

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K**

(Mark One)

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

For the fiscal year ended January 31, 2021

or

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

For the transition period from _____ to _____

Commission File Number: 001-38936



CHEWY, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

90-1020167

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

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

(Address of principal executive offices)

33004

(Zip Code)

(786) 320-7111

(Registrant's telephone number, including area code)

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

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

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

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

Large accelerated filer Accelerated filer Emerging growth company

Non-accelerated filer Smaller reporting company

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of July 31, 2020, the last business day of the registrant's most recently completed second fiscal quarter, computed by reference to the closing price of \$52.49 per share as reported on the New York Stock Exchange on July 31, 2020 was approximately \$4.7 billion.

Class	Outstanding as of March 23, 2021
Class A Common Stock, \$0.01 par value per share	97,923,779
Class B Common Stock, \$0.01 par value per share	317,338,356

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement relating to the Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. The registrant's Definitive Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after the end of the registrant's fiscal year ended January 31, 2021.

CHEWY, INC.
FORM 10-K
For the Fiscal Year Ended January 31, 2021

TABLE OF CONTENTS

	<u>Page</u>
Part I.	
Item 1. Business	2
Item 1A. Risk Factors	7
Item 1B. Unresolved Staff Comments	32
Item 2. Properties	33
Item 3. Legal Proceedings	33
Item 4. Mine Safety Disclosures	33
Information About Our Executive Officers	34
Part II.	
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	35
Item 6. Selected Consolidated Financial Data	36
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	37
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	46
Item 8. Financial Statements and Supplementary Data	47
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	70
Item 9A. Controls and Procedures	71
Item 9B. Other Information	73
Part III.	
Item 10. Directors, Executive Officers and Corporate Governance	73
Item 11. Executive Compensation	73
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	73
Item 13. Certain Relationships and Related Transactions, and Director Independence	73
Item 14. Principal Account and Fees and Services	73
Part IV.	
Item 15. Exhibits and Financial Statement Schedules	73
Item 16. Form 10-K Summary	74
SIGNATURES	75

PART I

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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 Annual Report on Form 10-K, including statements regarding our future results of operations or financial condition, business strategy and plans and objectives of management for future operations, are forward-looking statements. In some cases, you can identify forward-looking statements because they contain words such as “anticipate,” “believe,” “contemplate,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “should,” “target,” “will” or “would” or the negative of these words or other similar terms or expressions.

These forward-looking statements include, but are not limited to, statements concerning our ability to:

- *successfully manage risks relating to the spread of coronavirus (also known as COVID-19), including any adverse impacts on our supply chain, workforce, facilities, customer services and operations;*
- *sustain our recent growth rates and manage our growth effectively;*
- *acquire new customers in a cost-effective manner and increase our net sales per active customer;*
- *accurately predict economic conditions, particularly the impact on economic conditions of the spread of COVID-19, and their impact on consumer spending patterns, particularly in the pet products market, and accurately forecast net sales and appropriately plan our expenses in the future;*
- *introduce new products or offerings and improve existing products;*
- *successfully compete in the pet products and services retail industry, especially in the e-commerce sector;*
- *source additional, or strengthen our existing relationships with, suppliers;*
- *negotiate acceptable pricing and other terms with third-party service providers, suppliers and outsourcing partners and maintain our relationships with such entities;*
- *optimize, operate and manage the expansion of the capacity of our fulfillment centers, including risks from the spread of COVID-19 relating to our plans to expand capacity and develop new facilities;*
- *provide our customers with a cost-effective platform that is able to respond and adapt to rapid changes in technology;*
- *maintain adequate cybersecurity with respect to our systems and ensure that our third-party service providers do the same with respect to their systems;*
- *successfully manufacture and sell our own proprietary brand products;*
- *maintain consumer confidence in the safety and quality of our vendor-supplied and proprietary 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 Annual Report on Form 10-K primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, and results of operations. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties and other factors described in the section titled “Risk Factors” included under Part I, Item 1A below and elsewhere in this Annual Report on Form 10-K. 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 Annual Report on Form 10-K. 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 Annual Report on Form 10-K. 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 Annual Report on Form 10-K 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 Annual Report on Form 10-K to reflect events or circumstances after the date of this Annual Report on Form 10-K or to reflect new information or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments.

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

Market, Ranking and Other Industry Data

In this Annual Report on Form 10-K, 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 “Risk Factors” included under Part I, Item 1A below and elsewhere in this Annual Report on Form 10-K. We believe that these sources and estimates are reliable as of the date of this report but have not independently verified them and cannot guarantee their accuracy or completeness.

Item 1. Business

Overview

Chewy, Inc. began operating as Chewy.com in 2011 and, in October 2013, Chewy.com, LLC was formed as a Delaware limited liability company. On March 16, 2016, Chewy.com, LLC converted from a Delaware limited liability company to a Delaware corporation and changed its name to Chewy, Inc. On May 31, 2017, Chewy, Inc. was acquired by PetSmart, Inc. (“PetSmart”). We completed the initial public offering (“IPO”) of our Class A common stock on June 18, 2019. Unless the context requires otherwise, references in this Annual Report on Form 10-K to “Chewy,” the “Company,” “we,” “our,” or “us” refer to Chewy, Inc. and its consolidated subsidiaries.

During the fiscal year ended January 31, 2021, we were controlled by PetSmart. PetSmart is wholly-owned by a consortium including private investment funds advised by BC Partners, La Caisse de dépôt et placement du Québec, affiliates of GIC Special Investments Pte Ltd, affiliates of StepStone Group LP and funds advised by Longview Asset Management, LLC, and controlled by affiliates of BC Partners.

On February 12, 2021, PetSmart completed a refinancing transaction, and in connection with such transaction, all shares of our common stock held by PetSmart and its subsidiaries were distributed to affiliates of BC Partners. Subsequent to the distribution, PetSmart no longer directly or indirectly owns any shares of our common stock. As a result of these events, we are also no longer a restricted subsidiary under PetSmart’s credit facilities and indentures.

Our mission is to be the most trusted and convenient online destination for pet parents (and partners) everywhere. We believe that we are the preeminent online source for pet products, supplies and prescriptions as a result of our broad selection of high-quality products, which we offer at competitive prices and deliver with an exceptional level of care and a personal touch. We continually develop innovative ways for our customers to engage with us, and partner with approximately 2,500 of the best and most trusted brands in the pet industry offering more than 70,000 products, to bring a high-bar, customer-centric experience to our customers.

Our Industry

We operate in a large and growing industry in the U.S., comprising of pet food and treats, pet supplies and pet medications, other pet-health products, and pet services.

“Pet humanization” and premiumization driving higher spending per pet

Pet parents increasingly view pets as part of the family and are willing to spend more on higher-quality goods and services for those family members. According to the American Pet Products Association (the “APPA”) 2020 Packaged Facts report (“Packaged Facts”), more than 90% of pet owners in 2020 considered their pets to be a part of their family. Furthermore, according to Packaged Facts, 73% of pet parents are willing to spend more on high quality foods that are viewed as healthier for their pets.

Historical and projected growth in pet spending

According to Packaged Facts, spending on the overall pet market has grown from \$73 billion in 2014 to an estimated \$98 billion in 2020, or at a 5% compounded annual growth rate (“CAGR”) over that time. Packaged Facts projects the overall pet market to continue growing at a CAGR of over 6% through 2024, with retail pet food and treats projected to grow at a CAGR of over 5% annually over that time. Pet food and treat sales estimates from 2020 through 2024 were adjusted higher by 3% compared to pre-coronavirus (COVID-19) pandemic estimates from Packaged Facts .

Consistency of spending and resilience during economic downturns

Spending on pets is a necessity and most customers purchase frequently and at regular intervals. The pet industry is one of the most resilient categories during economic downturns because of the nature of the pet parent/pet relationship. For example, during the recession from 2008 to 2010, overall consumer spending in the U.S. declined while pet spending in the U.S. increased by 12%, according to the APPA. In 2010 alone, spending in the U.S. on entertainment decreased by 7.0%, food decreased by 3.8%, housing decreased by 2.0% and apparel and services decreased by 1.4%, according to the U.S. Bureau of Labor Statistics, while spending on pets increased by 6.2%, according to the APPA.

Similar to the resiliency shown during the 2008 to 2010 recession, the pet industry experienced a significant increase in demand as a result of the COVID-19 pandemic despite the overall economic downturn, particularly within the e-commerce channel. Pet adoptions and fostering surged with “stay-at-home” orders further increasing demand and the continued humanization of pets. According to Packaged Facts’ April/May 2020 survey, only 16% of dog and cat owners agreed that they were spending less on pet food as a result of the COVID-19 pandemic and subsequent economic downturn, with 5% strongly agreeing and over 40% agreeing that they were buying pet food online more often as a result of the COVID-19 pandemic.

