

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 May 3, 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)

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

(Address of principal executive offices)

90-1020167

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

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 June 2, 2020
Class A Common Stock, \$0.01 par value per share	84,224,936
Class B Common Stock, \$0.01 par value per share	317,338,356

CHEWY, INC.
FORM 10-Q
For the Quarterly Period Ended May 3, 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” 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	
	May 3, 2020	February 2, 2020
Assets	(Unaudited)	
Current assets:		
Cash and cash equivalents	\$ 192,534	\$ 212,088
Accounts receivable	98,093	80,478
Inventories	448,756	317,808
Due from Parent, net	11,267	626
Prepaid expenses and other current assets	17,149	18,789
Total current assets	767,799	629,789
Property and equipment, net	144,427	118,731
Operating lease right-of-use assets	207,146	179,052
Other non-current assets	3,997	4,749
Total assets	\$ 1,123,369	\$ 932,321
Liabilities and stockholders' deficit		
Current liabilities:		
Trade accounts payable	\$ 782,863	\$ 683,049
Accrued expenses and other current liabilities	466,940	417,489
Total current liabilities	1,249,803	1,100,538
Operating lease liabilities	229,560	200,439
Other long-term liabilities	40,541	35,318
Total liabilities	1,519,904	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 May 3, 2020 and February 2, 2020	—	—
Class A common stock, \$0.01 par value per share, 1,500,000,000 shares authorized, 66,538,869 and 66,445,422 shares issued and outstanding as of May 3, 2020 and February 2, 2020, respectively	666	665
Class B common stock, \$0.01 par value per share, 395,000,000 shares authorized, 334,922,454 shares issued and outstanding as of May 3, 2020 and February 2, 2020	3,349	3,349
Additional paid-in capital	1,491,792	1,436,484
Accumulated deficit	(1,892,342)	(1,844,472)
Total stockholders' deficit	(396,535)	(403,974)
Total liabilities and stockholders' deficit	\$ 1,123,369	\$ 932,321

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	
	May 3, 2020	May 5, 2019
Net sales	\$ 1,621,393	\$ 1,108,872
Cost of goods sold	1,242,684	854,982
Gross profit	378,709	253,890
Operating expenses:		
Selling, general and administrative	320,057	181,897
Advertising and marketing	106,138	102,263
Total operating expenses	426,195	284,160
Loss from operations	(47,486)	(30,270)
Interest (expense) income, net	(384)	716
Loss before income tax provision	(47,870)	(29,554)
Income tax provision	—	—
Net loss	\$ (47,870)	\$ (29,554)
Net loss per share attributable to common Class A and Class B stockholders, basic and diluted	\$ (0.12)	\$ (0.08)
Weighted average common shares used in computing net loss per share attributable to common Class A and Class B stockholders, basic and diluted	401,405	393,000

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	13 Weeks Ended May 3, 2020				
	Class A and Class B Common Stock		Additional Paid- in Capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount			
Balance as of February 2, 2020	401,368	\$ 4,014	\$ 1,436,484	\$ (1,844,472)	\$ (403,974)
Share-based compensation expense	—	—	42,229	—	42,229
Vesting of share-based compensation awards	93	1	(1)	—	—
Contribution from Parent	—	—	325	—	325
Tax sharing agreement with Parent	—	—	12,755	—	12,755
Net loss	—	—	—	(47,870)	(47,870)
Balance as of May 3, 2020	401,461	\$ 4,015	\$ 1,491,792	\$ (1,892,342)	\$ (396,535)

	13 Weeks Ended May 5, 2019				
	Common Stock		Additional Paid- in Capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount			
Balance as of February 3, 2019	—	\$ —	\$ 1,256,160	\$ (1,592,102)	\$ (335,942)
Share-based compensation expense	—	—	7,230	—	7,230
Contribution from Parent	—	—	325	—	325
Net loss	—	—	—	(29,554)	(29,554)
Balance as of May 5, 2019	—	\$ —	\$ 1,263,715	\$ (1,621,656)	\$ (357,941)

