December 6, 2023

Letter to Shareholders

Q3 Fiscal 2023

Our mission

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

Q3 Fiscal 2023 **Highlights**

Net Sales
$2.74B
+8.2% YoY

Gross Margin
28.5%
+10 bps YoY

Net (Loss) Income(1)
$(36M)
-$38M YoY

Net Margin(2)
(1.3)%
-140 bps YoY

Adj. EBITDA(3)
$82M
+11.7M YoY

Adj. EBITDA Margin(2)(3)
3.0%
+20 bps YoY

Net Cash Provided By Operating Activities
$80M
-$37M YoY

Free Cash Flow(3)
$49M
-$21M YoY

20.3M
Active Customers(4)
-1.3% YoY

$543
Net Sales Per Active Customer(5)
+13.8% YoY

76.4%
Autoship Customer Sales as a Percentage of Net Sales(6)
+310 bps YoY

(1) Includes share-based compensation expense and related taxes of $65.8 million for the thirteen weeks ended October 29, 2023, compared to $46.1 million for the thirteen weeks ended October 30, 2022.

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

(3) 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.

(4) We define active customers as the total number of 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.

(5) 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 fiscal quarter.

(6) 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 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.

Dear Shareholder,

We are pleased to share our results for the third quarter ended October 29, 2023. Chewy continues to outperform and gain market share in the present environment.

Third Quarter Financial Highlights:

- Net sales of $2.74 billion, an increase of 8.2 percent year over year
- Gross profit of $780.8 million and gross margin of 28.5 percent
- Net loss of $35.8 million and net margin of (1.3) percent
- Adjusted EBITDA of $82.1 million and adjusted EBITDA margin of 3.0 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, 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 2023

Business Highlights

Industry-Leading Mix of Non-Discretionary Underscores Durability of Our Platform

In the third quarter, we reported $2.74 billion in net sales, up 8.2 percent year over year against an industry that grew in the low-single digits, with pet inflation continuing its return to historical levels. Our team is executing admirably against controllable factors, as reflected in another strong quarter of 3.0 percent adjusted EBITDA margin.

Consistent with the expectation we shared on our last earnings call, active customers declined marginally on a sequential basis. Looking beyond the near-term, we believe we remain well positioned to drive improved active customer trends as the macro environment and pet household formation recover. Notably, we yet again demonstrated our ability to grow wallet share with our customers, as net sales per active customer, or NSPAC, reached a new record high and exceeded $540, up 14 percent year over year.

Throughout the third quarter, customer engagement remained strong. Our industry leading mix of non-discretionary Consumables and Healthcare bolstered by our Autoship subscription service continues to reinforce the structural soundness and defensible nature of our business model.

The loyalty and spending resiliency of our Autoship customers remains unabated, with no changes to their ordering behavior. Additionally, our conversion of new customers into Autoship continues at a healthy rate. As a result, Autoship customer sales continue to outpace overall topline growth and were up 13 percent in the quarter, representing over 76 percent of net sales.

Non-discretionary Consumables and Healthcare categories anchor our business, collectively representing approximately 85 percent of third quarter net sales. Pharmacy continued to grow at a premium to the overall company and now represents north of a $1 billion dollar business for us, based on trailing twelve-month net sales. At this scale, Chewy is the number 1 pet pharmacy in America.

Chewy Canada Launch Showing Promising Early Results

As anticipated, we launched Chewy Canada at the end of September 2023, bringing Chewy's compelling value proposition to millions of pet parents in Canada. Initial customer demand has been strong, Autoship sign-up rates are healthy, our delivery experience is compelling, and overall customer satisfaction is high. While it is very early, we are incredibly pleased with our progress in this market thus far, with key customer-centric indicators of success pointing towards a bullish future.

Continued Margin Expansion

We reported gross margin of 28.5 percent, which is a new record in itself. Strength in gross margin reflects the mix/rate benefits of customer engagement, tightly managing promotional spend, and strong logistics performance by our teams.

Adjusted EBITDA margin came in at 3.0 percent for the quarter, even during a period in which we had planned pronounced growth investments.

Strong Black Friday and Cyber Monday Performance

We observed strong customer purchasing intent during this important holiday shopping week. Traffic and sales exceeded our expectations across all categories, including hardgoods, and conversion rates were up year over year. New customer acquisition during this period was 40 percent higher than our Q3 weekly average.

