaching minimum purchase thresholds. Generally, amounts received from vendors are considered a reduction of the carrying value of inventory and are ultimately reflected as a reduction of cost of goods sold.

### *Selling, General and Administrative*

Selling, general and administrative expenses consist of payroll and related expenses for employees involved in general corporate functions, including accounting, finance, tax, legal and human resources; costs associated with use by these functions, such as depreciation expense and rent relating to facilities and equipment; professional fees and other general corporate costs; share-based compensation; and fulfillment costs.

Fulfillment costs represent costs incurred in operating and staffing fulfillment and customer service centers, including costs attributable to buying, receiving, inspecting and warehousing inventories, picking, packaging and preparing customer orders for shipment, payment processing and related transaction costs and responding to inquiries from customers. Included within fulfillment costs are merchant processing fees charged by third parties that provide merchant processing services for credit cards.

### *Advertising and Marketing*

Advertising and marketing expenses consist of advertising and payroll related expenses for personnel engaged in marketing, business development and selling activities.

## Results of Consolidated Operations

The following tables set forth our results of operations for the periods presented and express the relationship of certain line items as a percentage of net sales for those periods. The period-to-period comparison of financial results is not necessarily indicative of future results.

(\$ in thousands)	13 Weeks Ended					39 Weeks Ended				
	November 1, 2020	November 3, 2019	% Change	% of net sales		November 1, 2020	November 3, 2019	% Change	% of net sales	
				November 1, 2020	November 3, 2019				November 1, 2020	November 3, 2019
<b>Consolidated Statements of Operations</b>										
Net sales	\$ 1,782,000	\$ 1,229,801	44.9 %	100.0 %	100.0 %	\$ 5,103,252	\$ 3,492,218	46.1 %	100.0 %	100.0 %
Cost of goods sold	1,327,442	938,021	41.5 %	74.5 %	76.3 %	3,836,629	2,674,313	43.5 %	75.2 %	76.6 %
Gross profit	454,558	291,780	55.8 %	25.5 %	23.7 %	1,266,623	817,905	54.9 %	24.8 %	23.4 %
Operating expenses:										
Selling, general and administrative	352,250	258,488	36.3 %	19.8 %	21.0 %	1,015,488	684,948	48.3 %	19.9 %	19.6 %
Advertising and marketing	134,616	112,071	20.1 %	7.6 %	9.1 %	363,200	325,086	11.7 %	7.1 %	9.3 %
Total operating expenses	486,866	370,559	31.4 %	27.3 %	30.1 %	1,378,688	1,010,034	36.5 %	27.0 %	28.9 %
Loss from operations	(32,308)	(78,779)	59.0 %	(1.8) %	(6.4) %	(112,065)	(192,129)	41.7 %	(2.2) %	(5.5) %
Interest (expense) income, net	(539)	(221)	143.9 %	— %	— %	(1,469)	699	n/m	— %	— %
Loss before income tax provision	(32,847)	(79,000)	58.4 %	(1.8) %	(6.4) %	(113,534)	(191,430)	40.7 %	(2.2) %	(5.5) %
Income tax provision	—	—	— %	— %	— %	—	—	— %	— %	— %
Net loss	\$ (32,847)	\$ (79,000)	58.4 %	(1.8) %	(6.4) %	\$ (113,534)	\$ (191,430)	40.7 %	(2.2) %	(5.5) %

n/m - not meaningful

Thirteen and Thirty-Nine Weeks Ended November 1, 2020 Compared to Thirteen and Thirty-Nine Weeks Ended November 3, 2019

### Net Sales

(\$ in thousands)	13 Weeks Ended <sup>(1)</sup>				39 Weeks Ended <sup>(1)</sup>			
	November 1, 2020	November 3, 2019	\$ Change	% Change	November 1, 2020	November 3, 2019	\$ Change	% Change
Consumables	\$ 1,236,291	\$ 910,893	\$ 325,398	35.7 %	\$ 3,568,934	\$ 2,600,410	\$ 968,524	37.2 %
Hardgoods	283,717	172,022	111,695	64.9 %	823,221	512,769	310,452	60.5 %
Other	261,992	146,886	115,106	78.4 %	711,097	379,039	332,058	87.6 %
Net sales	\$ 1,782,000	\$ 1,229,801	\$ 552,199	44.9 %	\$ 5,103,252	\$ 3,492,218	\$ 1,611,034	46.1 %

<sup>(1)</sup> Prior periods have been reclassified to conform with current presentation.