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	13 Weeks Ended	
	May 3, 2020	May 5, 2019
Cash flows from operating activities		
Net loss	\$ (47,870)	\$ (29,554)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	7,253	6,949
Share-based compensation expense	42,229	7,230
Non-cash lease expense	5,092	4,012
Other	386	1,820
Net change in operating assets and liabilities:		
Accounts receivable	(17,615)	(10,246)
Inventories	(130,948)	(33,285)
Prepaid expenses and other current assets	1,366	(3,090)
Other non-current assets	680	(159)
Trade accounts payable	99,814	16,716
Accrued expenses and other current liabilities	59,008	(11,190)
Operating lease liabilities	(3,873)	(2,121)
Other long-term liabilities	5,223	1,777
Net cash provided by (used in) operating activities	20,745	(51,141)
Cash flows from investing activities		
Capital expenditures	(42,578)	(12,222)
Cash reimbursements provided by Parent, net of advances	2,114	4,057
Net cash used in investing activities	(40,464)	(8,165)
Cash flows from financing activities		
Contribution from Parent	325	325
Principal repayments of finance lease obligations	(160)	(52)
Net cash provided by financing activities	165	273
Net decrease in cash and cash equivalents	(19,554)	(59,033)
Cash and cash equivalents, as of beginning of period	212,088	88,331
Cash and cash equivalents, as of end of period	\$ 192,534	\$ 29,298

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.

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 May 3, 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 May 3, 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	
	May 3, 2020	February 2, 2020
Outbound fulfillment	\$ 263,791	\$ 182,589
Advertising and marketing	62,317	96,836
Accrued expenses and other	140,832	138,064
Total accrued expenses and other current liabilities	\$ 466,940	\$ 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	
	May 3, 2020	February 2, 2020
Furniture, fixtures and equipment	\$ 74,935	\$ 65,329
Computer equipment	34,719	32,259
Internal-use software	35,832	30,222
Leasehold improvements	40,876	39,447
Finance lease assets	2,861	2,565
Construction in progress	31,920	18,927
	221,143	188,749
Less: accumulated depreciation and amortization	76,716	70,018
Property and equipment, net	\$ 144,427	\$ 118,731

Internal-use software includes labor and license costs associated with software development for internal use. As of May 3, 2020 and February 2, 2020, the Company had accumulated amortization related to internal-use software of \$17.1 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 May 3, 2020 and May 5, 2019, the Company recorded depreciation expense on property and equipment of \$6.1 million, and \$5.0 million, respectively, and amortization expense related to internal-use software costs of \$1.2 million, and \$1.9 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 May 3, 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

The Company has 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 May 3, 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, including exercised renewal options, expire at various dates through 2034. 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 2024.

The Company's finance leases as of May 3, 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	
		May 3, 2020	February 2, 2020
Assets			
Operating	Operating lease right-of-use assets	\$ 207,146	\$ 179,052
Total operating lease assets		\$ 207,146	\$ 179,052
Liabilities			
Current			
Operating	Accrued expenses and other current liabilities	\$ 15,321	\$ 15,491
Non-current			
Operating	Operating lease liabilities	229,560	200,439
Total operating lease liabilities		\$ 244,881	\$ 215,930

For the thirteen weeks ended May 3, 2020 and May 5, 2019, assets acquired in exchange for new operating lease liabilities were \$32.0 million and \$0.2 million, respectively. Lease expense primarily related to operating lease costs. Lease expense for the thirteen weeks ended May 3, 2020 and May 5, 2019 was \$13.4 million and \$11.0 million, respectively, and 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 \$10.4 million and \$8.3 million for the thirteen weeks ended May 3, 2020 and May 5, 2019, respectively.

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 will be satisfied with respect to 25% of an employee's PRSUs on the first anniversary of the registration date (as defined in the 2019 Plan) and then 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.

Service-Based Awards

During the thirteen weeks ended May 3, 2020, the Company granted restricted stock units with a service-based vesting condition (“RSUs”). The service-based vesting condition 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 thirteen weeks ended May 3, 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	(93)	\$ 36.77
Forfeited	(536)	\$ 35.10
Unvested and outstanding as of May 3, 2020	<u>21,460</u>	<u>\$ 36.08</u>

The total fair value of PRSUs that vested during the thirteen weeks ended May 3, 2020 was \$3.2 million. As of May 3, 2020, total unrecognized compensation expense related to unvested PRSUs was \$168.4 million and is expected to be recognized over a weighted-average expected performance period of 2.0 years.