Rapid shift to online shopping, with significant remaining opportunity

The pet industry, like many others in the U.S., is experiencing a continued shift from in-store to online purchases and it appears that this migration has been accelerated by the COVID-19 pandemic, with tailwinds expected to continue for several years. In 2019, e-commerce claimed the top spot of pet food sales by channel as online shopping continues to take market share from brick-and-mortar retail. Packaged Facts reports that online shopping grew from 4% of U.S. pet product sales in 2014 to an estimated 27% in 2020 with over \$10 billion of pet food and treats sold online. This represents an over 40% CAGR for online pet retail over that time frame. Packaged Facts estimates the e-commerce channel to rapidly increase to over 34% of the total pet food market by 2024, up from pre-pandemic estimates of 24% while all other channels are projected to remain flat or decline.

According to Packaged Facts’ April/May 2020 Survey of Pet Owners, 64% dog and cat owners agreed that more of their everyday spending was being done online, and 73% stated they feel safer buying things online as opposed to in a store. We believe that the secular trend toward online shopping will continue for a significant period as consumers look to benefit from the convenience of home delivery and subscription-based purchasing, as well as the heightened safety of a “contactless” shopping experience.

Growing trend of subscription-based purchasing

Additional Packaged Facts research indicates 58% of dog and cat owners like the idea of home delivery for pet food and over the past 12 months, 12% of online pet food purchases and 7% of treat purchases were subscription-based. We believe that the trend of increased subscription-based purchasing behavior within the broader secular trend toward online shopping supports higher levels of customer retention and revenue visibility.

Our Strengths

- **Chewy’s commitment to customer service is the core of our brand.**
 - *Customer centricity.* Everything about our company is organized around our commitment to provide an exceptional customer experience. We make the shopping experience easy and enjoyable, and that makes finding and buying the right product an amazing start to the customer journey. We provide competitive prices, customizable and convenient automatic reordering, fast and reliable order delivery, and innovative technology-driven services.
 - *Customer service expertise that is knowledgeable and empowered.* Our customer service representatives (“CSRs”) share a common bond - they love pets. This shared passion is evident in every interaction they have with our customers, whether via phone, email, or interactive live-chat. In addition, contacting us is easy, with virtually all customer calls being answered in less than ten seconds. From the moment they join Chewy, our CSRs receive extensive training from our knowledgeable team, learning the ins and outs of the world of pets and our product offering. Thereafter, they continue learning about brands and pets of all types via recurring training. This allows them to further hone their ability to deliver highly specialized, informed, and authentic advice to our customers.
 - *Engaging with customers on a personalized level.* We empower our CSRs to go above and beyond for our customers, and they do so with the knowledge that our commitment to our customers is our number one priority. We engage with pet parents thousands of times per day, and we embrace the opportunity to “WOW” our customers each time, from surprising them with a hand-painted pet portrait to sending flowers to a family who has recently lost their pet. In addition, we have developed integrated technology that enables us to capture personalized profiles for each of our customers as well as their pets so that we may provide them with personalized recommendations. The expertise of our

CSRs, combined with the powerful tools that we provide them, allows us to deliver a high-touch and high-quality experience to our customers, which we believe results in higher retention rates.

- **We offer the widest assortment of pet products available of any pet specialty retailer—and we continue to grow that assortment—which we offer at competitive prices.** We carry approximately 2,500 carefully selected brands, representing the best and most popular products, and we regularly add new ones as we strive to offer everything that pet parents may want for their pets. In addition, we offer a wide range of free educational media (such as blogs, videos, and tutorials on our website, Be.Chewy.com) to enhance our product offering and the buying experience, helping pet parents choose the right product for their pet or find answers to commonly asked questions specific to their type of pet. In 2020, we also launched two innovative ventures that are valuable additions to our growing healthcare business and represent our first service-based offerings for pet parents: medication compounding and a telehealth service, “Connect with a Vet,” as part of our goal to make pet healthcare more affordable and accessible to pet parents.
- **Our highly efficient and effective distribution network provides exceptional delivery with ongoing cost advantages and superior customer service.** The strategic placement of our fulfillment centers across the U.S. enables us to cost-efficiently ship to over 80% of the U.S. population overnight and almost 100% in two days. The high volume of our sales, high participation rate in our Autoship subscription program, and relatively low seasonality of our business allow us to optimize asset utilization across our network and lower our fixed and variable cost per unit and our inventory levels.
- **We deploy capital efficiently.** We invest cash flow generated from our existing customer base to attract new customers. Given the fast and consistent payback levels from our customers, we invest free cash flow in marketing to attract new customers. Additionally, we expect to continue to invest in technology and product innovation to continue scaling our platform, customer support, marketing efforts, and supply chain in order to drive growth.
- **Our technology platform is scalable.** Our advanced technology platform was developed to enable us to grow our sales volume and increase the number of active customers while reducing marginal transaction and operational costs. Given the significant fixed-cost component of our technology platform, we expect that our cost per transaction will continue to decrease as our sales volume grows. The scalability and integrated nature of our technology platform also allow us to run our operations in a cost-efficient manner by decreasing the number of operational personnel and automating many of our planning and fulfillment processes. For example, we have significantly improved our processes for picking and packing orders through better forecasting, inventory placement, and optimal labor planning, as well as investing in automated fulfillment processes. Our customer service model, while “high touch,” provides our CSRs with up-to-date customer data and cutting-edge tools to optimize their productivity. As we continue to grow, we expect that we will be able to further scale our fixed costs.

Our Strategy

- **Continue to grow sales from our existing customer base.** We seek to expand our share of our customers’ wallets by broadening the selection of products and services that we offer as well as improving customer engagement. Customers have historically spent more per purchase on our website and mobile applications after their first year as they discover the wide range of our product offering and the value proposition we provide. Our exceptional customer service and “WOW” programs help us retain customers and increase their level of engagement and spending.
- **Acquire new customers.** We intend to increase brand awareness and reach new customers by investing free cash flow from our existing customer base in advertising and marketing to acquire new customers from existing and new channels. Given the high levels of customer satisfaction that we see from our customers, we believe that there is significant opportunity to grow our business as consumers become more aware of our brand and our strong value proposition.
- **Leverage our technological and operational efficiencies.** We believe that we can further improve our margins as we grow net sales, and we remain committed to achieving this. We expect to invest in technology and product innovation to continue scaling our platform, customer support, marketing efforts and supply chain. Our management team is committed to a disciplined use of capital designed to drive measurable improvements in unit economics and further improve our profitability.

- **Continue to grow our proprietary brands.** In 2016, we launched our first hardgoods proprietary brand, Frisco, and in 2017, we launched two consumables proprietary brands, American Journey and Tylee’s. Millions of customers have tried and reordered at least one of our proprietary brands over the years. Our goal is to provide value to our customers by offering proprietary brands with compelling quality and pricing. We believe there is significant room to grow our proprietary brands through continued growth of our current brands and the launch of new ones.
- **Expand further into pet healthcare.** Complementing our existing over-the-counter and veterinarian diet offerings, we launched Chewy Pharmacy in July 2018, thereby broadening our pet healthcare offering and providing our customers with a one-stop shop for their prescription and special diet needs. In 2020, we further advanced this goal by launching two innovative ventures that are valuable additions to our growing healthcare business and represent our first service-based offerings for pet parents. In October 2020, we launched a new telehealth service called “Connect with a Vet,” that allows pet parents and veterinarians to leverage the company’s proprietary tele-triage platform to preserve continuous veterinarian care. With this service, Chewy makes it possible for pet parents to connect directly with a licensed veterinarian to get answers to some of the most commonly asked questions, to receive advice, discuss concerns they might have regarding the health and wellness of their pet, and even get referrals to their local vets or emergency clinics. This was followed by the launch of compounding medications in November 2020, providing pet owners the ability to order customized, pharmaceutical grade, prescription medications that meet their pets’ unique needs, that cannot be fulfilled by commercially available alternatives.

These service offerings advance the company’s mission to be the most trusted resource for pet parents and veterinarians and our goal to make pet healthcare more affordable and accessible to pet parents. We believe that we share a common goal of pet health and wellness along with the veterinarian community, and we will continue to utilize our strengths to enhance partnerships with customers and veterinarians alike.

- **Explore broader platform opportunities.** We believe that there are additional pet offerings that can drive future growth and that our platform extends strong complementarities to other categories such as pet services, should we choose to do so. The strengths of our platform may enable us to sell directly to businesses in addition to consumers. Finally, although we have exclusively focused on sales in the U.S. to date, we may expand our offering internationally in the future.

Customers and Markets

We serve customers through our website and mobile applications and focus on delivering the best products with the best service at competitive prices. We operate customer service centers 24/7 to serve our customers every single day of the year.

Competition

The pet products and services industry is highly competitive and can be organized into the following categories: internet (including online sales by omnichannel players); pet specialty stores; mass merchandisers/discount stores/supercenters; food stores; wholesale clubs; farm/feed stores; independent pet channel; dollar stores; drug stores; natural food; and veterinary.

Competition in the pet products and services industry is strong, particularly within the e-commerce channel as the industry continues to experience a secular shift from in-store to online shopping. We face competition from the websites of our competitors such as other online retailers, online sales for omnichannel retailers, our suppliers’ own websites, and traditional brick and mortar retailers as well as those in the veterinary channel. Some of the principal competitive factors influencing our business are price, product selection and availability, fast and reliable delivery, and customer service. We believe our ability to provide a seamless shopping experience, fast and reliable delivery options, including our convenient Autoship subscription program, and our knowledgeable customer service sets us apart from our competitors.