Net sales for the thirteen weeks ended November 1, 2020 increased by \$552.2 million, or 44.9%, to \$1.8 billion compared to \$1.2 billion for the thirteen weeks ended November 3, 2019. This increase was primarily due to growth in our customer base, with the number of active customers increasing by 5.1 million, or 39.8% year-over-year. Spending among our active customers increased with net sales per active customer increasing \$3, or 0.8%, in the thirteen weeks ended November 1, 2020 compared to the thirteen weeks ended November 3, 2019, driven by continued catalog expansion and growth across all verticals.

Net sales for the thirty-nine weeks ended November 1, 2020 increased by \$1.6 billion, or 46.1%, to \$5.1 billion compared to \$3.5 billion for the thirty-nine weeks ended November 3, 2019. This increase was primarily due to growth in our customer base, with the number of active customers increasing by 5.1 million, or 39.8% year-over-year. Spending among our active customers increased with net sales per active customer increasing \$3, or 0.8%, in the thirty-nine weeks ended November 1, 2020 compared to the thirty-nine weeks ended November 3, 2019, driven by continued catalog expansion and growth across all verticals.

#### ***Cost of Goods Sold and Gross Profit***

Cost of goods sold for the thirteen weeks ended November 1, 2020 increased by \$389.4 million, or 41.5%, to \$1.3 billion compared to \$938.0 million in the thirteen weeks ended November 3, 2019. This increase was primarily due to a 46.4% increase in orders shipped and associated product costs, outbound freight, and shipping supply costs. The increase in cost of goods sold was lower than the increase in net sales on a percentage basis, primarily as a result of realized supply chain efficiencies and change in mix of sales as hardgoods, healthcare, and private brand businesses continue to grow faster than the overall business.

Cost of goods sold for the thirty-nine weeks ended November 1, 2020 increased by \$1.2 billion, or 43.5%, to \$3.8 billion compared to \$2.7 billion in the thirty-nine weeks ended November 3, 2019. This increase was primarily due to a 49.4% increase in orders shipped and associated product costs, outbound freight, and shipping supply costs, including incremental costs attributable to COVID-19. The increase in cost of goods sold was lower than the increase in net sales on a percentage basis, primarily as a result of realized supply chain efficiencies and change in mix of sales as hardgoods, healthcare, and private brand businesses continue to grow faster than the overall business.

Gross profit for the thirteen weeks ended November 1, 2020 increased by \$162.8 million, or 55.8%, to \$454.6 million compared to \$291.8 million in the thirteen weeks ended November 3, 2019. This increase was primarily due to the year-over-year increase in net sales as described above. Gross profit as a percentage of net sales for the thirteen weeks ended November 1, 2020 increased by 180 basis points compared to the thirteen weeks ended November 3, 2019, primarily due to margin expansion across all verticals.

Gross profit for the thirty-nine weeks ended November 1, 2020 increased by \$448.7 million, or 54.9%, to \$1.3 billion compared to \$817.9 million in the thirty-nine weeks ended November 3, 2019. This increase was primarily due to the year-over-year increase in net sales as described above. Gross profit as a percentage of net sales for the thirty-nine weeks ended November 1, 2020 increased by 140 basis points compared to the thirty-nine weeks ended November 3, 2019, primarily due to margin expansion across hardgoods, pharmacy and private brands.