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 thirteen weeks ended May 3, 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	325	\$ 33.31
Forfeited	(2)	\$ 33.31
Unvested and outstanding as of May 3, 2020	<u>323</u>	<u>\$ 33.31</u>

As of May 3, 2020, total unrecognized compensation expense related to unvested RSUs was \$10.5 million and is expected to be recognized over a weighted-average expected performance period of 3.8 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 May 3, 2020, there were 7.2 million additional shares of Class A common stock reserved for future issuance under the 2019 Plan.

Citrus Profits Interest Plan

Subsequent to the PetSmart Acquisition, 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):

	13 Weeks Ended	
	May 3, 2020	May 5, 2019
PRSUs	\$ 42,010	\$ —
RSUs	219	—
PIUs	—	7,230
Total share-based compensation expense	<u>\$ 42,229</u>	<u>\$ 7,230</u>

8. Income Taxes

Subsequent to the PetSmart Acquisition, the Company’s losses were included with PetSmart’s consolidated U.S. federal and state income tax returns. Income taxes as presented in the Company’s condensed consolidated financial statements have been prepared on the separate return method as if the Company were a taxpayer separate from PetSmart.

The Company did not have a net current or deferred provision for income taxes for any taxing jurisdiction during the thirteen weeks ended May 3, 2020 and May 5, 2019.

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 thirteen weeks ended May 3, 2020, the Company recorded a \$12.8 million due from Parent pursuant to the tax sharing agreement.

The Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), which was enacted on March 27, 2020, made tax law changes to provide financial relief to companies as a result of the business impacts of COVID-19. Key income tax provisions of the CARES Act include changes in net operating loss carryback and carryforward rules, acceleration of alternative minimum tax credit recovery, increase in the net interest expense deduction limit and charitable contribution limit, and immediate write-off of qualified improvement property. The changes are not expected to have a significant impact on the Company.

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 common stock into 393,000,000 shares of Class B common stock.

For the thirteen weeks ended May 3, 2020 and May 5, 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 21.8 million potential common shares for the thirteen weeks ended May 3, 2020 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 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 allocated to the Company by the Parent for organizational oversight and certain limited corporate functions provided by its sponsors for the thirteen weeks ended May 3, 2020 and May 5, 2019. 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 \$11.7 million and \$10.5 million within net sales in the condensed consolidated statements of operations for the services provided during the thirteen weeks ended May 3, 2020 and May 5, 2019, respectively.

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 May 3, 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, 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 of our team members, we have adapted aspects of our logistics, transportation, supply chain and purchasing processes. As reflected in the discussion below, early in the outbreak, we saw an acceleration in sales as concerned pet parents stocked up on necessities such as food and other essentials. Later, as shelter-in-place orders expanded and social distancing protocols took hold, customers began shifting more of their total shopping spend to online channels.

Throughout the crisis, we continue to monitor the rapidly evolving situation and expect to remain on the job, continuing to adapt our operations to address federal, state and local standards, meeting the needs of our rapidly growing community of pets and pet parents and implementing standards that we believe to be in the best interest of the safety and well-being of our team members. We cannot predict the duration or severity of the economic impact of COVID-19 or its ultimate impact on 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.

	13 Weeks Ended		
	May 3, 2020	May 5, 2019	% Change
<i>(in thousands, except net sales per active customer and percentages)</i>			
Financial and Operating Data			
Net sales	\$ 1,621,393	\$ 1,108,872	46.2 %
Net loss ⁽¹⁾	\$ (47,870)	\$ (29,554)	(62.0)%
<i>Net margin ⁽¹⁾</i>	<i>(3.0)%</i>	<i>(2.7)%</i>	
Adjusted EBITDA ⁽²⁾	\$ 3,443	\$ (15,766)	121.8 %
<i>Adjusted EBITDA margin⁽²⁾</i>	<i>0.2 %</i>	<i>(1.4)%</i>	
Net cash provided by (used in) operating activities	\$ 20,745	\$ (51,141)	140.6 %
Free cash flow ⁽²⁾	\$ (21,833)	\$ (63,363)	65.5 %
Active customers	15,016	11,321	32.6 %
Net sales per active customer	\$ 357	\$ 343	4.1 %
Autoship customer sales	\$ 1,101,189	\$ 743,853	48.0 %
Autoship customer sales as a percentage of net sales	67.9 %	67.1 %	

⁽¹⁾ Includes share-based compensation expense, including related taxes, of \$42.3 million and \$7.2 million for the thirteen weeks ended May 3, 2020 and May 5, 2019, respectively.