Trademarks and Intellectual Property

Our rights in our intellectual property, including trademarks, patents, trade secrets, copyrights and domain names, as well as contractual provisions and restrictions on use of our intellectual property, are important to our business. For example, our trademark rights assist in our marketing efforts to develop brand recognition and differentiate our brands from our competitors. We own a number of trademark registrations and applications, in the U.S. as well as in certain foreign jurisdictions. These trademarks include, among others, “American Journey,” “All Kind,” “Blue Box Event,” “Chewy,” “Chewy.com,” “Dr. Lyon’s,” “Frisco,” “Goody Box,” “Onguard,” “Tiny Tiger,” “True Acre Farms,” and “Tylee’s.” The current registrations of these trademarks are effective for varying periods of time and may be renewed periodically, provided that we, as the registered owner, or our licensees where applicable, comply with all applicable renewal requirements including, where necessary, the

continued use of the trademarks in connection with similar goods and services. We expect to pursue additional trademark registrations to the extent we believe they would be beneficial and cost-effective.

In addition to trademark protection, we own numerous domain names, including www.chewy.com. We also enter into, and rely on, confidentiality and proprietary rights agreements with our employees, consultants, contractors and business partners to protect our trade secrets, proprietary technology and other confidential information. We further control the use of our proprietary technology and intellectual property through provisions in both our customer terms of use on our website and in our vendor terms and conditions.

We believe that our intellectual property has substantial value and has significantly contributed to our success to date. We continually engage with manufacturers to develop and market better quality pet products under our brand names to better serve our customers at a lower price.

Seasonality

Seasonality in our business does not follow that of traditional retailers, such as typically high concentration of revenue in the holiday quarter. Our net sales tend to grow throughout the fiscal year as we continue to acquire additional new customers and they continue to purchase from us. We recognized 23%, 24%, 25%, and 28% of our annual net sales during the first, second, third, and fourth quarters of fiscal 2020, respectively.

Human Capital

Our employees are critical to us fulfilling our mission of being the most trusted and convenient online destination for pet parents (and partners) everywhere. We accomplish this, in part, by recruiting, hiring, training, and retaining employees who share our core values of delivering superior customer service and caring about the needs of pets and their parents. To continue our mission, and to compete and succeed in our highly competitive and rapidly evolving market, it is crucial that we continue to attract, develop, motivate, and retain well-qualified employees. As part of these efforts, we strive to offer a competitive compensation and benefits program, focus on employee safety, give employees the opportunity to have a positive impact on society by being a part of our philanthropic endeavors, and foster a workplace that is reflective of our society and where everyone feels empowered to do their best work.

We employed approximately 18,500 full-time and part-time employees as of January 31, 2021. We consider our relationship with our employees to be good. As of March 23, 2021, none of our employees were represented by a labor union or covered by a collective bargaining agreement.

Compensation and Benefits Program. Our compensation and benefits are designed to enable us to attract, retain, and motivate well-qualified talent. We offer market-competitive compensation and benefits including life and health (medical, dental, and vision) insurance, paid time off, paid parental leave, a 401(k) plan, and a discount off purchases made on Chewy.com. We also offer our corporate employees “Paw-ternity” leave, allowing them to work from home for the first two weeks after a new dog is brought into their home. In addition, during fiscal year 2020, we offered emergency sick pay and additional paid time off for hourly employees for absences related to COVID-19.

Team Member Safety. We are committed to the health and safety of our employees. During fiscal year 2020, as a result of the COVID-19 pandemic, we implemented additional safety protocols to protect our employees, including protocols regarding social distancing and face coverings, temperature checks, and enhanced cleanings. In addition, a vast majority of our corporate employees continue to work remotely. We also provide several channels for all employees to speak up, ask for guidance, and report concerns related to ethics or safety violations.

Community Involvement. Our Chewy Gives Back team works tirelessly at continuing our philanthropic mission of supporting animal shelters and rescues everywhere. During the fiscal year ended January 31, 2021, we donated approximately \$35 million in products and supplies to animal shelters and rescues.

Diversity, Equity, and Inclusion. At Chewy, we recognize the significance of a diverse and inclusive workforce and fostering safe working environments in which our employees can be their authentic and best selves. Chewy’s diversity, equity, and inclusion mission is to hire, retain, and promote exceptional talent that values and is inclusive of all backgrounds and perspectives to deliver excellence. We are focused on this mission and on building an inclusive culture through a variety of diversity, equity, and inclusion initiatives, including assessments of current Chewy processes and policies.

Available Information

Our website address is www.chewy.com, and our investor relations website is investor.chewy.com. We promptly make available on our investor relations website, free of charge, the reports that we file or furnish with the Securities and Exchange Commission (“SEC”), corporate governance information (including our Code of Business Conduct and Ethics) and select press releases. We file annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy and information statements and amendments to reports filed or furnished pursuant to Sections 13(a), 14, and 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The SEC maintains a website at www.sec.gov that contains reports, proxy and information statements and other information regarding Chewy and other issuers that file electronically with the SEC.

Item 1A. Risk Factors

The following are important factors that could affect our financial performance and could cause actual results for future periods to differ materially from our anticipated results or other expectations, including those expressed in any forward-looking statements made in this Annual Report on Form 10-K or our other filings with the SEC or in oral presentations such as telephone conferences and webcasts open to the public. You should carefully consider the following factors and consider these in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 and our consolidated financial statements and related notes in Item 8. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that adversely affect our business. If any of the following risks actually occur, our business, financial condition, results of operations and future prospects could be materially and adversely affected.

Summary Risk Factors

Our business faces significant risks. The risk factors described below are only a summary of the principal risk factors associated with an investment in us. These risks are more fully described in this “Risk Factors” section, including the following:

Risks Related to Our Business and Operations

- Our recent growth rates may not be sustainable or indicative of our future growth and we may not be able to successfully manage the challenges to our future growth.
- The recent outbreak of the COVID-19 global pandemic and related government, private sector and individual consumer responsive actions may adversely affect our business operations, employee availability, financial performance, liquidity and cash flow for an unknown period of time.
- If we fail to acquire and retain new customers, or fail to do so in a cost-effective manner, we may be unable to increase net sales, improve margins and achieve profitability.
- The growth of our business depends on our ability to accurately predict consumer trends, successfully introduce new products and services, improve existing products and services, and expand into new offerings.
- We may be unable to accurately forecast net sales and appropriately plan our expenses in the future.
- Our estimate of the size of our addressable market may prove to be inaccurate.
- If we are not able to source additional, or strengthen our existing relationships with, suppliers, or if we lose any of our key suppliers, our business could be negatively impacted.
- Any changes in, or disruptions to, our shipping arrangements could adversely affect our business, financial condition, and results of operations.
- If we do not successfully optimize, operate and manage the expansion of the capacity of our fulfillment centers, our business, financial condition, and results of operations could be harmed.
- Our business may be adversely affected if we are unable to provide our customers with a cost-effective platform that is able to respond and adapt to rapid changes in technology.
- We are subject to risks related to online payment methods.
- Any significant interruptions or delays in service on our website or mobile applications or any undetected errors or design faults could result in limited capacity, reduced demand, processing delays, and loss of customers or suppliers.

- Our failure or the failure of third-party service providers to protect our website, networks, and systems against cybersecurity incidents, or otherwise to protect our confidential information, could damage our reputation and brand and substantially harm our business, financial condition, and results of operations.
- Safety, quality, and health concerns could affect our business.
- Risks associated with our suppliers and our outsourcing partners, many of which are located outside of the United States (“U.S.”), could materially and adversely affect our business, financial condition, and results of operations.
- We are subject to extensive governmental regulation and we may incur material liabilities under, or costs in order to comply with, existing or future laws and regulation, and our failure to comply may result in enforcements, recalls, and other adverse actions.
- Resistance from veterinarians to authorize prescriptions, or attempts/efforts on their part to discourage pet owners from purchasing from us could cause our sales to decrease and could adversely affect our financial condition and results of operations.
- Our ability to utilize net operating loss carryforwards may be subject to certain limitations.
- We may be unable to adequately protect our intellectual property rights. Additionally, we may be subject to intellectual property infringement claims or other allegations, which could result in substantial damages and diversion of management’s efforts and attention.
- If we are unable to attract, develop, motivate and retain well-qualified employees, our business could be harmed.
- Uncertainties in economic conditions and their impact on consumer spending patterns, particularly in the pet products market, could adversely impact our results of operations.
- Significant merchandise returns or refunds could harm our business.
- Severe weather, including hurricanes, earthquakes and natural disasters could disrupt normal business operations, which could result in increased costs and materially and adversely affect our business, financial condition, and results of operations.
- Our failure to manage new acquisitions, investments or alliances, or to integrate them with our existing business, could have a material adverse effect on us.
- If we cannot successfully manage the unique challenges presented by international markets, we may not be successful in expanding our operations outside the U.S.

Risks Related to Our Industry

- Competition in the pet products and services retail industry, especially Internet-based competition, is strong and presents an ongoing threat to the success of our business.
- Government regulation of the Internet and e-commerce is evolving, and unfavorable changes or failure by us to comply with these regulations could substantially harm our business, financial condition, and results of operations.