#### ***Selling, General and Administrative***

Selling, general and administrative expenses for the thirteen weeks ended November 1, 2020 increased by \$93.8 million, or 36.3%, to \$352.3 million compared to \$258.5 million in the thirteen weeks ended November 3, 2019. This increase was primarily due to an increase of \$78.4 million in fulfillment costs largely attributable to increased investments to support overall growth of our business including the opening of new fulfillment centers in Archbald, Pennsylvania and Salisbury, North Carolina, a limited catalog fulfillment center in Kansas City, Missouri, a customer service center in Dallas, Texas, growth of fulfillment and customer service headcount, and temporary incentive wages and bonuses as well as incremental cleaning and sanitation spend attributable to COVID-19. Facilities expenses and other general and administrative expenses increased by \$29.9 million, primarily due to increased headcount as a result of business growth as well as expenses incurred as a result of IT initiatives and operating as a public company. These increases were partially offset by a \$14.5 million reduction in non-cash share-based compensation expense.

Selling, general and administrative expenses for the thirty-nine weeks ended November 1, 2020 increased by \$330.5 million, or 48.3%, to \$1.0 billion compared to \$684.9 million in the thirty-nine weeks ended November 3, 2019. This increase was primarily due to an increase of \$223.0 million in fulfillment costs largely attributable to increased investments to support overall growth of our business including the opening of new fulfillment centers in Archbald, Pennsylvania, Salisbury, North Carolina, and Dayton, Ohio, a limited catalog fulfillment center in Kansas City, Missouri, a pharmacy fulfillment center in Louisville, Kentucky, and a customer service center in Dallas, Texas, growth of fulfillment and customer service headcount, and temporary incentive wages and bonuses as well as incremental cleaning and sanitation spend attributable to COVID-19. We recognized an increase of \$9.8 million in non-cash share-based compensation expense. Facilities expenses and other general and administrative expenses increased by \$97.7 million, primarily due to expanding our corporate office and increased headcount as a result of business growth as well as an increase in expenses incurred due to operating as a public company.

## Advertising and Marketing

Advertising and marketing expenses for the thirteen weeks ended November 1, 2020 increased by \$22.5 million, or 20.1%, to \$134.6 million compared to \$112.1 million in the thirteen weeks ended November 3, 2019, but overall spend declined as a percentage of net sales to 7.6% from 9.1% in the thirteen weeks ended November 3, 2019. This increase in advertising and marketing spend through existing channels continues to contribute to an increase in the number of active customers.

Advertising and marketing expenses for the thirty-nine weeks ended November 1, 2020 increased by \$38.1 million, or 11.7%, to \$363.2 million compared to \$325.1 million in the thirty-nine weeks ended November 3, 2019, but overall spend declined as a percentage of net sales to 7.1% from 9.3% in the thirty-nine weeks ended November 3, 2019. This increase in advertising and marketing spend through existing channels continues to contribute to an increase in the number of active customers.

## Liquidity and Capital Resources

Since our inception, we have financed our operations and capital expenditures primarily through sales of convertible redeemable preferred stock, equity offerings, and cash flows generated by operations. Our principal source of liquidity is our cash and cash equivalents. Cash and cash equivalents consist primarily of cash on deposit with banks and investments in money market funds. Cash and cash equivalents totaled \$505.8 million as of November 1, 2020, an increase of \$293.7 million from February 2, 2020.

We believe that our cash and cash equivalents and availability under our revolving credit facility will be sufficient to fund our working capital and capital expenditure requirements for at least the next twelve months. In addition, we may choose to raise additional funds at any time through equity or debt financing arrangements, which may or may not be needed for additional working capital, capital expenditures or other strategic investments. Our opinions concerning liquidity are based on currently available information. To the extent this information proves to be inaccurate, or if circumstances change, future availability of trade credit or other sources of financing may be reduced and our liquidity could be adversely affected. Our future capital requirements and the adequacy of available funds will depend on many factors, including those described in the section titled "Risk Factors" in Item 1A of our 10-K Report. Depending on the severity and direct impact of these factors on us, we may be unable to secure additional financing to meet our operating requirements on terms favorable to us, or at all.

## 2020 Equity Offering

During the thirteen weeks ended November 1, 2020, we issued and sold 5,865,000 shares of Class A common stock at a public offering price of \$54.40 per share, raising \$318.4 million in net proceeds after deducting offering costs of approximately \$0.6 million. For additional information, see Note 1 in the "Notes to Condensed Consolidated Financial Statements" of this 10-Q Report.

