

A woman with curly brown hair and red lipstick is laughing joyfully, holding a large, curly-haired dog. She is wearing an orange turtleneck sweater. The background is a light-colored, textured wall. A large yellow graphic element is in the bottom left corner.

chewy

**Q2 Fiscal
2022**

August 30, 2022

**LETTER TO
SHAREHOLDERS**



Our mission

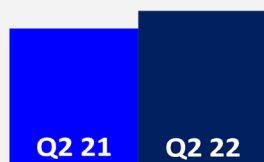
To be the most trusted and convenient destination for pet parents and partners everywhere.

Q2 Fiscal 2022 Highlights

Net Sales

\$2.43

billion +12.8% YoY



Net Sales Per Active Customer⁽⁴⁾

\$462

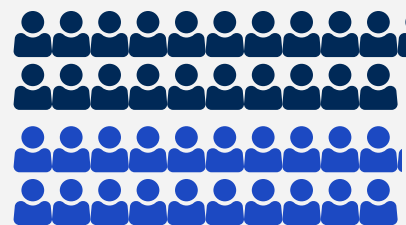
+14.4% YoY

Active Customers⁽³⁾

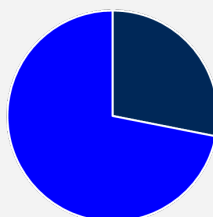
20.5
million

Q2 2022

Q2 2021



+2.1% YoY



Gross Margin

28.1%

+60 bps YoY

Net Margin⁽⁶⁾

0.9%

+170 bps YoY

Net Income⁽¹⁾

\$22.3 million

+ \$53.2 million excluding share-based compensation

Adjusted EBITDA⁽²⁾

\$83.1 million

+257% YoY

Adjusted EBITDA Margin⁽²⁾

3.4%

+230 bps YoY

FINANCIAL & OPERATING DATA

	13 Weeks Ended			26 Weeks Ended		
	7/31/2022	8/1/2021	% Change	7/31/2022	8/1/2021	% Change
(in thousands, except net sales per active customer and percentages)						
Net sales	\$ 2,431,011	\$ 2,155,036	12.8 %	\$ 4,859,338	\$ 4,290,214	13.3 %
Net income (loss) ⁽¹⁾	\$ 22,345	\$ (16,686)	233.9 %	\$ 40,817	\$ 22,033	85.3 %
Net margin ⁽⁶⁾	0.9 %	(0.8)%		0.8 %	0.5 %	
Adjusted EBITDA ⁽²⁾	\$ 83,055	\$ 23,272	256.9 %	\$ 143,571	\$ 100,626	42.7%
Adjusted EBITDA margin ⁽²⁾⁽⁶⁾	3.4 %	1.1 %		3.0 %	2.3 %	
Net cash provided by operating activities	\$ 49,172	\$ 85,085	(42.2)%	\$ 131,605	\$ 183,451	(28.3)%
Free cash flow ⁽²⁾	\$ 981	\$ 60,253	(98.4)%	\$ 7,393	\$ 119,737	(93.8)%
Active customers ⁽³⁾	20,490	20,077	2.1 %	20,490	20,077	2.1 %
Net sales per active customer ⁽⁴⁾	\$ 462	\$ 404	14.4 %	\$ 462	\$ 404	14.4 %
Autoship customer sales ⁽⁵⁾	\$ 1,776,583	\$ 1,513,944	17.3 %	\$ 3,530,264	\$ 2,994,184	17.9 %
Autoship customer sales as a percentage of net sales ⁽⁵⁾	73.1 %	70.3 %		72.6 %	69.8 %	

⁽¹⁾ Includes share-based compensation expense, including related taxes, of \$39.7 million and \$66.9 million for the thirteen and twenty-six weeks ended July 31, 2022, respectively, compared to \$25.6 million and \$50.4 million for the thirteen and twenty-six weeks ended August 1, 2021, respectively.

⁽²⁾ 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.