Risks Related to Our Indebtedness

- Restrictions in our revolving credit facility could adversely affect our operating flexibility.

Risks Related to Ownership of Our Class A Common Stock

- Our stock price has been, and may continue to be, volatile and may decline regardless of our operating performance.
- The dual class structure of our common stock may adversely affect the trading market for our Class A common stock.
- We are a “controlled company” within the meaning of the rules of NYSE and, as a result, we rely on exemptions from certain corporate governance requirements and the concentrated ownership of our common stock will prevent other stockholders from influencing significant decisions.

General Risk Factors

- Future litigation could have a material adverse effect on our business and results of operations.
- If our internal control over financial reporting or our disclosure controls and procedures are not effective, we may be unable to accurately report our financial results, prevent fraud or file our periodic reports in a timely manner, which may cause investors to lose confidence in our reported financial information and may lead to a decline in our stock price.

Risks Related to Our Business and Operations

Our recent growth rates may not be sustainable or indicative of our future growth.

We have experienced significant growth in recent periods. This rate of growth may not be sustainable or indicative of our future rate of growth. We believe that our continued growth in net sales will depend upon, among other factors, our ability to:

- acquire new customers who purchase products from us at the same rate and of the same type as our existing customer base;
- retain our customers and have them continue to purchase products from us at rates and in a manner consistent with their prior purchasing behavior;
- encourage customers to expand the categories of products they purchase from us, leading to increased net sales per active customer;
- increase the number of customers that use our Autoship subscription program;
- attract new vendors to supply quality products that we can offer to our customers at attractive prices;
- retain our existing vendors and have them supply additional quality products that we can offer to our customers at attractive prices;
- expand our proprietary brand product offering, including the launch of new brands and expansion into new offerings;
- increase the awareness of our brand;
- provide our customers and vendors with a superior experience;
- develop new features to enhance the consumer experience on our website and our mobile and tablet applications;
- respond to changes in consumer access to and use of the Internet and mobile devices;
- react to challenges from existing and new competitors;
- develop a scalable, high-performance technology and fulfillment infrastructure that can efficiently and reliably handle increased demand, as well as the deployment of new features and the sale of new products and services;
- fulfill and deliver orders in a timely way and in accordance with customer expectations, which may change over time;
- respond to macroeconomic trends and their impact on consumer spending patterns;
- hire, integrate and retain talented personnel;
- leverage our technological and operational efficiencies;
- invest in the infrastructure underlying our website and other operational systems, including with respect to data protection and cybersecurity; and
- expand into new offerings or new lines of business in which we do not have prior, or sufficient, operating experience, including sustaining continued expansion of Chewy Pharmacy or our pet healthcare category more generally.

Our ability to improve margins and achieve profitability will also depend on the factors described above. We cannot provide assurance that we will be able to successfully manage any of the foregoing challenges to our future growth. Any of these factors could cause our net sales growth to decline and may adversely affect our margins and profitability. We have also benefited from increasing pet ownership and discretionary spending on pets. To the extent these trends slow or reverse, our net sales, margins and profitability could be adversely affected. In particular, COVID-19 has driven an increase in pet ownership and consumer demand for our products that may not be sustained or may reverse. Failure to continue our net sales growth or improve margins could have a material adverse effect on our business, financial condition, and results of operations. You should not rely on our historical rate of net sales growth as an indication of our future performance.

The recent outbreak of the COVID-19 global pandemic and related government, private sector and individual consumer responsive actions may adversely affect our business operations, employee availability, financial performance, liquidity and cash flow for an unknown period of time.

The outbreak of COVID-19 has been declared a pandemic by the World Health Organization and continues to spread in the U.S., Canada, and in many other countries globally. Related government and private sector responsive actions have adversely affected, and may continue to adversely affect, our business operations. It is impossible to predict the effect and ultimate impact of the COVID-19 pandemic, as the situation continues to evolve and variant strains of the virus have led to increased uncertainty. The COVID-19 pandemic has disrupted the global supply chain and may cause disruptions to our operations if a significant number of employees are quarantined or if they are otherwise limited in their ability to work at our locations or travel. Any worsening of the COVID-19 pandemic, including the unknown potential impact of variant strains, and any future

actions in response to the COVID-19 pandemic by federal, state or local authorities, including those that order the shutdown of non-essential businesses or limit the ability of our employees to travel to work, could impact our ability to take or fulfill our customers' orders and operate our business. If surges related to the COVID-19 pandemic or any future pandemics outpace our capacity or occur at unexpected times, we may be unable to fully meet our customers' demands for our products.

As a result of the COVID-19 pandemic, many of our personnel are working remotely and it is possible that this could have a negative impact on the execution of our business plans and operations. If a natural disaster, power outage, connectivity issue, or other event occurred that impacted our employees' ability to work remotely, it may be difficult or, in certain cases, impossible, for us to continue our business for a substantial period of time. The increase in remote working may also result in consumer privacy, IT security and fraud concerns, increase our exposure to potential wage and hour issues, and decrease the cohesiveness of our teams and our ability to maintain our corporate culture. As we prepare to return our workforce back to the office in 2021, we may experience increased costs as we prepare our facilities for a safe return to work environment and experiment with hybrid work models.

Our plans to open new fulfillment centers or to expand the capacity of our existing fulfillment centers over the next few years may also be delayed or made more costly by the continuing spread of COVID-19 and variant strains. Disruptions to the operations of our fulfillment centers and delays or increased costs in the expansion of our fulfillment center capacity may negatively impact our financial performance and slow our future growth.

The uncertainty around the duration of business disruptions and the extent of the spread of the virus in the U.S. and to other areas of the world will likely continue to adversely impact the national or global economy and negatively impact consumer spending. Any of these outcomes could have a material adverse impact on our business, financial condition, operating results and ability to execute and capitalize on our strategies. The full extent of the COVID-19 pandemic's impact on our operations and financial performance depends on future developments that are uncertain and unpredictable, including the duration and spread of the pandemic, its impact on capital and financial markets and any new information that may emerge concerning the severity of the virus, its spread to other regions as well as the actions taken to contain it, among others. The COVID-19 pandemic could adversely affect our business operations, costs of doing business, availability of labor, access to inventory, supply chain operations and financial results for a period of time that is currently unknown.

If we fail to acquire and retain new customers, or fail to do so in a cost-effective manner, we may be unable to increase net sales, improve margins and achieve profitability.

Our success depends on our ability to acquire and retain new customers and to do so in a cost-effective manner. In order to expand our customer base, we must appeal to, and acquire, customers who have historically purchased their pet food and other pet products from other retailers such as traditional brick and mortar retailers, the websites of our competitors, or our suppliers' own websites. We have made significant investments related to customer acquisition and expect to continue to spend significant amounts to acquire additional customers. We cannot assure you that the net sales from the new customers we acquire will ultimately exceed the cost of acquiring those customers. If we fail to deliver a quality shopping experience, or if consumers do not perceive the products we offer to be of high value and quality, we may be unable to acquire or retain customers. If we are unable to acquire or retain customers who purchase products in volumes sufficient to grow our business, we may be unable to generate the scale necessary to achieve operational efficiency and drive beneficial network effects with our suppliers. Consequently, our prices may increase, or may not decrease to levels sufficient to generate customer interest, our net sales may decrease and our margins and profitability may decline or not improve. As a result, our business, financial condition, and results of operations may be materially and adversely affected.

We believe that many of our new customers originate from word-of-mouth and other non-paid referrals from our customers. Therefore, we must ensure that our customers remain loyal to us in order to continue receiving those referrals. If our efforts to satisfy our customers are not successful, we may be unable to acquire new customers in sufficient numbers to continue to grow our business, and we may be required to incur significantly higher marketing expenses in order to acquire new customers.

We also use paid and non-paid advertising. Our paid advertising includes search engine marketing, direct mail, display, television, radio and magazine advertising, paid social media and product placement. Our non-paid advertising efforts include search engine optimization, non-paid social media and e-mail marketing. We drive a significant amount of traffic to our website via search engines and, therefore, rely on search engines. Search engines frequently update and change the logic that determines the placement and display of results of a user's search, such that the purchased or algorithmic placement of links to our website can be negatively affected. Moreover, a search engine could, for competitive or other purposes, alter its search algorithms or results, causing our website to place lower in search query results.

We also drive a significant amount of traffic to our website via social networking or other e-commerce channels used by our current and prospective customers. As social networking and e-commerce channels continue to rapidly evolve, we may be unable to develop or maintain a presence within these channels. If we are unable to cost-effectively drive traffic to our website, our ability to acquire new customers and our financial condition would be materially and adversely affected. Additionally, if we fail to increase our net sales per active customer, generate repeat purchases or maintain high levels of customer engagement, our business, financial condition, and results of operations could be materially and adversely affected.

If we fail to manage our growth effectively, our business, financial condition, and results of operations could be materially and adversely affected.