## Cash Flows

	39 Weeks Ended	
	November 1, 2020	November 3, 2019
Net cash provided by (used in) operating activities	\$ 55,288	\$ (27,753)
Net cash used in investing activities	\$ (104,025)	\$ (49,859)
Net cash provided by financing activities	\$ 342,477	\$ 125,152

## Operating Activities

Cash provided by (used in) operating activities consisted of net loss adjusted for non-cash items, including depreciation and amortization, share-based compensation expense and certain other non-cash items, as well as the effect of changes in working capital and other activities.

Net cash provided by operating activities was \$55.3 million for the thirty-nine weeks ended November 1, 2020, primarily consisting of \$113.5 million of net loss, adjusted for certain non-cash items, which included depreciation and amortization expense of \$24.6 million, share-based compensation expense of \$100.2 million, and favorable working capital changes of \$15.7 million. Favorable working capital changes included an increase in current liabilities of \$209.6 million, partially offset by an increase in current assets of \$193.9 million. The increase in current liabilities was primarily attributable to the timing of payments for inventory purchases and accrued expenses. The increase in current assets was primarily attributable to an increase in inventory and receivables associated with net sales as well as other current assets.



Net cash used in operating activities was \$27.8 million for the thirty-nine weeks ended November 3, 2019, primarily consisting of \$191.4 million of net loss, adjusted for certain non-cash items, which included depreciation and amortization expense of \$22.7 million, share-based compensation expense of \$90.4 million, and favorable working capital changes of \$41.7 million. Favorable working capital changes included an increase in current liabilities of \$181.7 million offset by an increase in current assets of \$140.0 million. The increase in current liabilities was primarily attributable to the timing of payments for inventory purchases and accrued expenses. The increase in current assets was primarily attributable to an increase in inventory and receivables associated with net sales as well as other current assets.

#### *Investing Activities*

Our primary investing activities consisted of purchases of property and equipment, mainly for the launch of new fulfillment centers and expansion of our fulfillment capabilities, as well as purchases of servers and networking equipment, and leasehold improvements.

Net cash used in investing activities was \$104.0 million for the thirty-nine weeks ended November 1, 2020, primarily consisting of \$100.3 million of capital expenditures related to the launch of new fulfillment centers and a customer service center.

Net cash used in investing activities was \$49.9 million for the thirty-nine weeks ended November 3, 2019, primarily consisting of \$38.5 million of capital expenditures related to the launch of new fulfillment centers, the expansion of the corporate office and customer service centers, and additional investments in IT hardware and software, and \$11.3 million of cash advances, net of reimbursements from PetSmart.

#### *Financing Activities*

Net cash provided by financing activities was \$342.5 million for the thirty-nine weeks ended November 1, 2020 and consisted of \$318.8 million in proceeds from our equity offering in September 2020, net of offering costs, \$23.2 million received pursuant to the tax sharing agreement with PetSmart as well as a management fee expense allocated to us by PetSmart for organizational oversight and certain limited corporate functions provided by its sponsors, partially offset by principal repayments of finance lease obligations.

Net cash provided by financing activities was \$125.2 million for the thirty-nine weeks ended November 3, 2019, primarily consisting of \$110.6 million of proceeds from our IPO, net of underwriting discounts, commissions and offering costs, and \$14.5 million of proceeds from the tax sharing agreement with PetSmart.

### **Other Liquidity Measures**

#### *ABL Credit Facility*

On June 18, 2019, we entered into a five year senior secured asset backed credit facility (the “ABL Credit Facility”) which provides for non-amortizing revolving loans in an aggregate principal amount of up to \$300 million, subject to a borrowing base comprised of, among other things, inventory and sales receivables (subject to certain reserves). The ABL Credit Facility provides the right to request incremental commitments and add incremental asset-based revolving loan facilities in an aggregate principal amount of up to \$100 million, subject to customary conditions. We are required to pay a commitment fee of between 0.25% and 0.375% with respect to the undrawn portion of the commitments, which is generally based on average daily usage of the facility. As of November 1, 2020, we had no outstanding borrowings under the ABL Credit Facility.