⁽³⁾ We define active customers as the total number of individual customers who have ordered a product or service, and for whom a product has shipped or for whom a service has been provided, at least once during the preceding 364-day period.

⁽⁴⁾ 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.

⁽⁵⁾ We define Autoship customers as customers that had an order shipped through our Autoship subscription program during the preceding 364-day period. 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.

⁽⁶⁾ We define net margin as net income divided by net sales and adjusted EBITDA margin as adjusted EBITDA divided by net sales.



Dear Shareholder,

We are pleased to share our results for the second quarter ended July 31, 2022. We delivered double-digit annual top-line growth and expanded both our gross margin and adjusted EBITDA margin. Customer engagement remains high as Net Sales per Active Customer, or NSPAC, reached a new record of \$462.

Second-Quarter Financial Highlights:

- Net sales of \$2.43 billion, an improvement of 12.8 percent year over year
- Gross margin expanded 60 basis points year over year to 28.1 percent
- Net income of \$22.3 million, including share-based compensation expense of \$39.7 million and net margin expanded 170 basis points to 0.9 percent
- Adjusted EBITDA was \$83.1 million and adjusted EBITDA margin expanded 230 basis points to 3.4 percent

Chewy's mission is to be the most trusted and convenient 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 and 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, supports brand loyalty, and drives repeat purchasing.



Q2 Fiscal 2022 Business Highlights

We are proud of our second quarter performance and ability to deliver double-digit top-line growth and margin expansion during a period when accelerating inflation placed incremental pressure on consumers. Across the pet category, pricing escalated throughout the second quarter. Pet category consumers responded to growing economic uncertainty by curtailing some of their purchase activity, leading to industrywide declines in unit volume. Even as consumers pulled back in select areas, Chewy outperformed broader industry trends on the strength of our market leadership in non-discretionary, recurring-revenue categories like food and healthcare — the product categories that are most important to pet parents.

Chewy grew second quarter net sales by 13 percent to \$2.43 billion, reflecting our ability to drive steady demand in non-discretionary categories — demand that is anchored by the superior value proposition we offer pet parents and the predictable nature of Autoship. Collectively, these categories represent more than 80 percent of our overall business, providing us with distinct structural advantages in the current environment. At the same time, we saw softer demand for discretionary products with longer replacement cycles, such as hardgoods, which offset some of the positive momentum in food and healthcare.

Altogether, Chewy's strengths and competitive advantages in the pet category were evident in the second quarter as customer engagement metrics such as Autoship customer sales and NSPAC set new records at 73.1 percent of net sales and \$462, respectively.

The operating environment, including what we faced in the second quarter, remains dynamic and evolving. As pet parents pulled back in some areas, they refocused their spending on categories centered on the health and wellbeing of their pets. The strength and durability of our value proposition positioned Chewy well to compete and take additional market share in this environment. Looking ahead, we believe these same strengths, which include market leadership across recurring demand categories such as food and healthcare and rapid innovation in service of customers, will enable us to keep winning in Pet, a category that has proven its durability throughout economic cycles. As we continue to navigate the challenges and opportunities ahead of us, our teams remain focused on running the business towards continued growth and profitability, and on making decisions that deepen engagement and improve customer experience for millions of pets and pet parents. To that end, we remain guided by our mission to be the most trusted and convenient destination for pet parents and partners everywhere.

Expanding Profitability Across the P&L

Second quarter 2022 gross margin was 28.1 percent, an improvement of 60 basis-points both year-over-year and sequentially. This improvement was led by pricing, which continued to strengthen in the second quarter as the favorable delta between price and cost increases widened by approximately 100 basis points compared to last quarter.

Additionally, moderating fuel costs and our ongoing efforts to improve supply chain and logistics capabilities also contributed to the strong second quarter gross margin performance. Specifically, during the second quarter, we improved systemwide inventory placement, which reduced average delivery distance, improved delivery speed, lowered costs, and enhanced customer experience.

