

chewy

Q3 Fiscal  
2020



December 8, 2020

**LETTER TO  
SHAREHOLDERS**



## **Our mission**

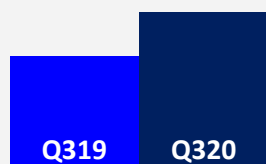
To be the most trusted and convenient  
online destination for pet parents  
(and partners) everywhere.

# Q3 Fiscal 2020 Highlights

## Net Sales

**\$1.78**

billion +44.9% YoY



## Net Sales Per Active Customer<sup>(1)</sup>

**\$363**

+2.8% YoY

## Active Customers

**17.8**  
million

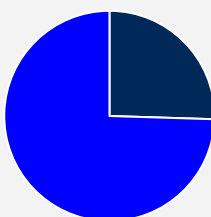
Q3 2020



Q3 2019



+39.8% YoY



## Gross Margin

**25.5%**

+180 bps YoY

## Net Margin<sup>(2)</sup>

**(1.8)%**

+460 bps YoY

## Net Loss<sup>(2)</sup>

**\$(32.8) million**

+80.4% YoY excluding share-based compensation

## Adjusted EBITDA<sup>(3)</sup>

**\$5.5 million**

+118.2% YoY

## Adjusted EBITDA Margin<sup>(3)</sup>

**0.3%**

+280 bps YoY

## FINANCIAL & OPERATING DATA

	13 Weeks Ended			39 Weeks Ended		
	11/1/2020	11/3/2019	% Change	11/1/2020	11/3/2019	% Change
<i>(in thousands, except net sales per active customer and percentages)</i>						
Net sales	\$ 1,782,000	\$ 1,229,801	44.9 %	\$ 5,103,252	\$ 3,492,218	46.1 %
Net loss <sup>(2)</sup>	\$ (32,847)	\$ (79,000)	58.4 %	\$ (113,534)	\$ (191,430)	40.7 %
Net margin <sup>(2)</sup>	(1.8)%	(6.4)%		(2.2)%	(5.5)%	
Adjusted EBITDA <sup>(3)</sup>	\$ 5,502	\$ (30,228)	118.2%	\$ 24,403	\$ (75,177)	132.5%
Adjusted EBITDA margin <sup>(3)</sup>	0.3 %	(2.5)%		0.5 %	(2.2)%	
Net cash provided by (used in) operating activities	\$ 63,433	\$ 1,581	n/m	\$ 55,288	\$ (27,753)	299.2 %
Free cash flow <sup>(3)</sup>	\$ 32,898	\$ (12,794)	n/m	\$ (44,970)	\$ (66,292)	32.2 %
Active customers <sup>(4)</sup>	17,788	12,723	39.8 %	17,788	12,723	39.8 %
Net sales per active customer <sup>(5)</sup>	\$ 363	\$ 360	0.8 %	\$ 363	\$ 360	0.8 %
Autoship customer sales <sup>(6)</sup>	\$ 1,232,743	\$ 865,190	42.5 %	\$ 3,495,535	\$ 2,408,661	45.1 %
Autoship customer sales as a percentage of net sales <sup>(6)</sup>	69.2 %	70.4 %		68.5 %	69.0 %	

n/m - not meaningful

<sup>(1)</sup> Net Sales per Active Customer (NSPAC) year-over-year calculation excludes the impact of the 14th week in Q4 2018 on Q3 2019 NSPAC.

<sup>(2)</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>(3)</sup> Adjusted EBITDA, adjusted EBITDA margin and free cash flow are non-GAAP financial measures. See "Non-GAAP Financial Measures" for additional information on non-GAAP financial measures and a reconciliation to the most comparable GAAP measures.

<sup>(4)</sup> We define active customers as customers who have ordered, and for whom an order has shipped, at least once during the preceding 364-day period.

<sup>(5)</sup> We define net sales per active customer for a given fiscal quarter as the aggregate net sales for the preceding four fiscal quarters, divided by the total number of active customers at the end of that fiscal quarter.

<sup>(6)</sup> We define Autoship customers as customers for whom an order has shipped through our Autoship subscription program during the preceding 364-day period.