While we have seen trends return to pre-holiday levels, our Black Friday and Cyber Monday performance was encouraging. Specifically, while consumer spending behavior remains opportunistic in the current environment, our results illustrate that Chewy's value proposition continues to resonate loudly, and will prevail when consumer demand and industry inputs improve.

Becoming an Ever More Agile and Disciplined Company

In November 2023, as part of our 2024 strategic planning process, we implemented actions to reduce our headcount in certain areas of the organization. This decision was carefully considered as part of our ongoing focus on becoming an ever more agile and disciplined company, and to align our efforts with priorities which we believe will gain us the most significant customer wins and generate the highest business returns.

While we consolidated some roles within the organization, we continue to invest in other high priority areas. As we head into 2024, these actions create room for us to continue investing behind our growth initiatives. We are incredibly grateful to our team members for their contributions and remain committed to supporting them during this transition.

Chewy's Inaugural Investor Day

As previously announced, we will be hosting our inaugural Investor Day next week on Thursday, December 14, 2023 at 8:00 am ET in New York City and we look forward to welcoming many of you in person. A link to a live webcast is available on Chewy's investor relations website at https://investor.chewy.com. Following the conclusion of the event, a replay and presentation materials will be available for at least 90 days.

We are excited to introduce you to our broader senior leadership team. We plan to provide a comprehensive update on our strategic roadmap, including a deep dive into our Chewy Health business, and will share refreshed long-term financial targets.

In closing, while the macro dynamics will play itself out in due course, we are extremely proud of our ability to execute and deliver strong results in this environment, showcasing the durability of our platform, and our ability to grow profitably while capturing incremental market share.

FINANCIAL & OPERATING DATA

(in thousands, except net sales per active customer, per share data, and percentages)	13 Weeks Ended			39 Weeks Ended		
	October 29, 2023	**October 30, 2022**	**% Change**	**October 29, 2023**	**October 30, 2022**	**% Change**
Financial and Operating Data						
Net sales	$ 2,738,611	$ 2,532,122	8.2 %	$ 8,301,055	$ 7,391,460	12.3 %
Net (loss) income [(1)]	$ (35,810)	$ 2,311	n/m	$ 5,317	$ 43,128	(87.7)%
Net margin [(2)]	*(1.3)%*	*0.1 %*		*0.1 %*	*0.6 %*	
Adjusted EBITDA [(3)]	$ 82,126	$ 70,399	16.7 %	$ 279,167	$ 213,970	30.5 %
Adjusted EBITDA margin [(2)(3)]	*3.0 %*	*2.8 %*		*3.4 %*	*2.9 %*	
Adjusted net income [(3)]	$ 63,011	$ 48,401	30.2 %	$ 213,576	$ 156,151	36.8 %
(Loss) earnings per share, basic and diluted [(1)]	$ (0.08)	$ 0.01	n/m	$ 0.01	$ 0.10	(90.0)%
Adjusted earnings per share, basic and diluted [(3)]	$ 0.15	$ 0.11	36.4 %	$ 0.50	$ 0.37	35.1 %
Net cash provided by operating activities	$ 80,208	$ 117,415	(31.7)%	$ 387,356	$ 249,020	55.6 %
Free cash flow [(3)]	$ 48,523	$ 69,786	(30.5)%	$ 276,458	$ 77,179	258.2 %
Active customers [(4)]	20,266	20,524	(1.3)%	20,266	20,524	(1.3)%
Net sales per active customer [(5)]	$ 543	$ 477	13.8 %	$ 543	$ 477	13.8 %
Autoship customer sales [(6)]	$ 2,093,077	$ 1,855,979	12.8 %	$ 6,270,985	$ 5,386,243	16.4 %
Autoship customer sales as a percentage of net sales [(6)]	76.4 %	73.3 %		75.5 %	72.9 %	

n/m - not meaningful

(1) Includes share-based compensation expense and related taxes of $65.8 million and $187.9 million for the thirteen and thirty-nine weeks ended October 29, 2023, compared to $46.1 million and $113.0 million for the thirteen and thirty-nine weeks ended October 30, 2022.

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

(3) Adjusted EBITDA, adjusted EBITDA margin, adjusted net income, adjusted basic and diluted earnings per share, 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.