To manage our growth effectively, we must continue to implement our operational plans and strategies, improve and expand our infrastructure of people and information systems and expand, train and manage our employee base. We have rapidly increased employee headcount since our inception to support the growth in our business. To support our continued growth, we must effectively integrate, develop and motivate a large number of new employees. We face significant competition for personnel in the areas where our corporate offices are located, and certain other areas in which we have operations. Failure to manage our hiring needs effectively or successfully integrate our new hires may have a material adverse effect on our business, financial condition, and results of operations.

Additionally, the growth of our business places significant demands on our management and other employees. We are required to manage relationships with a growing number of suppliers, customers and other third parties. Our information technology systems and our internal controls and procedures may not be adequate to support future growth of our customer or supplier base. If we are unable to manage the growth of our organization effectively, our business, financial condition, and results of operations may be materially and adversely affected.

The growth of our business depends on our ability to accurately predict consumer trends, successfully introduce new products and services, improve existing products and services, and expand into new offerings.

Our growth depends, in part, on our ability to successfully introduce new products and services, including our proprietary brand products, and improve and reposition our existing products and services to meet the requirements of our customers and the needs of their pets. It also depends on our ability to expand our offering. This, in turn, depends on our ability to predict and respond to evolving consumer trends, demands and preferences. The development and introduction of innovative new products and services and expansion into new offerings involves considerable costs. In addition, it may be difficult to establish new supplier or partner relationships and determine appropriate product selection when developing a new product, service or offering. Any new product, service or offering may not generate sufficient customer interest and sales to become profitable or to cover the costs of its development and promotion—and, as a result, may reduce our operating income. In addition, any such unsuccessful effort may adversely affect our brand and reputation. If we are unable to anticipate, identify, develop or market products, services or any new offering, that respond to changes in consumer requirements and preferences, or if our new product or service introductions, repositioned products or services, or new offerings fail to gain consumer acceptance, we may be unable to grow our business as anticipated, our sales may decline and our margins and profitability may decline or not improve. As a result, our business, financial condition, and results of operations may be materially and adversely affected.

In addition, while we plan to continue to invest in the development of our business, including in the expansion of our offering of proprietary brand products, we may be unable to maintain or expand sales of our proprietary brand products for a number of reasons, including the loss of key suppliers and product recalls. Maintaining consistent product quality, competitive pricing, and availability of our proprietary brand products for our customers is essential to developing and maintaining customer loyalty and brand awareness. Our proprietary brand products on average provide us with higher gross margins than the comparable third-party brand products that we sell. Accordingly, our inability to sustain the growth and sales of our proprietary brand offerings may materially and adversely affect our projected growth rates, business, financial condition, and results of operations.

Our continued success is largely dependent on positive perceptions of our company.

We believe that one of the reasons our customers prefer to shop at Chewy is the reputation we have built for providing an exceptional customer experience. To be successful in the future, we must continue to preserve, grow, and leverage the value of our reputation and our brand. Reputational value is based in large part on perceptions of subjective qualities, and even isolated incidents may erode trust and confidence and have adverse effects on our business and financial results, particularly if they result in adverse publicity or widespread reaction on social media, governmental investigations, or litigation.

We have a history of losses and may generate operating losses as we continue to expand our business.

We have a history of losses and may continue to generate operating losses in the near-term as we increase investment in our business. Furthermore, it is difficult for us to predict our future results of operations. We expect our operating expenses to increase over the next several years as we increase our advertising, launch new fulfillment centers, expand our offerings, hire additional personnel and continue to develop features on our website and mobile applications. In particular, we intend to continue to invest substantial resources in marketing to acquire new customers. Our operating expenses may also be adversely impacted by increased costs and delays in launching new fulfillment centers and expanding fulfillment center capacity as a result of the COVID-19 pandemic, as well as increased costs associated with returning to our corporate offices in a safe manner. If our future growth and operating performance fail to meet investor or analyst expectations, or if we have future negative cash flow or losses resulting from our investment in acquiring new customers, our financial condition and stock price could be materially and adversely affected.

We may be unable to accurately forecast net sales and appropriately plan our expenses in the future.

Net sales and results of operations are difficult to forecast because they generally depend on the volume, timing and type of orders we receive, all of which are uncertain. We base our expense levels and investment plans on our estimates of net sales and gross margins. We cannot be sure the same growth rates, trends, and other key performance metrics are meaningful predictors of future growth. If our assumptions prove to be wrong, we may spend more than we anticipate acquiring and retaining customers or may generate lower net sales per active customer than anticipated, either of which could have a negative impact on our business, financial condition, and results of operations.

Our estimate of the size of our addressable market may prove to be inaccurate.

Data for retail sales of pet products is collected for most, but not all channels, and as a result, it is difficult to estimate the size of the market and predict the rate at which the market for our products will grow, if at all. While our market size estimate was made in good faith and is based on assumptions and estimates we believe to be reasonable, this estimate may not be accurate. If our estimates of the size of our addressable market are not accurate, our potential for future growth may be less than we currently anticipate, which could have a material adverse effect on our business, financial condition, and results of operations.

We may be unable to source additional, or strengthen our existing relationships with, suppliers. In addition, the loss of any of our key suppliers would negatively impact our business.

In order to attract quality suppliers, we must:

- demonstrate our ability to help our suppliers increase their sales;
- offer suppliers a high quality, cost-effective fulfillment process; and
- continue to provide suppliers a dynamic and real-time view of our demand and inventory needs.

If we are unable to provide our suppliers with a compelling return on investment and an ability to increase their sales, we may be unable to maintain and/or expand our supplier network, which would negatively impact our business.

We purchase significant amounts of products from a number of suppliers with limited supply capabilities. There can be no assurance that our current suppliers will be able to accommodate our anticipated growth or continue to supply current quantities at preferential prices. An inability of our existing suppliers to provide products in a timely or cost-effective manner could impair our growth and materially and adversely affect our business, financial condition, and results of operations. For instance, as a result of the disruptions resulting from the COVID-19 pandemic, some of our existing suppliers were not able to supply us with products in a timely or cost-effective manner. While we believe these disruptions to be temporary, their duration is uncertain and a continued inability of our existing suppliers to provide products or other product supply disruptions that may occur in the future could impair our business, financial condition, and results of operations.

We generally do not maintain long-term supply contracts with any of our pet product suppliers and any of our pet product suppliers could discontinue selling to us at any time. The loss of any of our significant suppliers or the discontinuance of any preferential pricing or exclusive incentives they currently offer to us would have a negative impact on our business, financial condition, and results of operations. In addition, in our experience, it is challenging to persuade pet food buyers to switch to a different product, which could make it difficult to retain certain customers if we lose a pet food supplier, thereby exacerbating the negative impact of such loss on our business, financial condition, and results of operations.

We continually seek to expand our base of suppliers and to identify new pet products. If we are unable to identify or enter into distribution relationships with new suppliers or to replace the loss of any of our existing suppliers, we may experience a competitive disadvantage, our business may be disrupted and our business, financial condition, and results of operations may be adversely affected.

Most of the premium pet food brands that we purchase are not widely carried in supermarkets, warehouse clubs or mass merchants. If any premium pet food manufacturers were to make premium pet food products widely available in supermarkets or through mass merchants, or if the premium brands currently available to supermarkets and mass merchants were to increase their market share at the expense of the premium brands sold only through specialty pet food and supplies retailers, our ability to attract and retain customers and our competitive position may suffer. Furthermore, if supermarkets, warehouse clubs or mass merchants begin offering any of these premium pet food brands at lower prices, our sales and gross margin could be adversely affected.

In addition, several of the pet food brands we currently purchase and offer for sale to our customers are not offered by our closest specialty pet retailer competitors. However, we have not entered into formal exclusivity agreements with the suppliers for such brands. In the event these suppliers choose to enter into distribution arrangements with other specialty pet retailers or other competitors our sales could suffer and our business could be adversely affected.

Our principal suppliers currently provide us with certain incentives such as volume purchasing, trade discounts, cooperative advertising and market development funds. A reduction or discontinuance of these incentives would increase our costs and could reduce our profitability. Similarly, if one or more of our suppliers were to offer these incentives, including preferential pricing, to our competitors, our competitive advantage would be reduced, which could materially and adversely affect our business, financial condition, and results of operations.

Shipping is a critical part of our business and any changes in, or disruptions to, our shipping arrangements could adversely affect our business, financial condition, and results of operations.

We currently rely on third-party national, regional and local logistics providers to deliver the products we offer on our website and mobile applications. If we are not able to negotiate acceptable pricing and other terms with these providers, or if these providers experience performance problems or other difficulties in processing our orders or delivering our products to customers, it could negatively impact our results of operations and our customers' experience. For example, changes to the terms of our shipping arrangements may adversely impact our margins and profitability. In addition, our ability to receive inbound inventory efficiently and ship merchandise to customers may be negatively affected by factors beyond our and these providers' control, including inclement weather, fire, flood, power loss, earthquakes, acts of war or terrorism or other events specifically impacting our or other shipping partners, such as labor disputes, financial difficulties, system failures and other disruptions to the operations of the shipping companies on which we rely. We are also subject to risks of damage or loss during delivery by our shipping vendors. If the products ordered by our customers are not delivered in a timely fashion or are damaged or lost during the delivery process, our customers could become dissatisfied and cease buying products through our website and mobile applications, which would adversely affect our business, financial condition, and results of operations. Further, due to the continuing spread of COVID-19 and its variant strains and related governmental work and travel restrictions, there may be disruptions and delays in national, regional and local shipping, which may negatively impact our customers' experience and our results or operations. The spread of COVID-19, and any future pandemic, epidemic or similar outbreak, may disrupt our suppliers and logistics providers, such as FedEx, UPS, DHL, the U.S. Postal Service and other third-party delivery agents, as their workers may be prohibited or otherwise unable to report to work and transporting products within regions or countries may be limited due to extended holidays, factory closures, port closures and increased border controls and closures, among other things. We may also incur higher shipping costs due to various surcharges by third-party delivery agents on retailers related to the increased shipping demand resulting from the COVID-19 outbreak and any future pandemic, epidemic or similar outbreak.