# Dear Shareholder,

We are pleased to share our results for the third quarter ended November 1, 2020. We again delivered over half a billion dollars of net sales growth in the quarter and customer engagement levels remain high. Our pace of active customer acquisitions remains well-above pre-pandemic levels and we generated another quarter of positive adjusted EBITDA.

### **Third-Quarter Financial Highlights:**

- Net sales of \$1.78 billion, an increase of 44.9 percent year-over-year
- Gross margin expanded 180 basis points year-over-year to 25.5 percent
- Adjusted EBITDA was \$5.5 million and adjusted EBITDA margin expanded 280 basis points to 0.3 percent

Chewy's mission is to be the most trusted and convenient online destination for pet parents (and partners) everywhere. We believe we are positively transforming the industry with a superior value proposition that keeps our customers at the center of everything we do, from our high-touch customer service, to our broad assortment of brands, to delivering on the core e-commerce tenets of speed and convenience. We are maniacally focused on providing a truly unique and personalized shopping experience that builds trust, brand loyalty, and drives repeat purchasing.



## Q3 Fiscal 2020 Business Highlights

Our third-quarter results reflect Chewy’s relentless focus on execution and customer experience coupled with the positive macro trends of accelerated e-commerce migration and increased pet ownership. These trends came together yet again to produce another quarter of strong net sales growth. Volume in the back half of the quarter outperformed expectations as traffic, conversion, orders, and customer retention all strengthened from September into October as customers shifted their shopping behavior this year to shopping earlier, responding favorably to our expanded assortment and innovative product and service launches such as personalization and gifting.

Coming into the third quarter, we expected an early start to the holiday season and the Chewy team was prepared and ready to shift into high gear when it came. In the summer of 2020, we began optimizing our inventory and preparing our fulfillment centers, anticipating that holiday demand would add to the elevated tempo that has been in place since March.

### **Creating Positive, Consistent, and Sustainable Momentum**

We delivered third-quarter gross margin of 25.5 percent, consistent with our performance last quarter and reflecting a 180 bps year-over-year increase. The promotional environment was muted throughout most of the quarter, before picking up in mid-October with the early launch of the holiday season. As such, promotional discounts were less of a gross margin headwind than forecast. Shipping costs were also in line as we worked closely with our freight partners to uphold customer delivery experiences.

Private label was a strong contributor in the quarter, as private label hardgood penetration reached 16 percent. Our seasonal businesses, such as Halloween, were also strong, improving private label merchandise mix by 20 points, to 70 percent, showcasing the quality and appeal of our newly launched proprietary assortment. This helped grow total third-quarter hardgoods sales, which includes both third-party and private label hardgoods, by more than 70 percent compared to last year.

Over the past few quarters, our team has been working hard to reformat our proprietary brands strategy by introducing compelling merchandise — many at expanded price points — improving discoverability and delivering an overall tremendous value proposition for our customers. This strategy is creating positive, consistent, and sustainable momentum and is driving incremental profitability in our portfolio.

## **CHEWY'S GROWING FOCUS ON PET HEALTH AND WELLNESS**

We continue to execute against our commitment to pets and pet parents to deliver exceptional customer experiences by offering a broad assortment of brands and products with the convenience of e-commerce. That commitment extends to pet health and wellness. As part of our goal to make pet healthcare more affordable and accessible, we recently launched medication compounding and "Connect with a Vet". These two innovative ventures are valuable additions to our growing healthcare business and represent our first service-based offerings for pet parents.

### **Compounding: Pioneering Bar-Raising Customer Experience in \$1 Billion Fragmented Market**

Compounding is a service offered through our pharmacy where we customize medications to the specific needs of individual pets. Some pets can't take medications in their commercially available forms. They may need a liquid instead of a tablet, or a specialized dosage or formula. To enable these requirements, our licensed pharmacists use ingredients sourced from FDA-registered manufacturers to custom-prepare medications in our labs to the exact specifications provided by veterinarians.

Today, we offer this service exclusively to pets and pet parents. In the future, we plan to offer this service directly to the veterinarians, so they can offer compound medications directly to their in-clinic patients. In both of these use cases, we seek to pioneer bar-raising customer experiences across a billion-dollar, highly fragmented market.