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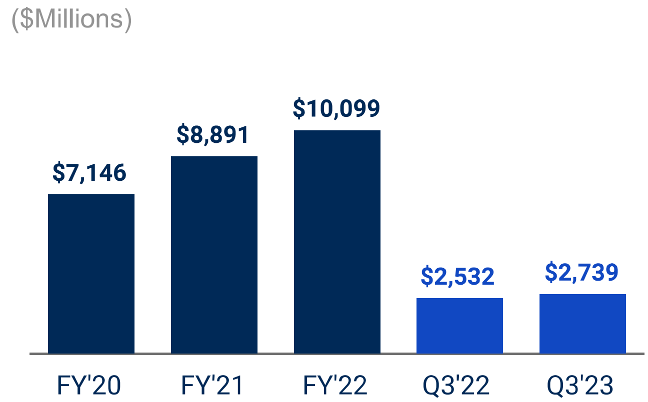
Q3 Fiscal 2023
Financial Highlights

In the third quarter, we continued to gain market share, driving 8.2 percent net sales growth, while also expanding profitability and generating meaningful free cash flow.

Net Sales

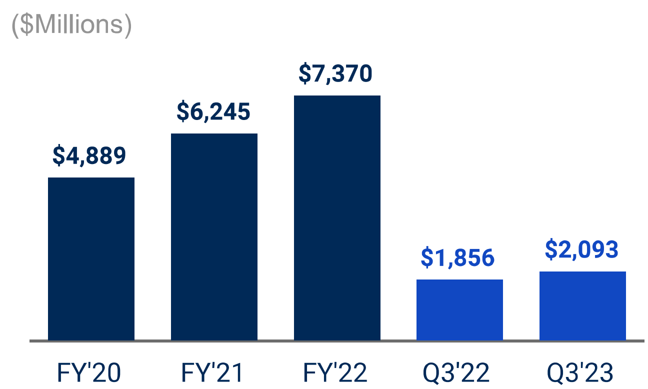
Net sales were $2.74 billion, up 8.2 percent, or $206.5 million, year over year. In the third quarter, non-discretionary Consumables and Healthcare categories collectively represented approximately 85 percent of net sales.

Third quarter NSPAC was $543, a $66, or 13.8 percent increase year over year, reaching a new all-time high.



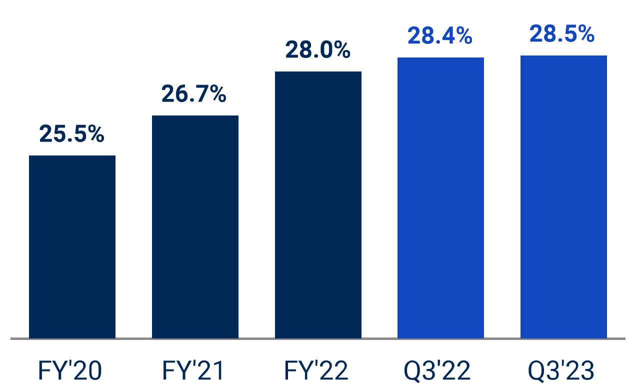
Autoship Customer Sales

Autoship customer sales were $2.09 billion, up 12.8 percent year over year, outpacing aggregate topline growth by 460 basis points. Autoship customer sales now represent 76.4 percent of net sales.



Gross Margin

Gross margin reached 28.5 percent in the third quarter, which reflects a 10 basis point year over year expansion.

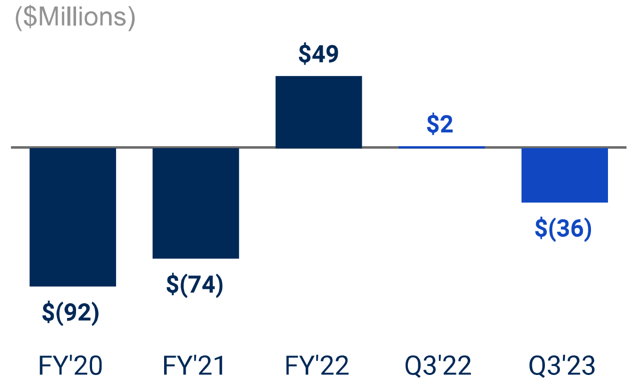


NOTE: Gross Margin is defined as Gross Profit divided by Net Sales.