Second quarter net income was \$22.3 million, a year-over-year increase of \$39.0 million and net margin expanded 170 basis points to 0.9 percent. Second quarter adjusted EBITDA was \$83.1 million and adjusted EBITDA margin was 3.4 percent, a year-over-year increase of 230 basis points and a sequential improvement of 90 basis points, reflecting our gross margin expansion, greater marketing efficiency, and improved execution in several SG&A functions.

Serving Millions of Pet Parents Across the U.S.

We ended the quarter with 20.5 million active customers, in line with the expectations we shared on our last earnings call. Our second quarter net active customer additions reflect gross customer additions that have come off their pandemic highs and the retention behavior of the large cohorts we acquired during the pandemic.

The number of gross customers added in the second quarter of 2022 was mid-single-digit percentage points higher than their comparable pre-pandemic cohort from the second quarter of 2019, even as softer demand across discretionary categories put some pressure on customer acquisition. Once we fully cycle the effects of elevated pandemic pet adoptions and the macro environment recovers, we believe that customer acquisition headwinds related to discretionary demand levels will abate.

Additionally, retention rates on the customers we acquired during the pandemic in 2020 and 2021 are still running low-single-digit percentage points lower than their comparable pre-pandemic cohorts, which continues to affect total net active customer additions due to the large size of these cohorts. Having said this, we are encouraged to observe that the complexion of the new cohorts that we have acquired so far in 2022 is more consistent with the long-term retention profile of our pre-pandemic cohorts.

Notably, we believe that the dynamics that are impacting both gross customer additions and retention are temporary in nature, and it is important to remember that over the long-term, our business model produces incredibly sticky customers which results in retention curves that stabilize after the first two years of a customer's relationship with Chewy.

INNOVATION ACROSS CHEWY

Realizing the Benefits of Fulfillment Center Automation

We successfully launched our third automated fulfillment center last month, this one located in Reno, Nevada. The benefits from automation continue to expand across our network and our pace of realizing these benefits continues to accelerate. For example, based on the learnings from our first two automated fulfillment center launches, we expect it will take our Reno facility half as long to ramp up to its comparable performance benchmarks as it took for our first automated fulfillment center.

As we expand our network of automated fulfillment centers, these facilities are handling an increasingly larger share of our outbound shipment volume and they are doing so at progressively lower variable costs per package. For example, during the second quarter, nearly a quarter of our outbound network volume shipped from our first two automated fulfillment centers at a variable cost per unit that was approximately 15 percent lower than our legacy network. By this time next year, a third of our outbound volume is expected to ship from automated fulfillment centers. Based on these trends, we are confident in our ability to realize the target that we have shared in the past of 40 to 60 basis points of annual run-rate SG&A leverage over time from our three existing automated fulfillment centers. We expect to benefit from further SG&A leverage as we open additional automated fulfillment centers in 2023 and beyond.

Continued Progress Across Logistics Initiatives

On the transportation front, we recently launched our second import-routing facility, this one on the East Coast. With facilities on both coasts, we are now able to optimize freight distribution to our fulfillment centers and reduce inbound freight costs on more than three-quarters of our import volume.

Elsewhere in transportation, Chewy Freight Services — or CFS — also continued to grow in the second quarter. As a reminder, CFS is our linehaul initiative where we operate a portion of our own middle-mile network. In the second quarter of 2022 we carried triple the volume that we did last quarter, which led to reduced costs and improved delivery performance. Looking forward, we will keep adding capacity to this program through the remainder of the year.

Combined, these automation and transportation initiatives are generating savings in cost per package and improvements in delivery performance and customer experience.

Insurance: CarePlus Expands to 31 States

Chewy Health is making progress in our mission to make pet healthcare more affordable and accessible and to improve the lives of pets and pet parents.