### **"Connect With a Vet": Serving Pets and Pet Parents in a Convenient and Satisfying Way**

Our new telehealth service, "Connect with a Vet", connects Chewy pet parents directly to a contracted, licensed veterinarian using our proprietary tele-triage platform where veterinarians answer questions, offer advice, and discuss pet health concerns without diagnosing medical conditions or recommending treatments. Instead, they make referrals to local vets or emergency clinics, if needed, which drives traffic to these veterinary clinics for medical diagnosis and treatment.

We offer this service free of charge to Autoship customers from 8am to 8pm eastern time, Monday to Friday, across 47 states.

To date, program utilization rates are encouraging and the customer feedback is positive.

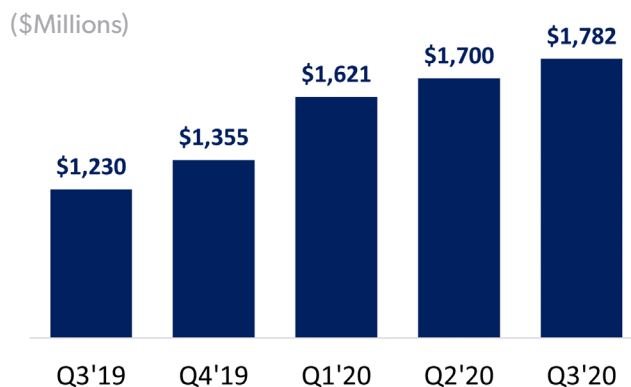
"Connect with a Vet" is a first-of-its-kind service. We are still in early days and have a lot more to learn. At the same time, we have taken an important first step toward building a telehealth platform that can evolve and expand over time as our culture of innovation advances the technology platform, and as the regulatory environments modernize to meet the needs of today's pet patients and providers.

# Q3 Fiscal 2020 Financial Highlights

Chewy continued to deliver on our growth strategy in the third quarter of 2020 as we produced another quarter of positive adjusted EBITDA. Year-over-year, net sales increased 44.9 percent, gross margin expanded 180 basis points, and 5.1 million pet parents, net, joined our active customer base.

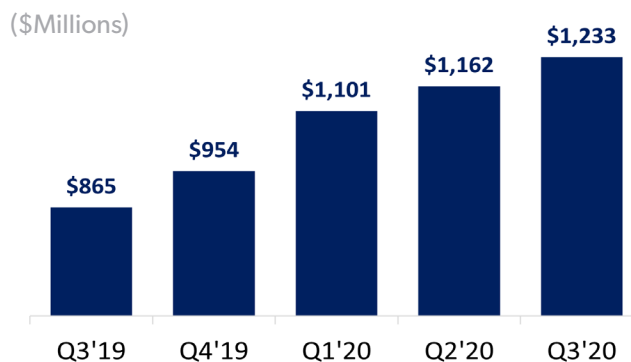
## Net Sales

Net sales were \$1.78 billion, a year-over-year increase of 44.9 percent. The key revenue drivers in the quarter were a 39.8 percent increase in active customers and a 2.8 percent increase in net sales per active customer, to \$363, excluding the impact of the extra week in the fourth quarter of 2018. Sales accelerated in October as customers responded favorably to our expanded assortment and improved merchandising.



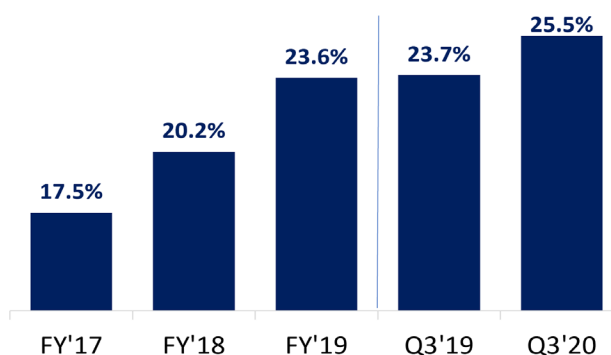
## Autoship Customer Sales

Autoship customer sales were \$1.23 billion, a year-over-year increase of 42.5 percent and reached 69.2 percent of total net sales. We define Autoship customers as customers for whom an order has shipped through our Autoship subscription program during the preceding 364-day period. Autoship provides pet parents with convenient and flexible automatic reordering and delivery that makes meeting their recurring needs even easier.