Net (Loss) Income

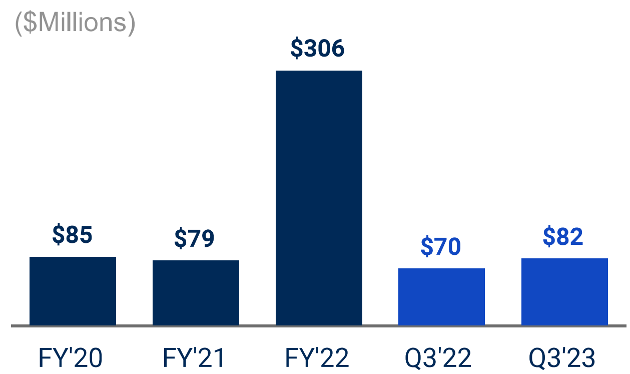
Net loss was $35.8 million, compared to net income of $2.3 million last year, and included share-based compensation expense and related taxes of $65.8 million, compared to $46.1 million last year.

Net margin for the quarter was negative 1.3 percent, a 140 basis point decline compared to last year. Excluding share-based compensation expenses and related taxes, net margin was 1.1 percent, an 80 basis point decline over last year.



Adjusted EBITDA[1]

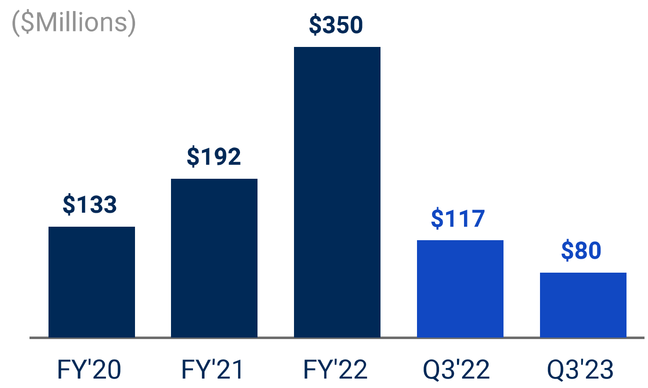
Adjusted EBITDA was $82.1 million, compared to $70.4 million last year. Adjusted EBITDA margin[1] increased 20 basis points year over year to 3.0 percent.



(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 and a reconciliation to the most comparable GAAP measures

Net Cash Provided by Operating Activities

Net cash provided by operating activities was $80.2 million, compared to $117.4 million in the third quarter of 2022.

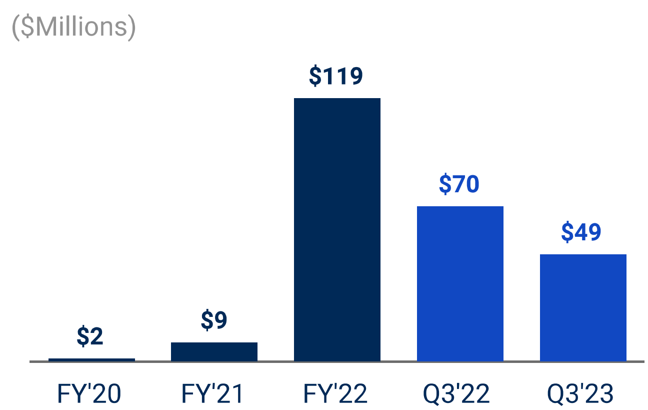


Free Cash Flow(2)

Third quarter free cash flow was $48.5 million compared to $69.8 million last year, and reflected $80.2 million of cash provided by operating activities and $31.7 million in capital expenditures.

Capital expenditures were primarily comprised of automated fulfillment center investments and ongoing technology projects.

We ended the quarter with $957.2 million of cash and cash equivalents and marketable securities on hand.



(2) Free cash flow is a non-GAAP financial measure. See "Non-GAAP Financial Measures" 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 ET today to discuss these results. Investors and participants can access the call by dialing (844) 200-6205 in the U.S. or +1 (646) 904-5544 internationally using the conference code 528484. 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

Stacy Bowman,
Interim CFO

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Chewy, Inc.