We completed the successful public launch of CarePlus, our wellness and insurance program. After a two-state soft launch in June, we are now up and running in 31 states, with expectations to complete our nationwide rollout by the end of the year. While it is still early days, we are pleased with the initial customer response to our bespoke insurance and standalone wellness plans.

Innovations like CarePlus that improve customer experience, increase engagement, and enhance retention are the cornerstone of our customer strategy. Our primary goal this year is to iterate and learn all we can about this new space from our customers and partners. So, while CarePlus won't have a meaningful financial impact on 2022, over the longer term, we believe CarePlus will provide us an opportunity to help grow the historically under-penetrated pet insurance total addressable market (TAM) and gain market share in a high-margin business. We look forward to sharing more with you on our insurance rollout in the quarters to come.

Practice Hub Helping Veterinarians Grow Practice Revenues

We are also happy to share that we now have over 1,000 practices using the platform, up from approximately 300 in March of this year. As a reminder, with PracticeHub, we have designed a complete e-commerce solution for veterinarians that can be integrated with their existing practice management software. Our proprietary app allows vets to easily create, pre-approve, and manage both medications and diet prescriptions all in one place, and then earn recurring revenue when customers place an order in-clinic, or purchase their items at home on Chewy.com, with Chewy handling inventory, fulfillment, shipping, and customer service.

Chewy Gives Back \$100 Million and Counting

During the second quarter, we achieved an important and proud milestone for our corporate philanthropy program, Chewy Gives Back. At the end of July, we reached the \$100 million mark for pet food and essential supplies donated to over 9,000 non-profit animal welfare organizations that serve pets in need throughout the US. Over the past 10 years, we have donated 96 million meals and helped feed millions of rescue pets.

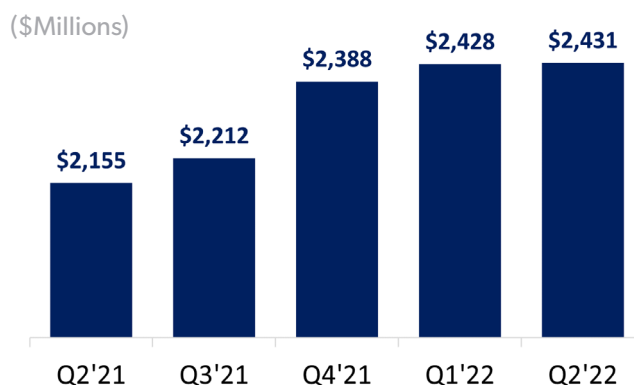
Q2 Fiscal 2022

Financial Highlights

Resilient consumer demand in non-discretionary product categories and pricing gains helped drive a 12.8 percent year-over-year increase in net sales and focused execution drove year-over-year improvements in profitability.

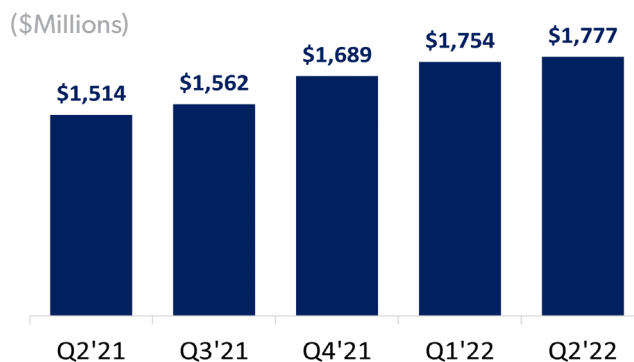
Net Sales

Netsales were \$2.43 billion, a year-over-year increase of 12.8 percent. Key revenue drivers in the quarter were a 14.4 percent increase in NSPAC, to \$462, and a 2.1 percent increase in active customers. Demand remains durable in non-discretionary, recurring-revenue categories like core food and pharmacy, while demand in more discretionary categories like hardgoods and treats reflect the impact of inflation on consumer spending patterns.