## Gross Margin

Gross margin of 25.5 percent represented a 180-basis point improvement over last year, driven by a lighter promotions environment combined with strength in contribution from our private label, healthcare, and hardgoods business.

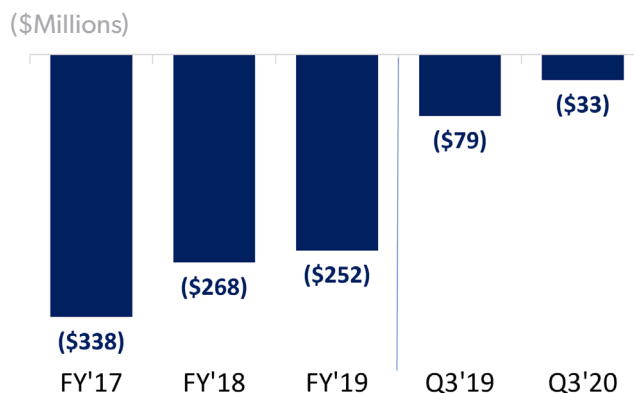


NOTE: Gross Margin is defined as Gross Profit divided by Net Sales.

## Net Loss

Net loss was \$32.8 million compared to \$79.0 million last year, reflecting sales momentum, expanded gross margin, and increased operating expense leverage. Net loss included share-based compensation and related tax expense of \$25.1 million compared to \$39.3 million last year.

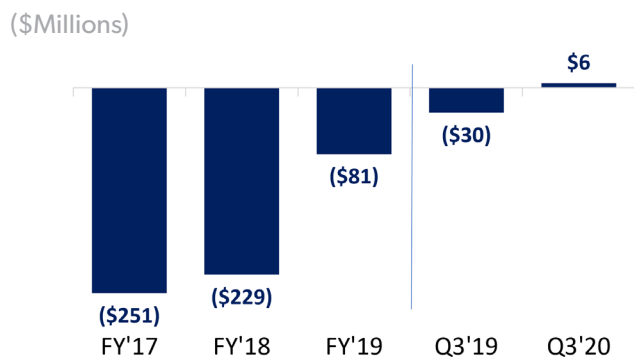
Net margin was negative 1.8 percent, a 460 basis point improvement over last year. Excluding share-based compensation and related tax expense, net margin improved 280 basis points to negative 0.4 percent.



NOTE: Fiscal year 2017 includes non-routine items: (i) \$33.9 million for compensation expenses to our employees as a result of PetSmart's acquisition of us and (ii) \$28.1 million of acquisition-related costs incurred for our benefit as part of PetSmart's acquisition of us. There were no similar items in any other period.

## Adjusted EBITDA<sup>(1)</sup>

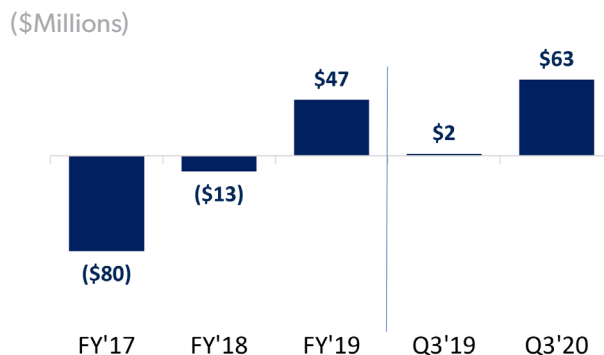
Adjusted EBITDA was \$5.5 million, an increase of \$35.7 million compared to last year. Adjusted EBITDA margin was 0.3 percent, an improvement of 280 basis points year-over-year. While gross margin was strong, operating cost headwinds affected our ability to convert gross profit into adjusted EBITDA as efficiently as we did earlier in the year. Cost headwinds included new fulfillment center launches, bonuses and incentives for fulfillment center and customer service team members, residual COVID-19 costs, and increased marketing expenses as a recovering economy and political campaigns drove a surge in digital advertising that increased channel input costs in the quarter.