⁽²⁾ 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 and other costs. 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)

	13 Weeks Ended	
	May 3, 2020	May 5, 2019
Reconciliation of Net Loss to Adjusted EBITDA		
Net loss	\$ (47,870)	\$ (29,554)
Add (deduct):		
Depreciation and amortization	7,253	6,949
Share-based compensation expense and related taxes	42,341	7,230
Interest expense (income), net	384	(716)
Management fee expense ⁽¹⁾	325	325
Other	1,010	—
Adjusted EBITDA	\$ 3,443	\$ (15,766)
Net sales	\$ 1,621,393	\$ 1,108,872
Net margin	(3.0)%	(2.7)%
Adjusted EBITDA margin	0.2 %	(1.4)%

⁽¹⁾ Management fee expense allocated to us by 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)

	13 Weeks Ended	
	May 3, 2020	May 5, 2019
Reconciliation of Net Cash Provided by (Used in) Operating Activities to Free Cash Flow		
Net cash provided by (used in) operating activities	\$ 20,745	\$ (51,141)
Deduct:		
Capital expenditures	(42,578)	(12,222)
Free Cash Flow	<u>\$ (21,833)</u>	<u>\$ (63,363)</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				
	May 3, 2020	May 5, 2019	% Change	% of net sales	
				May 3, 2020	May 5, 2019
Consolidated Statements of Operations					
Net sales	\$ 1,621,393	\$ 1,108,872	46.2 %	100.0 %	100.0 %
Cost of goods sold	1,242,684	854,982	45.3 %	76.6 %	77.1 %
Gross profit	378,709	253,890	49.2 %	23.4 %	22.9 %
Operating expenses:					
Selling, general and administrative	320,057	181,897	76.0 %	19.7 %	16.4 %
Advertising and marketing	106,138	102,263	3.8 %	6.5 %	9.2 %
Total operating expenses	426,195	284,160	50.0 %	26.3 %	25.6 %
Loss from operations	(47,486)	(30,270)	(56.9)%	(2.9)%	(2.7)%
Interest (expense) income, net	(384)	716	(153.6)%	— %	0.1 %
Loss before income tax provision	(47,870)	(29,554)	(62.0)%	(3.0)%	(2.7)%
Income tax provision	—	—	— %	— %	— %
Net loss	\$ (47,870)	\$ (29,554)	(62.0)%	(3.0)%	(2.7)%

Thirteen Weeks Ended May 3, 2020 Compared to Thirteen Weeks Ended May 5, 2019

Net Sales

(\$ in thousands)	13 Weeks Ended ⁽¹⁾			
	May 3, 2020	May 5, 2019	\$ Change	% Change
	Consumables	\$ 1,173,549	\$ 833,945	\$ 339,604
Hardgoods	242,838	168,447	74,391	44.2 %
Other	205,006	106,480	98,526	92.5 %
Net sales	\$ 1,621,393	\$ 1,108,872	\$ 512,521	46.2 %

⁽¹⁾ Prior periods have been reclassified to conform with current presentation.

Net sales for the thirteen weeks ended May 3, 2020 increased by \$512.5 million, or 46.2%, to \$1.6 billion compared to \$1.1 billion for the thirteen weeks ended May 5, 2019. This increase was primarily due to growth in our customer base, including a meaningful increase in organic customer growth in the thirteen weeks ended May 3, 2020, with the number of active customers increasing by 3.7 million, or 32.6%. Spending among our active customers increased with net sales per active customer increasing \$14, or 4.1%, in the thirteen weeks ended May 3, 2020 compared to the thirteen weeks ended May 5, 2019, driven by continued catalog expansion and growth across all businesses.

Cost of Goods Sold and Gross Profit

Cost of goods sold for the thirteen weeks ended May 3, 2020 increased by \$387.7 million, or 45.3%, to \$1.2 billion compared to \$855.0 million in the thirteen weeks ended May 5, 2019. This increase was primarily due to a 53.5% 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 cost reduction initiatives.

Gross profit for the thirteen weeks ended May 3, 2020 increased by \$124.8 million, or 49.2%, to \$378.7 million compared to \$253.9 million in the thirteen weeks ended May 5, 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 May 3, 2020 increased by 50 basis points compared to the thirteen weeks ended May 5, 2019, primarily due to margin expansion across all verticals, including improvements in margin profile of pharmacy and private brands.