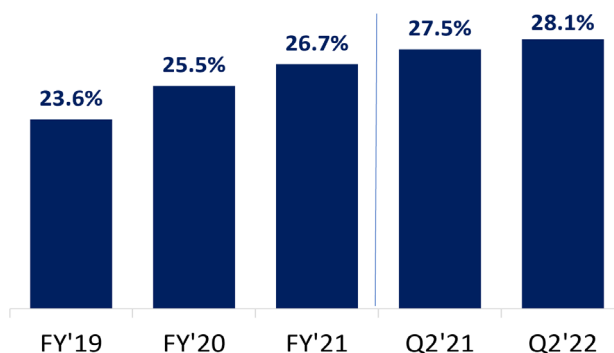
Autoship Customer Sales

Autoship customer sales were \$1.78 billion, a year-over-year increase of 17.3 percent and reached 73.1 percent of total net sales. We define Autoship customers as customers that had an order 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 expanded 60 basis points year over year to 28.1 percent. Our second quarter gross margin momentum reflects pricing strength throughout the quarter. We are especially pleased with our ability to expand gross margin in an environment of escalating product cost inflation and higher freight costs.



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

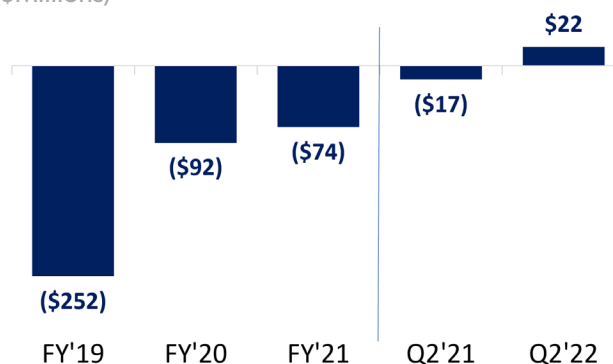
Net Income (Loss)

Net income was \$22.3 million compared to a net loss of \$16.7 million last year, reflecting the impact of sales momentum, expanded gross margin, and increased operating expense leverage.

Net income included share-based compensation and related tax expense of \$39.7 million compared to \$25.6 million last year.

Net margin was 0.9 percent, a 170 basis point improvement over last year. Excluding share-based compensation and related tax expense, net margin was 2.6 percent, a 220 basis point improvement over last year.

(\$Millions)

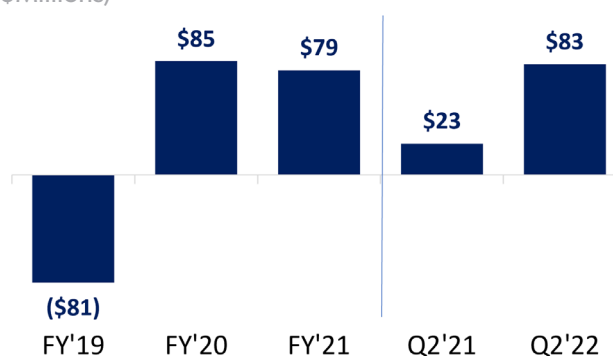


Adjusted EBITDA⁽¹⁾

Adjusted EBITDA was \$83.1 million, an increase of \$59.8 million compared to last year. Adjusted EBITDA margin expanded 230 basis points to 3.4 percent.

This reflects gross margin expansion, greater marketing efficiencies, and effective cost management.

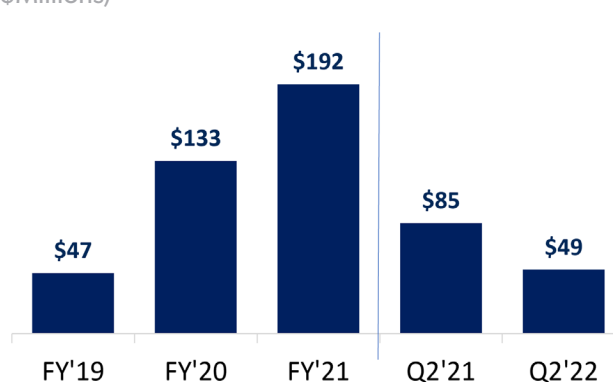
(\$Millions)



Net Cash Provided by Operating Activities

Net cash provided by operating activities was \$49.2 million, compared to net cash provided by operating activities of \$85.1 million in the second quarter of 2021. Second quarter operating cash reflects positive adjusted EBITDA offset by inventory investments ahead of the peak holiday season.