If we do not successfully optimize, operate and manage the expansion of the capacity of our fulfillment centers, our business, financial condition, and results of operations could be harmed.

If we do not optimize and operate our fulfillment centers successfully and efficiently, it could result in excess or insufficient fulfillment capacity, an increase in costs or impairment charges or harm our business in other ways. In addition, if we do not have sufficient fulfillment capacity or experience a problem fulfilling orders in a timely manner, our customers may experience delays in receiving their purchases, which could harm our reputation and our relationship with our customers. As a result of the COVID-19 pandemic, we may experience disruptions to the operations of our fulfillment centers, which may negatively impact

our ability to fulfill orders in a timely manner, which could harm our reputation, relationship with customers and results of operations.

We have designed and built our own fulfillment center infrastructure, including customizing third-party inventory and package handling software systems, which is tailored to meet the specific needs of our business. If we continue to add fulfillment and warehouse capabilities, add new businesses or categories with different fulfillment requirements or change the mix in products that we sell, our fulfillment network will become increasingly complex and operating it will become more challenging. Failure to successfully address such challenges in a cost-effective and timely manner could impair our ability to timely deliver our customers' purchases and could harm our reputation and ultimately, our business, financial condition, and results of operations.

We anticipate the need to add additional fulfillment center capacity as our business continues to grow. We cannot assure you that we will be able to locate suitable facilities on commercially acceptable terms in accordance with our expansion plans, nor can we assure you that we will be able to recruit qualified managerial and operational personnel to support our expansion plans. If we are unable to secure new facilities for the expansion of our fulfillment operations, recruit qualified personnel to support any such facilities, or effectively control expansion-related expenses, our business, financial condition, and results of operations could be materially and adversely affected. If we grow faster than we anticipate, we may exceed our fulfillment center capacity sooner than we anticipate, we may experience problems fulfilling orders in a timely manner or our customers may experience delays in receiving their purchases, which could harm our reputation and our relationship with our customers, and we would need to increase our capital expenditures more than anticipated and in a shorter time frame than we currently anticipate. Our ability to expand our fulfillment center capacity, including our ability to secure suitable facilities and recruit qualified employees, may be substantially affected by the spread of COVID-19 and its variant strains and related governmental orders and there may be delays or increased costs associated with such expansion as a result of the spread and impact of the COVID-19 pandemic. Many of the expenses and investments with respect to our fulfillment centers are fixed, and any expansion of such fulfillment centers will require additional investment of capital. We expect to incur higher capital expenditures in the future for our fulfillment center operations as our business continues to grow. We would incur such expenses and make such investments in advance of expected sales, and such expected sales may not occur. Any of these factors could materially and adversely affect our business, financial condition, and results of operations.

Our business may be adversely affected if we are unable to provide our customers with a cost-effective platform that is able to respond and adapt to rapid changes in technology.

The number of people who access the Internet through devices other than personal computers, including mobile phones, handheld computers such as notebooks and tablets, video game consoles and television set-top devices, has increased dramatically in recent years. The versions of our website and mobile applications developed for these devices may not be compelling to consumers. Our website and platform are also currently not compatible with voice-enabled products. Adapting our services and/or infrastructure to these devices as well as other new Internet, networking or telecommunications technologies could be time-consuming and could require us to incur substantial expenditures, which could adversely affect our business, financial condition, and results of operations.

Additionally, as new mobile devices and platforms are released, it is difficult to predict the problems we may encounter in developing applications for alternative devices and platforms and we may need to devote significant resources to the creation, support and maintenance of such applications. If we are unable to attract consumers to our website or mobile applications through these devices or are slow to develop a version of our website or mobile applications that is more compatible with alternative devices, we may fail to capture a significant share of consumers in the pet food and accessory market and could also lose customers, which could materially and adversely affect our business, financial condition, and results of operations.

Further, we continually upgrade existing technologies and business applications and we may be required to implement new technologies or business applications in the future. The implementation of upgrades and changes requires significant investments. Our results of operations may be affected by the timing, effectiveness and costs associated with the successful implementation of any upgrades or changes to our systems and infrastructure. In the event that it is more difficult for our customers to buy products from us on their mobile devices, or if our customers choose not to buy products from us on their mobile devices or to use mobile products that do not offer access to our website, we could lose customers and fail to attract new customers. As a result, our customer growth could be harmed and our business, financial condition, and results of operations may be materially and adversely affected.

We are subject to risks related to online payment methods.

We currently accept payments using a variety of methods, including credit card, debit card, Paypal and gift cards. As we offer new payment options to consumers, we may be subject to additional regulations, compliance requirements, fraud and other risks. For certain payment methods, we pay interchange and other fees, which may increase over time and raise our operating costs and lower profitability. We are also subject to payment card association operating rules and certification requirements, including the Payment Card Industry Data Security Standard (“PCI DSS”) and rules governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for us to comply. Failure to comply with PCI DSS or to meet other payment card standards may result in the imposition of financial penalties or the allocation by the card brands of the costs of fraudulent charges to us.

Furthermore, as our business changes, we may be subject to different rules under existing standards, which may require new assessments that involve costs above what we currently pay for compliance. In the future, as we offer new payment options to consumers, including by way of integrating emerging mobile and other payment methods, we may be subject to additional regulations, compliance requirements and fraud. If we fail to comply with the rules or requirements of any provider of a payment method we accept, if the volume of fraud in our transactions limits or terminates our rights to use payment methods we currently accept, or if a data breach occurs relating to our payment systems, we may, among other things, be subject to fines or higher transaction fees and may lose, or face restrictions placed upon, our ability to accept credit card payments from consumers or facilitate other types of online payments. If any of these events were to occur, our business, financial condition, and results of operations could be materially and adversely affected.

We also occasionally receive orders placed with fraudulent data. If we are unable to detect or control fraud, our liability for these transactions could harm our business, financial condition, and results of operations.

Our business depends on network and mobile infrastructure, our third-party data center hosting facilities, including cloud- service providers, other third-party providers, and our ability to maintain and scale our technology. Any significant interruptions or delays in service on our website or mobile applications or any undetected errors or design faults could result in limited capacity, reduced demand, processing delays, and loss of customers or suppliers.

A key element of our strategy is to generate a high volume of traffic on, and use of, our website and mobile applications. Our reputation and ability to acquire, retain and serve our customers are dependent upon the reliable performance of our website and mobile applications and the underlying network infrastructure. As our customer base and the amount of information shared on our website and mobile applications continue to grow, we will need an increasing amount of network capacity and computing power. We have spent and expect to continue to spend substantial amounts on data centers, including cloud providers, and equipment and related network infrastructure to handle the traffic on our website and mobile applications. The operation of these systems is complex and could result in operational failures. In some cases, third-party cloud providers run their own platforms that we access, and we are, therefore, vulnerable to their service interruptions. In the event that the volume of traffic of our customers exceeds the capacity of our current network infrastructure or in the event that our customer base or the amount of traffic on our website and mobile applications grows more quickly than anticipated, we may be required to incur significant additional costs to enhance the underlying network infrastructure. Interruptions or delays in these systems, whether due to system failures, computer viruses, physical or electronic break-ins, undetected errors, design faults or other unexpected events or causes, could affect the security or availability of our website and mobile applications and prevent our customers from accessing our website and mobile applications. If sustained or repeated, these performance issues could reduce the attractiveness of our products and services. In addition, the costs and complexities involved in expanding and upgrading our systems may prevent us from doing so in a timely manner and may prevent us from adequately meeting the demand placed on our systems. Any web or mobile platform interruption or inadequacy that causes performance issues or interruptions in the availability of our website or mobile applications could reduce consumer satisfaction and result in a reduction in the number of consumers using our products and services.

We depend on the development and maintenance of the Internet and mobile infrastructure. This includes maintenance of reliable Internet and mobile infrastructure with the necessary speed, data capacity and security, as well as timely development of complementary products, for providing reliable Internet and mobile access. We also use and rely on services from other third parties, such as our telecommunications services and credit card processors, and those services may be subject to outages and interruptions that are not within our control. Failures by our telecommunications providers may interrupt our ability to provide phone support to our customers and Distributed denial-of-service (“DDoS”) attacks directed at our telecommunication service providers could prevent customers from accessing our website. In addition, we have in the past and may in the future experience down periods where our third-party credit card processors are unable to process the online payments of our customers, disrupting our ability to receive customer orders. Our business, financial condition, and results of operations could

be materially and adversely affected if for any reason the reliability of our Internet, telecommunications, payment systems and mobile infrastructure is compromised.