Selling, General and Administrative

Selling, general and administrative expenses for the thirteen weeks ended May 3, 2020 increased by \$138.2 million, or 76.0%, to \$320.1 million compared to \$181.9 million in the thirteen weeks ended May 5, 2019. This increase was primarily due to an increase of \$69.2 million in fulfillment costs largely attributable to increased investments to support overall growth of our business, including the opening of new fulfillment centers in Dayton, Ohio, and Salisbury, North Carolina and a pharmacy fulfillment center in Louisville, Kentucky, 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 \$35.0 million in non-cash share-based compensation expense. Facilities expenses and other general and administrative expenses increased by \$34.0 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 May 3, 2020 increased by \$3.9 million, or 3.8%, to \$106.1 million compared to \$102.3 million in the thirteen weeks ended May 5, 2019, but declined as a percentage of net sales to 6.5% from 9.2% in the thirteen weeks ended May 5, 2019. This increase in advertising and marketing spend, combined with a meaningful increase in organic customer growth in the thirteen weeks ended May 3, 2020, contributed to the 3.7 million increase in 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 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 \$192.5 million as of May 3, 2020, a decrease of \$19.6 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 Form 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.

Cash Flows

	13 Weeks Ended	
	May 3, 2020	May 5, 2019
Net cash provided by (used in) operating activities	\$ 20,745	\$ (51,141)
Net cash used in investing activities	\$ (40,464)	\$ (8,165)
Net cash provided by financing activities	\$ 165	\$ 273

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 \$20.7 million for the thirteen weeks ended May 3, 2020, primarily consisting of \$47.9 million of net loss, adjusted for certain non-cash items, which primarily included depreciation and amortization expense of \$7.3 million and \$42.2 million of share-based compensation expense, as well as a \$11.6 million increase due to favorable working capital changes. Operating cash flows benefited from an increase in current liabilities of \$158.8 million, primarily due to timing of payments for inventory purchases, partially offset by an increase in current assets of \$147.2 million due to an increase in inventory and receivables associated with net sales.

Net cash used in operating activities was \$51.1 million for the thirteen weeks ended May 5, 2019, primarily consisting of \$29.6 million of net loss, adjusted for certain non-cash items, which primarily included depreciation and amortization expense of \$6.9 million and \$7.2 million of share-based compensation expense, as well as a \$41.1 million decrease due to unfavorable working capital changes primarily driven by an increase in inventory and receivables associated with net sales of \$46.6 million, partially offset by an increase in current liabilities of \$5.5 million, primarily due to timing of payments for inventory purchases.

Investing Activities

Our primary investing activities consisted of purchases of property and equipment, mainly for the launch 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 \$40.5 million for the thirteen weeks ended May 3, 2020, primarily consisting of \$42.6 million of capital expenditures related to the launch of new fulfillment centers and additional investments in IT hardware and software, partially offset by \$2.1 million of cash reimbursements, net of advances from PetSmart.

Net cash used in investing activities was \$8.2 million for the thirteen weeks ended May 5, 2019, primarily consisting of \$12.2 million of capital expenditures related to the launch of new fulfillment centers, the expansion of corporate and customer services offices, and additional investments in IT hardware and software, partially offset by \$4.1 million of cash reimbursements, net of advances from PetSmart.

Financing Activities

Net cash provided by financing activities was \$0.2 million and \$0.3 million for the thirteen weeks ended May 3, 2020 and May 5, 2019, respectively, and consisted of 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.

Other Liquidity Measures

ABL Credit Facility

We have 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 May 3, 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 arrangements or relationships with unconsolidated entities, such as 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 May 3, 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 May 3, 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 COVID-19 situation and our internal controls to minimize any impact on their design and operating effectiveness.

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

Exhibit No.	Exhibit Description
31.1	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.
31.2	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.
32.1	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.
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: June 9, 2020

By: /s/ Mario Marte

Mario Marte

Chief Financial Officer

(Principal Financial Officer)

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: June 9, 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: June 9, 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 May 3, 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: June 9, 2020

/s/ Sumit Singh

Sumit Singh

Chief Executive Officer

(Principal Executive Officer)

/s/ Mario Marte

Mario Marte

Chief Financial Officer

(Principal Financial Officer)