### **Contractual Obligations**

There have been no material changes to our contractual obligations as compared to those described in Contractual Obligations included in Management’s Discussion and Analysis of Financial Condition and Results of Operations of our Annual Report on Form 10-K.

### **Off-Balance Sheet Arrangements**

We do not engage in any off-balance sheet activities or have any off-balance sheet interest in variable interest, special purpose, and structured finance entities.

### **Recent Accounting Pronouncements**

Information regarding recent accounting pronouncements is included in Note 2 in the “Notes to Condensed Consolidated Financial Statements” of this 10-Q Report.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

There have been no material changes to the quantitative and qualitative disclosures about market risk disclosed in our Annual Report on Form 10-K for the fiscal year ended February 2, 2020.

### **Item 4. Controls and Procedures**

#### **Management’s Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, (the “Exchange Act”) is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required financial disclosure.

As of the end of the period covered by this 10-Q Report, our management, under the supervision and with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e) and 15d-15(e). Based upon this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of November 1, 2020.

#### **Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting during the thirteen weeks ended November 1, 2020. We have not experienced any material impact to our internal controls over financial reporting despite the fact that many of our employees are working remotely due to the COVID-19 pandemic. We are continually monitoring and assessing the impact of COVID-19 on our internal controls.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

From time to time, we are involved in various legal proceedings arising from the normal course of business activities. We are not presently a party to any litigation the outcome of which, we believe, if determined adversely to us, would individually or taken together have a material adverse effect on our business, operating results, cash flows or financial condition.

### **Item 1A. Risk Factors**

There have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended February 2, 2020.

**Item 6. Exhibits**

<b>Exhibit No.</b>	<b>Exhibit Description</b>
10.1	<a href="#"><u>Amendment to Master Transaction Agreement, dated as of August 12, 2020, by and between Chewy, Inc. and PetSmart, Inc.</u></a>
31.1	<a href="#"><u>Certification of the Principal Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
31.2	<a href="#"><u>Certification of the Principal Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
32.1	<a href="#"><u>Certifications of the Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned thereunto duly authorized.

**CHEWY, INC.**

Date: December 8, 2020

By: /s/ Mario Marte

Mario Marte  
Chief Financial Officer  
*(Principal Financial Officer)*

**AMENDMENT  
TO  
MASTER TRANSACTION AGREEMENT**

This AMENDMENT to the MASTER TRANSACTION AGREEMENT (this “Amendment Agreement”), is made effective as of August 12, 2020 (the “Effective Date”), by and between Chewy, Inc., a Delaware corporation (“Chewy”), and PetSmart, Inc., a Delaware corporation (“PetSmart”). Each party hereto may be referred to in this Agreement as a “Party” or, collectively, the “Parties.”

**WHEREAS**, Chewy and PetSmart executed that certain Master Transaction Agreement dated June 13, 2019 (the “Agreement”);

**WHEREAS**, Chewy has entered into arrangements with the City of Belton, Missouri (the “City”) whereby the City will provide certain ad valorem tax benefits (the “Benefits”) to Chewy in connection with a capital investment of up to \$70 million in property, plant, and equipment purchases for a new fulfillment center in the State of Missouri;

**WHEREAS**, the City will issue to Chewy Taxable Industrial Development Revenue Bonds, Series 2020 in a maximum aggregate principal amount of \$70 million (the “Bonds”) and in exchange for the Bonds, Chewy will convey certain purchased equipment to the City and will lease such equipment from the City over a three-year period (the “Arrangement”);

**WHEREAS**, the Parties are entering into this Amendment Agreement to permit Chewy’s entry into and performance of the Arrangement to use certain covenant capacity under the PetSmart Debt Agreements; and

**WHEREAS**, the Parties now desire to amend the Agreement as set forth herein.

**NOW, THEREFORE**, in consideration of the promises and the mutual covenants and agreements hereinafter contained, the parties hereby agree as follows:

1. The Amendment Agreement will be effective as of the Effective Date.
2. Article I of the Agreement will be amended to include the following defined terms:

“Arrangement” means the arrangements under which the City will issue to Chewy the Bonds and in exchange thereof Chewy will convey certain purchased equipment to the City and will lease such equipment from the City over a three-year period.