We currently rely upon third-party data storage providers, including cloud storage solution providers, including Amazon Web Services (“AWS”). Nearly all of our data storage and analytics are conducted on, and the data and content we create associated with sales on our website and mobile applications are processed through, servers hosted by these providers. We also rely on e-mail service providers, bandwidth providers, Internet service providers and mobile networks to deliver e-mail and “push” communications to customers and to allow customers to access our website.

Any damage to, or failure of, our systems or the systems of our third-party data centers, including cloud storage solution providers, or our other third-party providers could result in interruptions to the availability or functionality of our website and mobile applications. As a result, we could lose customer data and miss order fulfillment deadlines, which could result in decreased sales, increased overhead costs, excess inventory and product shortages. If for any reason our arrangements with our data centers, cloud storage solution providers or other third-party providers are terminated or interrupted, such termination or interruption could adversely affect our business, financial condition, and results of operations. We exercise little control over these providers, which increases our vulnerability to problems with the services they provide. We have designed certain of our software and computer systems so as to also utilize data processing, storage capabilities and other services provided by AWS. Given this, along with the fact that we cannot rapidly switch our AWS operations to another cloud provider, any disruption of or interference with our use of AWS would impact our operations and our business would be adversely impacted. We could experience additional expense in arranging for new facilities, technology, services and support. In addition, the failure of our third-party data centers, including cloud storage solution providers, or any other third-party providers to meet our capacity requirements could result in interruption in the availability or functionality of our website and mobile applications.

The satisfactory performance, reliability and availability of our website, mobile applications, transaction processing systems and technology infrastructure are critical to our reputation and our ability to acquire and retain customers, as well as to maintain adequate customer service levels. Our net sales depend on the number of visitors who shop on our website and mobile applications and the volume of orders that we can handle. Unavailability of our website or of our mobile applications or reduced order fulfillment performance would reduce the volume of goods sold and could also materially and adversely affect consumer perception of our brand. Any slowdown or failure of our website, mobile applications or the underlying technology infrastructure could harm our business, reputation and our ability to acquire, retain and serve our customers.

The occurrence of a natural disaster, power loss, telecommunications failure, data loss, computer virus, an act of terrorism, cyberattack, vandalism or sabotage, act of war or any similar event, or a decision to close our third-party data centers on which we normally operate or the facilities of any other third-party provider without adequate notice or other unanticipated problems at these facilities could result in lengthy interruptions in the availability of our website and mobile applications. Cloud computing, in particular, is dependent upon having access to an Internet connection in order to retrieve data. If a natural disaster, pandemic (such as the COVID-19 pandemic), blackout or other unforeseen event were to occur that disrupted the ability to obtain an Internet connection, we may experience a slowdown or delay in our operations. While we have some limited disaster recovery arrangements in place, our preparations may not be adequate to account for disasters or similar events that may occur in the future and may not effectively permit us to continue operating in the event of any problems with respect to our systems or those of our third-party data centers or any other third-party facilities. Our disaster recovery and data redundancy plans may be inadequate, and our business interruption insurance may not be sufficient to compensate us for the losses that could occur. If any such event were to occur to our business, our operations could be impaired and our business, financial condition, and results of operations may be materially and adversely affected.

Our reliance on software-as-a-service (“SaaS”) technologies from third parties may adversely affect our business and results of operations.

We rely on SaaS technologies from third parties in order to operate critical functions of our business, including financial management services, customer relationship management services, supply chain services and data storage services. If these services become unavailable due to extended outages or interruptions or because they are no longer available on commercially reasonable terms or prices, or for any other reason, our expenses could increase, our ability to manage our finances could be interrupted, our processes for managing sales of our offerings and supporting our customers could be impaired, our ability to communicate with our suppliers could be weakened and our ability to access or save data stored to the cloud may be impaired until equivalent services, if available, are identified, obtained and implemented, all of which could harm our business, financial condition, and results of operations.

Our failure or the failure of third-party service providers to protect our website, networks, and systems against cybersecurity incidents, or otherwise to protect our confidential information, could damage our reputation and brand and substantially harm our business, financial condition, and results of operations.

As a result of our services being web based, we collect, process, transmit and store large amounts of data about our customers, employees, suppliers and others, including credit card information and personally identifiable information, as well as other confidential and proprietary information. We also employ third-party service providers for a variety of reasons, including storing, processing and transmitting proprietary, personal and confidential information on our behalf. While we rely on tokenization solutions licensed from third parties in an effort to securely transmit confidential and sensitive information, including credit card numbers, advances in computer capabilities, new technological discoveries or other developments may result in the whole or partial failure of this technology to protect this data from being breached or compromised. Similarly, our security measures, and those of our third-party service providers, may not detect or prevent all attempts to hack our systems or those of our third-party service providers. DDoS attacks, viruses, malicious software, break-ins, phishing attacks, social engineering, security breaches or other cybersecurity incidents and similar disruptions that may jeopardize the security of information stored in or transmitted by our website, networks and systems or that we or our third-party service providers otherwise maintain, including payment card systems, may subject us to fines or higher transaction fees or limit or terminate our access to certain payment methods. We and our service providers may not anticipate or prevent all types of attacks until after they have already been launched, and techniques used to obtain unauthorized access to or sabotage systems change frequently and may not be known until launched against us or our third-party service providers. In addition, cybersecurity incidents can also occur as a result of non-technical issues, including intentional or inadvertent breaches by our employees or by persons with whom we have commercial relationships.

Breaches of our security measures or those of our third-party service providers or any cybersecurity incident could result in unauthorized access to our website, networks and systems; unauthorized access to and misappropriation of consumer and/or employee information, including personally identifiable information, or other confidential or proprietary information of ourselves or third parties; viruses, worms, spyware or other malware being served from our website, networks or systems; deletion or modification of content or the display of unauthorized content on our website; interruption, disruption or malfunction of operations; costs relating to cybersecurity incident remediation, deployment of additional personnel and protection technologies, response to governmental investigations and media inquiries and coverage; engagement of third party experts and consultants; litigation, regulatory action and other potential liabilities. If any of these cybersecurity incidents occur, or there is a public perception that we, or our third-party service providers, have suffered such a breach, our reputation and brand could also be damaged and we could be required to expend significant capital and other resources to alleviate problems caused by such cybersecurity incidents. As a consequence, our business could be materially and adversely affected and we could also be exposed to litigation and regulatory action and possible liability. In addition, any party who is able to illicitly obtain a customer's password could access the customer's transaction data or personal information. Any compromise or breach of our security measures, or those of our third-party service providers, could violate applicable privacy, data security and other laws, and cause significant legal and financial exposure, adverse publicity and a loss of confidence in our security measures, which could have a material adverse effect on our business, financial condition, and results of operations. This is more so since governmental authorities throughout the U.S. and around the world are devoting more attention to data privacy and security issues.

While we maintain privacy, data breach and network security liability insurance, we cannot be certain that our coverage will be adequate for liabilities actually incurred or that insurance will continue to be available to us on economically reasonable terms, or at all. Additionally, even though we continue to devote significant resources to monitor and update our systems and implement information security measures to protect our systems, there can be no assurance that any controls and procedures we have in place will be sufficient to protect us from future cybersecurity incidents. Failure by us or our vendors to comply with data security requirements, including the CCPA's new "reasonable security" requirement in light of the private right of action, or rectify a security issue may result in class action litigation, fines and the imposition of restrictions on our ability to accept payment cards, which could adversely affect our operations. As cyber threats are continually evolving, our controls and procedures may become inadequate and we may be required to devote additional resources to modify or enhance our systems in the future. As a result, we may face interruptions to our systems, reputational damage, claims under privacy and data protection laws and regulations, customer dissatisfaction, legal liability, enforcement actions or additional costs, any and all of which could adversely affect our business, financial condition, and results of operations.

Safety, quality, and health concerns could affect our business.

We could be adversely affected if consumers lose confidence in the safety and quality of our vendor supplied and proprietary brand food and hardgood products. All of our suppliers are required to comply with applicable product safety laws and we are dependent upon them to ensure such compliance. One or more of our suppliers, including manufacturers of our proprietary brand products, might not adhere to product safety requirements or our quality control standards. Any issues of product safety or allegations that our products are in violation of governmental regulations, including, but not limited to, issues involving products manufactured in foreign countries, could cause those products to be recalled. Adverse publicity about these types of concerns, whether valid or not, may discourage consumers from buying the products we offer, or cause supplier production and delivery disruptions. The real or perceived sale of contaminated food products by us could result in product liability claims against our suppliers or us, expose us or our suppliers to governmental enforcement action or private litigation, or lead to costly recalls and a loss of consumer confidence, any of which could have an adverse effect on our business, financial condition, and results of operations. In addition, our products may be exposed to product recalls, and we may be subject to litigation, if they are alleged to cause or pose a risk of injury or illness or if they are alleged to have been mislabeled, misbranded or adulterated or to otherwise be in violation of governmental regulations. We may also voluntarily recall or withdraw products that we consider do not meet our standards, whether for palatability, appearance or otherwise, in order to protect our brand and reputation. While we carry product liability insurance, our insurance may not be adequate to cover all liabilities we may incur in connection with product liability claims. For example, punitive damages are generally not covered by insurance. In addition, we may be unable to continue to maintain our existing insurance, obtain comparable insurance at a reasonable cost, if at all, or secure additional coverage, which may result in future product liability claims being uninsured. Any of these factors could negatively impact our business and adversely affect our results of operations.