Condensed Consolidated Balance Sheets

(in thousands, except share and per share data)

	As of	
	October 29, 2023	January 29, 2023
Assets	(Unaudited)	
Current assets:		
Cash and cash equivalents	$ 469,409	$ 330,441
Marketable securities	487,772	346,944
Accounts receivable	160,980	126,349
Inventories	712,053	675,520
Prepaid expenses and other current assets	52,713	41,067
Total current assets	1,882,927	1,520,321
Property and equipment, net	514,701	478,738
Operating lease right-of-use assets	473,529	423,423
Goodwill	39,442	39,442
Other non-current assets	25,883	53,152
Total assets	$ 2,936,482	$ 2,515,076
Liabilities and stockholders' equity		
Current liabilities:		
Trade accounts payable	$ 1,078,429	$ 1,030,882
Accrued expenses and other current liabilities	886,259	738,467
Total current liabilities	1,964,688	1,769,349
Operating lease liabilities	526,994	471,765
Other long-term liabilities	51,633	60,005
Total liabilities	2,543,315	2,301,119
Stockholders' equity:		
Preferred stock, $0.01 par value per share, 5,000,000 shares authorized, no shares issued and outstanding as of October 29, 2023 and January 29, 2023	—	—
Class A common stock, $0.01 par value per share, 1,500,000,000 shares authorized, 119,950,022 and 114,160,531 shares issued and outstanding as of October 29, 2023 and January 29, 2023, respectively	1,199	1,141
Class B common stock, $0.01 par value per share, 395,000,000 shares authorized, 311,188,356 shares issued and outstanding as of October 29, 2023 and January 29, 2023	3,112	3,112
Additional paid-in capital	2,345,082	2,171,247
Accumulated deficit	(1,956,226)	(1,961,543)
Total stockholders' equity	393,167	213,957
Total liabilities and stockholders' equity	$ 2,936,482	$ 2,515,076

Chewy, Inc.

Condensed Consolidated Statements of Operations

(in thousands, except per share data. Unaudited)

	13 Weeks Ended		39 Weeks Ended	
	October 29, 2023	October 30, 2022	October 29, 2023	October 30, 2022
Net sales	$ 2,738,611	$ 2,532,122	$ 8,301,055	$ 7,391,460
Cost of goods sold	1,957,850	1,811,945	5,942,066	5,320,666
Gross profit	780,761	720,177	2,358,989	2,070,794
Operating expenses:				
Selling, general and administrative	611,718	543,532	1,814,586	1,564,798
Advertising and marketing	179,200	177,079	548,424	465,959
Total operating expenses	790,918	720,611	2,363,010	2,030,757
(Loss) income from operations	(10,157)	(434)	(4,021)	40,037
Interest income, net	10,173	2,745	27,117	3,091
Other expense, net	(34,122)	—	(13,768)	—
(Loss) income before income tax provision	(34,106)	2,311	9,328	43,128
Income tax provision	1,704	—	4,011	—
Net (loss) income	$ (35,810)	$ 2,311	$ 5,317	$ 43,128
(Loss) earnings per share attributable to common Class A and Class B stockholders:				
Basic	$ (0.08)	$ 0.01	$ 0.01	$ 0.10
Diluted	$ (0.08)	$ 0.01	$ 0.01	$ 0.10
Weighted-average common shares used in computing (loss) earnings per share:				
Basic	430,758	422,898	428,743	421,665
Diluted	430,758	428,125	431,406	427,223

Chewy, Inc.

Condensed Consolidated Statements of Cash Flows

(in thousands. Unaudited)

	39 Weeks Ended	
	October 29, 2023	October 30, 2022
Cash flows from operating activities		
Net income	$ 5,317	$ 43,128
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	82,195	60,696
Share-based compensation expense	178,897	109,701
Non-cash lease expense	29,371	29,286
Change in fair value of equity warrants and investments	13,589	—
Other	3,810	840
Net change in operating assets and liabilities:		
Accounts receivable	(34,631)	(3,453)
Inventories	(36,533)	(118,719)
Prepaid expenses and other current assets	(27,363)	(6,237)
Other non-current assets	(1,337)	(44,220)
Trade accounts payable	47,547	108,635
Accrued expenses and other current liabilities	144,599	42,306
Operating lease liabilities	(19,774)	(15,790)
Other long-term liabilities	1,669	42,847
Net cash provided by operating activities	387,356	249,020
Cash flows from investing activities		
Capital expenditures	(110,898)	(171,841)
Cash paid for acquisition of business, net of cash acquired	(367)	—
Purchases of marketable securities	(876,189)	(296,624)
Proceeds from maturities of marketable securities	750,000	—
Other	—	(1,400)
Net cash used in investing activities	(237,454)	(469,865)
Cash flows from financing activities		
Payments for tax sharing agreement with related parties	(10,279)	(1,040)
Principal repayments of finance lease obligations	(475)	(492)
Payment of debt modification costs	(175)	—
Payments for tax withholdings related to vesting of share-based compensation awards	(5)	(2,475)
Net cash used in financing activities	(10,934)	(4,007)
Net increase (decrease) in cash and cash equivalents	138,968	(224,852)
Cash and cash equivalents, as of beginning of period	330,441	603,079
Cash and cash equivalents, as of end of period	$ 469,409	$ 378,227