(\$Millions)

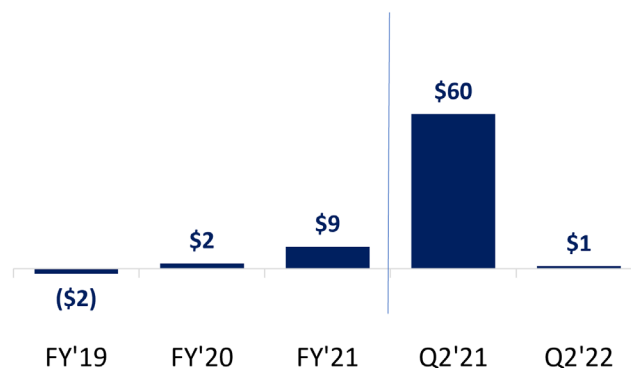


(1) Adjusted EBITDA is a non-GAAP financial measure. See "Non-GAAP Financial Measures" below for additional information on non-GAAP financial measures and a reconciliation to the most comparable GAAP measures.

Free Cash Flow⁽¹⁾

Second-quarter free cash flow was \$1.0 million compared to \$60.3 million last year. Second-quarter free cash flow included \$49.2 million of cash provided by operating activities and \$48.2 million of cash used by capital investments. Capital investments included upgrades to our fulfillment network, new fulfillment center construction, and ongoing technology investments.

(\$Millions)



(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 (844) 200-6205 in the U.S., or +1 (929) 526-1599 internationally, using the conference code 768411. A live webcast will also be available on Chewy's investor relations website at 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

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Chewy, Inc.

Condensed Consolidated Balance Sheets

(in thousands, except share and per share data)

	As of	
	July 31, 2022	January 30, 2022
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 606,800	\$ 603,079
Accounts receivable	143,805	123,510
Inventories	707,921	560,430
Prepaid expenses and other current assets	46,902	36,513
Total current assets	1,505,428	1,323,532
Property and equipment, net	431,554	367,166
Operating lease right-of-use assets	411,231	372,693
Other non-current assets	20,300	22,890
Total assets	<u>\$ 2,368,513</u>	<u>\$ 2,086,281</u>
Liabilities and stockholders' equity		
Current liabilities:		
Trade accounts payable	\$ 1,049,390	\$ 883,316
Accrued expenses and other current liabilities	728,916	761,563
Total current liabilities	1,778,306	1,644,879
Operating lease liabilities	456,701	410,168
Other long-term liabilities	16,115	16,498
Total liabilities	<u>2,251,122</u>	<u>2,071,545</u>
Stockholders' equity:		
Preferred stock, \$0.01 par value per share, 5,000,000 shares authorized, no shares issued and outstanding as of July 31, 2022 and January 30, 2022	—	—
Class A common stock, \$0.01 par value per share, 1,500,000,000 shares authorized, 111,458,932 and 108,918,032 shares issued and outstanding as of July 31, 2022 and January 30, 2022, respectively	1,114	1,089
Class B common stock, \$0.01 par value per share, 395,000,000 shares authorized, 311,188,356 shares issued and outstanding as of July 31, 2022 and January 30, 2022	3,112	3,112
Additional paid-in capital	2,083,123	2,021,310
Accumulated deficit	(1,969,958)	(2,010,775)
Total stockholders' equity	<u>117,391</u>	<u>14,736</u>
Total liabilities and stockholders' equity	<u>\$ 2,368,513</u>	<u>\$ 2,086,281</u>

Chewy, Inc.