“Benefits” mean the ad valorem tax benefits to be provided by the City to Chewy in connection with a capital investment of up to \$70 million in property, plant, and equipment purchases to be made by Chewy for a new fulfillment center in the State of Missouri.

“Bonds” mean the Taxable Industrial Development Revenue Bonds, Series 2020 to be issued by the City in favor of Chewy in a maximum aggregate principal amount of \$70 million.

“City” shall mean the City of Belton, Missouri.

“Commitment Fee” shall have the meaning set forth in Article IV.A.

3. The following new Article IV.A (Commitment Fee) will be added to the Agreement immediately following Article IV of the Agreement:

“In consideration of PetSmart facilitating the Arrangement under the PetSmart Debt Agreements by reserving capacity under certain covenants, Chewy shall pay to PetSmart a fee (the “Commitment Fee”) equal to twenty five percent (25)% of the Benefits Chewy receives from the City.”
4. Article V (Compliance with Agreements) will be amended to include the following:

(iii) Within forty-five (45) days following the end of each of its fiscal quarters, Chewy shall provide a written report to PetSmart setting forth the total Bonds issued to Chewy, equipment purchased by Chewy and sold to the City and Benefits Chewy has received as of the end of each quarter.
5. Section 6.1 of the Agreement will be amended and restated as follows:

“**6.1 Payment Terms.** The Service Fee shall be recorded on a financial monthly basis and be due and payable by Chewy to PetSmart no later than thirty (30) days following the end of each PetSmart fiscal quarter. The Guarantee Fee shall be due and payable by Chewy to PetSmart no later than thirty (30) days following the end of each calendar quarter. The Commitment Fee shall be due and payable by Chewy to PetSmart no later than thirty (30) days following the earlier of (i) December 1 , 2030 and (ii) the date on which the Bonds have been repaid or redeemed by the City. All payments shall be made in U.S. dollars without set off.”
6. Section 7.3(a) of the Agreement will be amended and restated as follows:

“(a) such payments as shall be due from Chewy to PetSmart as of such termination date shall be recoverable without prejudice (including, without limitation, the Commitment Fee); and”
7. Except as specifically modified in this Amendment Agreement, the Agreement shall remain unchanged and in full force and effect.
8. If any term contained in this Amendment Agreement conflicts with any term contained in the Agreement or any previously executed amendment, the term contained in this Amendment shall prevail.
9. This Amendment Agreement may be executed in one or more counterparts, each of which shall be deemed an original and all of which shall constitute but one and the same instrument.
10. The Parties acknowledge that they have read this Amendment Agreement and agree to be bound by its terms. The Parties further agree that the Amendment Agreement constitutes the entire agreement between the Parties with respect to the subject matter therein.

**IN WITNESS WHEREOF**, the parties hereto have caused this Amendment Agreement to be executed by their respective duly authorized officers or representatives, as of the date first written above.

CHEWY, INC.

By: /s/ Mario J. Marte  
Mario J. Marte  
Chief Financial Officer

PETSMART, INC.

By: /s/ Alan M. Schnaid  
Alan M. Schnaid  
EVP and CFO

**Certification of the Principal Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Sumit Singh, certify that:

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

Date: December 8, 2020

/s/ Sumit Singh

Sumit Singh

Chief Executive Officer

*(Principal Executive Officer)*



**Certification of the Principal Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Mario Marte, certify that:

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

Date: December 8, 2020

/s/ Mario Marte

Mario Marte  
Chief Financial Officer  
(Principal Financial Officer)

**Certifications of the Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Chewy, Inc. (the "Company") on Form 10-Q for the period ended November 1, 2020, as filed with the Securities and Exchange Commission (the "Periodic Report"), we, Sumit Singh, Chief Executive Officer of the Company, and Mario Marte, Chief Financial Officer of the Company, each certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of our knowledge:

1. The Periodic Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and
2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: December 8, 2020

/s/ Sumit Singh

Sumit Singh  
Chief Executive Officer  
*(Principal Executive Officer)*

/s/ Mario Marte

Mario Marte  
Chief Financial Officer  
*(Principal Financial Officer)*