NOTE: Fiscal year 2017 includes non-routine items: (i) \$33.9 million for compensation expenses to our employees as a result of PetSmart's acquisition of us and (ii) \$28.1 million of acquisition-related costs incurred for our benefit as part of PetSmart's acquisition of us. There were no similar items in any other period.

## Net Cash Provided by (Used in) Operating Activities

Net cash provided by operating activities was \$63.4 million, compared to \$1.6 million last year. The positive operating cash in the quarter was a function of the strong sales momentum we saw in the quarter, particularly in the latter half as the holiday shopping season got off to an early start in October.



NOTE: Fiscal year 2017 includes non-routine items: (i) \$33.9 million for compensation expenses to our employees as a result of PetSmart's acquisition of us and (ii) \$28.1 million of acquisition-related costs incurred for our benefit as part of PetSmart's acquisition of us. There were no similar items in any other period.

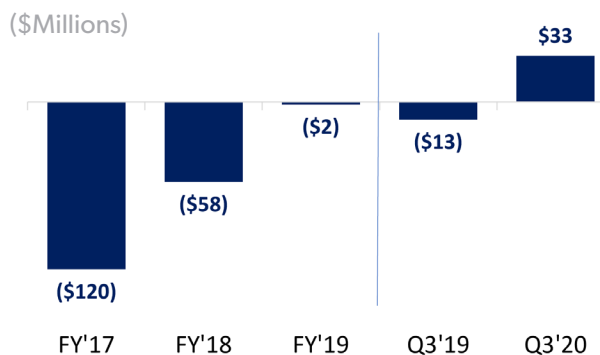
(1) Adjusted EBITDA is a non-GAAP financial measure. See "Non-GAAP Financial Measures" below for additional information on non-GAAP financial measures and a reconciliation to the most comparable GAAP measures.



## Free Cash Flow<sup>(1)</sup>

Free cash flow was positive \$32.9 million compared to negative \$12.8 million last year. Third-quarter free cash flow included \$63.4 million of cash provided by operating activities and \$30.5 million of cash used by capital investments. Capital investments continue to focus on distribution capacity, including our new fulfillment center in Archbald, PA and our limited catalog fulfillment center in Kansas City, MO.

We ended the quarter with \$505.8 million of cash on hand, reflecting prior period cash balances, cash generated in the third quarter, and net proceeds from our September follow-on equity offering.



*NOTE: Fiscal year 2017 includes non-routine items: (i) \$33.9 million for compensation expenses to our employees as a result of PetSmart's acquisition of us and (ii) \$28.1 million of acquisition-related costs incurred for our benefit as part of PetSmart's acquisition of us. There were no similar items in any other period.*

(1) Free cash flow is a non-GAAP financial measure. See "Non-GAAP Financial Measures" below for additional information on non-GAAP financial measures and a reconciliation to the most comparable GAAP measures

## Closing

We will host a conference call and earnings webcast at 5:00 pm Eastern time today to discuss these results. Investors and participants can access the call by dialing (866) 270-1533 in the U.S. or (412) 317-0797 internationally, using the conference code 10150093. A live webcast will also be available on Chewy's investor relations website at [investor.chewy.com](http://investor.chewy.com). Thank you for taking the time to review our letter, and we look forward to your questions on our call this afternoon.

Sincerely,

Sumit Singh, CEO

Mario Marte, CFO

### Investor Contact:

Robert A. LaFleur  
[ir@chewy.com](mailto:ir@chewy.com)

### Media Contact:

Diane Pelkey  
[dpelkey@chewy.com](mailto:dpelkey@chewy.com)

# Chewy, Inc.

## Condensed Consolidated Balance Sheets

(in thousands, except share and per share data)

	As of	
	November 1, 2020	February 2, 2020
	(Unaudited)	
<b>Assets</b>		
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	<u>1,699,661</u>	<u>1,336,295</u>
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	<u>(56,421)</u>	<u>(403,974)</u>
Total liabilities and stockholders' deficit	<u>\$ 1,643,240</u>	<u>\$ 932,321</u>