Condensed Consolidated Statements of Operations

(in thousands, except per share data. Unaudited)

	13 Weeks Ended		26 Weeks Ended	
	July 31, 2022	August 1, 2021	July 31, 2022	August 1, 2021
Net sales	\$ 2,431,011	\$ 2,155,036	\$ 4,859,338	\$ 4,290,214
Cost of goods sold	1,748,214	1,561,582	3,508,721	3,106,984
Gross profit	682,797	593,454	1,350,617	1,183,230
Operating expenses:				
Selling, general and administrative	516,983	437,672	1,021,266	843,892
Advertising and marketing	144,159	171,968	288,880	316,403
Total operating expenses	661,142	609,640	1,310,146	1,160,295
Income (loss) from operations	21,655	(16,186)	40,471	22,935
Interest income (expense), net	690	(500)	346	(902)
Income (loss) before income tax provision	22,345	(16,686)	40,817	22,033
Income tax provision	—	—	—	—
Net income (loss)	\$ 22,345	\$ (16,686)	\$ 40,817	\$ 22,033
Earnings (loss) per share attributable to common Class A and Class B stockholders:				
Basic	\$ 0.05	\$ (0.04)	\$ 0.10	\$ 0.05
Diluted	\$ 0.05	\$ (0.04)	\$ 0.10	\$ 0.05
Weighted-average common shares used in computing earnings per share:				
Basic	421,690	416,665	421,048	415,957
Diluted	426,833	416,665	426,772	427,458

Chewy, Inc.

Condensed Consolidated Statements of Cash Flows

(in thousands, Unaudited)

	26 Weeks Ended	
	July 31, 2022	August 1, 2021
Cash flows from operating activities		
Net income	\$ 40,817	\$ 22,033
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	37,678	24,117
Share-based compensation expense	64,171	44,884
Non-cash lease expense	19,203	16,399
Other	604	179
Net change in operating assets and liabilities:		
Accounts receivable	(20,295)	(12,734)
Inventories	(147,491)	7,326
Prepaid expenses and other current assets	(13,861)	(31,695)
Other non-current assets	2,067	(3,324)
Trade accounts payable	166,074	50,656
Accrued expenses and other current liabilities	(7,343)	78,233
Operating lease liabilities	(9,592)	(10,562)
Other long-term liabilities	(427)	(2,061)
Net cash provided by operating activities	131,605	183,451
Cash flows from investing activities		
Capital expenditures	(124,212)	(63,714)
Other	(1,400)	—
Net cash used in investing activities	(125,612)	(63,714)
Cash flows from financing activities		
Payments for tax withholdings related to vesting of share-based compensation awards	(2,472)	—
Proceeds from tax sharing agreement with related parties	533	42,405
Principal repayments of finance lease obligations	(333)	(490)
Net cash (used in) provided by financing activities	(2,272)	41,915
Net increase in cash and cash equivalents	3,721	161,652
Cash and cash equivalents, as of beginning of period	603,079	563,345
Cash and cash equivalents, as of end of period	\$ 606,800	\$ 724,997

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 income (loss) excluding depreciation and amortization; share-based compensation expense and related taxes; income tax provision; interest income (expense), net; transaction related costs; and litigation matters and other items that we do not consider representative of our underlying operations. We have provided a reconciliation below of adjusted EBITDA to net income (loss), the most directly comparable GAAP financial measure.

We include adjusted EBITDA and adjusted EBITDA margin because each 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 and adjusted EBITDA margin 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 and adjusted EBITDA margin provide 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, and share-based compensation 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; transaction related costs; and litigation matters and other items which 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 related costs and other items which are either not representative of our underlying operations or are incremental costs that result from an actual or planned transaction and include litigation matters, 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 income (loss), net margin, and our other GAAP results.