Non-GAAP Financial Measures

Adjusted EBITDA and Adjusted EBITDA Margin

To provide investors with additional information regarding our financial results, we have disclosed 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; changes in the fair value of equity warrants; exit 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 have included 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; changes in the fair value of equity warrants; exit 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 changes in the fair value of equity warrants, exit costs, 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 (loss) income, net margin, and our other GAAP results.

The following table presents a reconciliation of net (loss) income 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)	13 Weeks Ended		39 Weeks Ended	
Reconciliation of Net (Loss) Income to Adjusted EBITDA	**October 29, 2023**	**October 30, 2022**	**October 29, 2023**	**October 30, 2022**
Net (loss) income	$ (35,810)	$ 2,311	$ 5,317	$ 43,128
Add (deduct):				
Depreciation and amortization	25,523	23,018	82,195	60,696
Share-based compensation expense and related taxes	65,799	46,090	187,878	113,023
Interest income, net	(10,173)	(2,745)	(27,117)	(3,091)
Change in fair value of equity warrants	33,800	—	13,542	—
Income tax provision	1,704	—	4,011	—
Exit costs	(778)	—	6,839	—
Transaction related costs	1,041	706	3,167	2,101
Other	1,020	1,019	3,335	(1,887)
Adjusted EBITDA	$ 82,126	$ 70,399	$ 279,167	$ 213,970
Net sales	$ 2,738,611	$ 2,532,122	$ 8,301,055	$ 7,391,460
Net margin	*(1.3)%*	*0.1 %*	*0.1 %*	*0.6 %*
Adjusted EBITDA margin	*3.0 %*	*2.8 %*	*3.4 %*	*2.9 %*

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

Adjusted Net Income & Adjusted Basic & Diluted Earnings Per Share

To provide investors with additional information regarding our financial results, we have disclosed adjusted net income and adjusted basic and diluted earnings per share, which represent non-GAAP financial measures. We calculate adjusted net income as net income (loss) excluding share-based compensation expense and related taxes, changes in the fair value of equity warrants, and exit costs. We calculate adjusted basic and diluted earnings per share by dividing adjusted net income attributable to common stockholders by the weighted-average shares outstanding during the period. We have provided a reconciliation below of adjusted net income to net income (loss), the most directly comparable GAAP financial measure.

We have included adjusted net income and adjusted basic and diluted earnings per share 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 net income and adjusted basic and diluted earnings per share facilitates operating performance comparability across reporting periods by removing the effect of non-cash expenses and certain variable gains and losses that do not represent a component of our core business operations. We believe it is useful to exclude non- cash share-based compensation expense 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 exit costs and the changes in the fair value of equity warrants, because exit costs and the variability of equity warrant gains and losses are not representative of our underlying operations. Accordingly, we believe that these measures 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.

Adjusted net income and adjusted basic and diluted earnings per share have limitations as financial measures and you should not consider them in isolation or as substitutes for analysis of our results as reported under GAAP. Other companies may calculate adjusted net income and adjusted basic and diluted earnings per share differently, which reduces their usefulness as comparative measures. Because of these limitations, you should consider adjusted net income and adjusted basic and diluted earnings alongside other financial performance measures, including various cash flow metrics, net income (loss), basic and diluted earnings (loss) per share, and our other GAAP results. The following table presents a reconciliation of net income to adjusted net income, as well as the calculation of adjusted basic and diluted earnings per share, for each of the periods indicated.

The following table presents a reconciliation of net (loss) income to adjusted net income, as well as the calculation of adjusted basic and diluted earnings per share, for each of the periods indicated.