# 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	\$ (32,847)	\$ (79,000)	\$ (113,534)	\$ (191,430)
Net loss per share attributable to common Class A and Class B stockholders, basic and diluted	\$ (0.08)	\$ (0.20)	\$ (0.28)	\$ (0.48)
Weighted average common shares used in computing net loss per share attributable to common Class A and Class B stockholders, basic and diluted	409,260	401,317	405,014	397,235

# 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>

# Non-GAAP Financial Measures

## Adjusted EBITDA and Adjusted EBITDA Margin

To provide investors with additional information regarding our financial results, we disclose 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 include adjusted EBITDA 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		39 Weeks Ended	
	November 1, 2020	November 3, 2019	November 1, 2020	November 3, 2019
<b>Reconciliation of Net Loss to Adjusted EBITDA</b>				
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. 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.

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

## Free Cash Flow

To provide investors with additional information regarding our financial results, we also disclose 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 include free cash flow 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		39 Weeks Ended	
	November 1, 2020	November 3, 2019	November 1, 2020	November 3, 2019
<b>Reconciliation of Net Cash Provided by (Used in) Operating Activities to Free Cash Flow</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	\$ 32,898	\$ (12,794)	\$ (44,970)	\$ (66,292)

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.

## Guidance

As we enter the final quarter of 2020, we have good visibility on the early holiday shopping season and the balance of risks on the cost horizon for the remainder of the year. While we expect to exit fiscal 2020 at a substantially elevated pace of business compared to where we started the year, we are ever mindful that opportunities and risks continue to exist side-by-side in the unique environment in which we operate. As always, we stand ready to capitalize on the opportunities and confront risks as and when they arise.

Based on strong early-quarter results and accelerated customer demand and spending, we are increasing our guidance ranges for the fourth fiscal quarter and full year fiscal 2020, which ends January 31, 2021, as follows:

### Fiscal Fourth Quarter 2020 Guidance

Net Sales	\$1.94 billion - \$1.96 billion	43% to 45% year-over-year growth
-----------	---------------------------------	----------------------------------

### Fiscal Year 2020 Guidance

Net Sales	\$7.04 billion - \$7.06 billion	45% to 46% year-over-year growth
-----------	---------------------------------	----------------------------------

Adjusted EBITDA Margin <sup>(1)</sup>	0.2 percent to 0.4 percent
---------------------------------------	----------------------------

(1) Adjusted EBITDA and adjusted EBITDA Margin are a non-GAAP financial measures. See “Non-GAAP Financial Measures” for additional information on non-GAAP financial measures.

It remains important to note that conditions surrounding COVID-19 remain unpredictable and risks still remain. See the section titled “Forward-Looking Statements” and the “Risk Factors” included in our periodic filings with the Securities and Exchange Commission.

We have not reconciled our adjusted EBITDA outlook to GAAP net income (loss) because we do not provide an outlook for GAAP net income (loss) due to the uncertainty and potential variability of other income, net, and provision for (benefit from) income taxes, which are reconciling items between adjusted EBITDA and GAAP net income (loss). Because such items cannot be reasonably predicted, we are unable to provide a reconciliation of the non-GAAP financial measure outlook to the corresponding GAAP measure. However, such items could have a significant impact on GAAP net income (loss).

### Market, Ranking and Other Industry Data

In this communication we refer to information regarding market data obtained from internal sources, market research, publicly available information, and industry publications. Estimates are inherently uncertain, involve risks and uncertainties, and are subject to change based on various factors, including those discussed in the section titled “Forward-Looking Statements” and the “Risk Factors” included in our periodic filings with the Securities and Exchange Commission. We believe that these sources and estimates are reliable as of the date of this communication but have not independently verified them and cannot guarantee their accuracy or completeness.

## Forward-Looking Statements

This communication 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 communication, 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 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 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; 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 communication 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 our filings with the Securities and Exchange Commission and elsewhere in this communication. 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 communication. 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 communication. 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 communication 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 communication to reflect events or circumstances after the date of this communication 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.



**chevy**