The following table presents a reconciliation of net income (loss) to adjusted EBITDA, as well as the calculation of net margin and adjusted EBITDA margin, for each of the periods indicated.

(\$ in thousands, except percentages)

Reconciliation of Net Income (Loss) to Adjusted EBITDA	13 Weeks Ended		26 Weeks Ended	
	July 31, 2022	August 1, 2021	July 31, 2022	August 1, 2021
Net income (loss)	\$ 22,345	\$ (16,686)	\$ 40,817	\$ 22,033
Add:				
Depreciation and amortization	20,338	12,691	37,678	24,117
Share-based compensation expense and related taxes	39,739	25,589	66,933	50,361
Interest (income) expense, net	(690)	500	(346)	902
Transaction related costs	237	140	1,395	971
Other	1,086	1,038	(2,906)	2,242
Adjusted EBITDA	\$ 83,055	\$ 23,272	\$ 143,571	\$ 100,626
Net sales	\$ 2,431,011	\$ 2,155,036	\$ 4,859,338	\$ 4,290,214
Net margin	0.9 %	(0.8) %	0.8 %	0.5 %
Adjusted EBITDA margin	3.4 %	1.1 %	3.0 %	2.3 %

We define net margin as net income (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, 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 used by our management and board of directors as 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 operating activities to free cash flow for each of the periods indicated.

(\$ in thousands)

Reconciliation of Net Cash Provided by Operating Activities to Free Cash Flow	13 Weeks Ended		26 Weeks Ended	
	July 31, 2022	August 1, 2021	July 31, 2022	August 1, 2021
Net cash provided by operating activities	\$ 49,172	\$ 85,085	\$ 131,605	\$ 183,451
Deduct:				
Capital expenditures	(48,191)	(24,832)	(124,212)	(63,714)
Free Cash Flow	\$ 981	\$ 60,253	\$ 7,393	\$ 119,737

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

For the reasons that we have articulated throughout our Second Quarter 2022 Letter to Shareholders, we believe that we will continue to see differences in demand patterns between discretionary and non-discretionary categories throughout the balance of the year. As such, we are revising our full-year top line expectations. At the same time, we are also raising our profitability outlook. As always, our current guidance reflects the balance of the opportunities and risks we see today.

Our third-quarter 2022 guidance and adjusted full-year 2022 guidance are as follows:

Fiscal Third Quarter 2022 Guidance

Net Sales	\$2.44 billion - \$2.46 billion	10% to 11% year-over-year growth
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Fiscal Year 2022 Guidance

Net Sales	\$9.9 billion - \$10.0 billion	11% to 12% year-over-year growth
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Adjusted EBITDA Margin ⁽¹⁾	1.75% to 2.00%
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(1) Adjusted EBITDA and adjusted EBITDA margin are 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. For discussion on these risks, see the sections titled "Forward-Looking Statements" and "Risk Factors" included in our periodic filings with the Securities and Exchange Commission ("SEC").

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 sections titled "Forward-Looking Statements" and "Risk Factors" included in our periodic filings with the SEC. 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,” “forecast,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “seek,” “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 coronavirus (“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 and retain 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 services, improve existing products and services, and expand into new offerings; successfully compete in the pet products and services retail industry, especially in the e-commerce sector; strengthen our current supplier relationships, retain key suppliers, and source additional suppliers; negotiate acceptable pricing and other terms with third-party service providers, suppliers and outsourcing partners and maintain our relationships with such parties; mitigate changes in, or disruptions to, our shipping arrangements and operations; 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 and scale our technology, including the reliability of our website, mobile applications, and network infrastructure; 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; preserve, grow, and leverage the value of our reputation and our brand; 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 or claims that we may be subject to.

You should not rely on forward-looking statements as predictions of future events, and you should understand that these statements are not guarantees of performance or results, and our actual results could differ materially from those expressed in the forward-looking statements due to a variety of factors. We have based the forward-looking statements contained in this communication primarily on our current assumptions, 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 SEC 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 related 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.

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