	13 Weeks Ended		39 Weeks Ended	
(in thousands, except per share data)	October 29, 2023	October 30, 2022	October 29, 2023	October 30, 2022
Reconciliation of Net (Loss) Income to Adjusted Net Income				
Net (loss) income	$ (35,810)	$ 2,311	$ 5,317	$ 43,128
Add (deduct):				
Share-based compensation expense and related taxes	65,799	46,090	187,878	113,023
Change in fair value of equity warrants	33,800	—	13,542	—
Exit costs	(778)	—	6,839	—
Adjusted net income	$ 63,011	$ 48,401	$ 213,576	$ 156,151
Weighted-average common shares used in computing (loss) earnings per share and adjusted earnings per share:				
Basic	430,758	422,898	428,743	421,665
Effect of dilutive share-based awards	1,414	5,227	2,663	5,558
Diluted	432,172	428,125	431,406	427,223
(Loss) earnings per share attributable to common Class A and Class B stockholders				
Basic	$ (0.08)	$ 0.01	$ 0.01	$ 0.10
Diluted	$ (0.08)	$ 0.01	$ 0.01	$ 0.10
Adjusted basic	$ 0.15	$ 0.11	$ 0.50	$ 0.37
Adjusted diluted	$ 0.15	$ 0.11	$ 0.50	$ 0.37

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)	13 Weeks Ended		39 Weeks Ended	
Reconciliation of Net Cash Provided by Operating Activities to Free Cash Flow	**October 29, 2023**	**October 30, 2022**	**October 29, 2023**	**October 30, 2022**
Net cash provided by operating activities	$ 80,208	$ 117,415	$ 387,356	$ 249,020
Deduct:				
Capital expenditures	(31,685)	(47,629)	(110,898)	(171,841)
Free Cash Flow	$ 48,523	$ 69,786	$ 276,458	$ 77,179

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

While we are confident in our ability to continue gaining market share and deliver attractive levels of profitability, our guidance reflects the continued macro pressures observed industry wide.

Fiscal Fourth Quarter 2023 Guidance		
Net Sales	$2.78 billion - $2.80 billion	approximately 3% year-over-year growth
Fiscal Year 2023 Guidance		
Net Sales	$11.08 billion - $11.10 billion	approximately 10% year-over-year growth
Adjusted EBITDA [(1)]	Approximately 3.0%	

(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.

Our guidance is based on certain assumptions, including current expectations regarding the impact of general economic conditions, and is subject to various risks and uncertainties applicable to all forward-looking statements in this letter. See "Forward-Looking Statements" for more information. 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 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,” “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: sustain our recent growth rates and successfully manage challenges to our future growth, including introducing new products or services, improving existing products and services, and expanding into new offerings; successfully manage risks related to the macroeconomic environment, including any adverse impacts on our business operations, financial performance, supply chain, workforce, facilities, customer services and operations; acquire and retain new customers in a cost-effective manner and increase our net sales, improve margins and maintain profitability; manage our growth effectively; maintain positive perceptions of our company and preserve, grow, and leverage the value of our reputation and our brand; limit operating losses as we continue to expand our business; forecast net sales and appropriately plan our expenses in the future; estimate the size of our addressable market; 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; provide our customers with a cost-effective platform that is able to respond and adapt to rapid changes in technology; limit our losses related to online payment methods; 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; maintain consumer confidence in the safety, quality and health of our products; limit risks associated with our suppliers and our outsourcing partners; comply with existing or future laws and regulations in a cost- efficient manner; compete with other retailers and service providers; utilize tax attributes, net operating loss and tax credit carryforwards, and limit fluctuations in our tax obligations and effective tax rate; adequately protect our intellectual property rights; successfully defend ourselves against any allegations or claims that we may be subject to; attract, develop, motivate and retain highly-qualified and skilled employees; predict and respond to economic conditions, industry trends, and market conditions, and their impact on the pet products market; reduce merchandise returns or refunds; respond to severe weather and limit disruption to normal business operations; manage new acquisitions, investments or alliances, and integrate them into our existing business; successfully compete in the pet insurance market; manage challenges presented by international markets; successfully compete in the pet products and services health and retail industry, especially in the e-commerce sector; raise capital as needed; and maintain effective internal control over financial reporting and disclosure controls and procedures.

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 the section titled "Risk Factors" included under Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended January 29, 2023, and in our other 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.

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