Risks associated with our suppliers and our outsourcing partners, many of which are located outside of the U.S., could materially and adversely affect our business, financial condition, and results of operations.

We depend on a number of suppliers and outsourcing partners, a significant portion of which are located in Asia, to provide our customers with a wide range of products in a timely and efficient manner. If we are unable to maintain our relationships with our existing outsourcing partners or cannot identify or enter into relationships with new outsourcing partners to meet the manufacturing and assembly needs of our proprietary brand business, our proprietary brand business may be disrupted and our business, financial condition, and results of operations may be materially and adversely affected. In addition, political and economic instability, the financial stability of our suppliers and outsourcing partners, their ability to meet our standards, labor problems, the availability and prices of raw materials, merchandise quality issues, currency exchange rates, transport availability and cost, transport security, inflation, natural disasters and epidemics, among other factors, are beyond our control and may materially and adversely affect our suppliers and outsourcing partners and, in turn, our business, financial condition, and results of operations. For example, governments, public institutions and other organizations in countries and regions where cases of COVID-19 have been detected are taking certain emergency measures to combat its spread and impact, including implementation of travel bans and closures of factories, schools, public buildings, businesses and other institutions. While the full impact of this outbreak is not yet known, our business has been affected by, and may continue to be affected by, disruptions or restrictions on our employees' and other service providers' ability to travel, temporary closures of our facilities, including one or more of our fulfillment centers or customer service centers, or the facilities of our suppliers and other vendors in our supply chain. We have suppliers around the world, including in China, the U.S. and other countries where cases of COVID-19 have been reported and may be spreading rapidly in the community. If COVID-19 or any of its variant strains were to continue to spread widely in the U.S. or in any other country or region where we have a significant employee presence, facilities or critical operations, it could impair our ability to manage day-to-day operations and service our customers, increase our costs of operations and also result in, among other things, losses of revenue. In addition to the potential direct effects on us of COVID-19 or any similar epidemic or pandemic, we could be materially adversely impacted, including from any disruption to critical vendor services or losses of business, if any of our suppliers face significant business disruptions as a result of COVID-19 or any similar outbreak.

Moreover, there is uncertainty regarding the future of international trade agreements and the U.S.' position on international trade. For example, the U.S. government has previously threatened to undertake a number of actions relating to trade with Mexico, including the imposition of escalating tariffs on goods imported into the U.S. from Mexico. In addition, the U.S. government has previously raised tariffs, and imposed new tariffs, on a wide range of imports of Chinese products. The U.S. federal government may also withdraw from or materially modify international trade agreements. Additional trade restrictions, including tariffs, quotas, embargoes, safeguards and customs restrictions, could increase the cost or reduce the supply of products available to us and to our suppliers based in the U.S. and may require us to modify our supply chain organization or other current business practices, any of which could harm our business, financial condition, and results of operations.

We are subject to extensive governmental regulation and we may incur material liabilities under, or costs in order to comply with, existing or future laws and regulation, and our failure to comply may result in enforcements, recalls, and other adverse actions.

We are subject to a broad range of federal, state, local, and foreign laws and regulations intended to protect public and worker health and safety, natural resources and the environment. Our operations, including our outsourced proprietary brand manufacturing partners, are subject to regulation by the Occupational Safety and Health Administration (“OSHA”), the Food and Drug Administration (the “FDA”), the Department of Agriculture (the “USDA”) and by various other federal, state, local and foreign authorities regarding the processing, packaging, storage, distribution, advertising, labeling and export of our products, including food safety standards. In addition, we and our outsourced proprietary brand manufacturing partners are subject to additional regulatory requirements, including environmental, health and safety laws and regulations administered by the U.S. Environmental Protection Agency, state, local and foreign environmental, health and safety legislative and regulatory authorities and the National Labor Relations Board, covering such areas as discharges and emissions to air and water, the use, management, disposal and remediation of, and human exposure to, hazardous materials and wastes, and public and worker health and safety. These laws and regulations also govern our relationships with employees, including minimum wage requirements, overtime, terms and conditions of employment, working conditions and citizenship requirements. Violations of or liability under any of these laws and regulations may result in administrative, civil or criminal fines, penalties or sanctions against us, revocation or modification of applicable permits, licenses or authorizations, environmental, health and safety investigations or remedial activities, voluntary or involuntary product recalls, warning or untitled letters or cease and desist orders against operations that are not in compliance, among other things. Such laws and regulations generally have become more stringent over time and may become more so in the future, and we may incur (directly, or indirectly through our outsourced proprietary brand manufacturing partners) material costs to comply with current or future laws and regulations or in any required product recalls. Liabilities under, and/or costs of compliance, and the impacts on us of any non-compliance, with any such laws and regulations could materially and adversely affect our business, financial condition, and results of operations. In addition, changes in the laws and regulations to which we are subject could impose significant limitations and require changes to our business, which may increase our compliance expenses, make our business more costly and less efficient to conduct, and compromise our growth strategy.

Among other regulatory requirements, the FDA reviews the inclusion of specific claims in pet food labeling. For example, pet food products that are labeled or marketed with claims that may suggest that they are intended to treat or prevent disease in pets would potentially meet the statutory definitions of both a food and a drug. The FDA has issued guidance containing a list of specific factors it will consider in determining whether to initiate enforcement action against such products if they do not comply with the regulatory requirements applicable to drugs. These factors include, among other things, whether the product is only made available through or under the direction of a veterinarian and does not present a known safety risk when used as labeled. While we believe that we market our products in compliance with the policy articulated in FDA’s guidance and in other claim-specific guidance, the FDA may disagree or may classify some of our products differently than we do, and may impose more stringent regulations which could lead to alleged regulatory violations, enforcement actions and product recalls. In addition, we may produce new products in the future that may be subject to FDA pre-market review before we can market and sell such products.

Currently, many states in the U.S. have adopted the Association of American Feed Control Officials definition of the term “natural” with respect to the pet food industry, which means no synthetic additives or synthetic processing except vitamins, minerals or certain trace nutrients, and only ingredients that are derived solely from plant, animal or mined sources. Certain of our pet food products use the term “natural” in their labelling or marketing materials. As a result, we may incur material costs to comply with any new labeling requirements relating to the term “natural” and could be subject to liabilities if we fail to timely comply with such requirements, which could have a material adverse effect on our business, financial condition, and results of operations.

In addition to enforcement actions initiated by government agencies, there has been an increasing tendency in the U.S. among pharmaceutical companies to resort to the courts and industry and self-regulatory bodies to challenge comparative prescription drug advertising on the grounds that the advertising is false and deceptive. Through the years, there has been a continuing expansion of specific rules, prohibitions, media restrictions, labeling disclosures, and warning requirements with respect to the advertising for certain products.

These developments, depending on the outcome, could have a material adverse effect on our reputation, business, financial condition, and results of operations.

We may inadvertently fail to comply with various state or federal regulations covering our pet health business, including the dispensing of prescription pet medications and provision of telehealth services, which may subject us to reprimands, sanctions, probations, fines, suspensions, or the loss of one or more of our pharmacy licenses.

The sale and delivery of prescription pet medications and the provision of telehealth services are generally governed by state laws and regulations and, with respect to controlled substances, also by federal law, and are subject to extensive regulation and oversight by state and federal governmental authorities. The laws and regulations governing our operations and interpretations of those laws and regulations are increasing in number and complexity, change frequently, and can be inconsistent or conflicting. In addition, the governmental authorities that regulate our business have broad latitude to make, interpret, and enforce the laws and regulations that govern us and continue to interpret and enforce those laws and regulations more strictly and more aggressively each year. We are party to a number of routine administrative complaints incidental to our pharmacy business. We cannot assure you that we will not be subject to reprimands, sanctions, probations or fines, or that one or more of our pharmacy licenses will not be suspended or revoked, or our ability to offer telehealth services will not be challenged, in connection with these complaints or otherwise. We may also be the subject of administrative complaints in the future.

Our pharmacy business also involves the provision of professional services, including by pharmacists, that could expose us to professional liability claims. Our pharmacy business is subject to risks inherent in the dispensing, packaging and distribution of drugs and other health care products and services, including claims related to purported dispensing and other operational errors (any failure to adhere to the laws and regulations applicable to the dispensing of drugs could subject our businesses to civil and criminal penalties).

If we are unable to maintain the licenses granted by relevant state authorities in connection with our pharmacy business, or if we become subject to actions by the FDA or other regulators, our dispensing of prescription medications to pet parents could cease and we may be subject to reprimands, sanctions, probations or fines, which could have a material adverse effect on our business, financial condition, and results of operations.

Resistance from veterinarians to authorize prescriptions, or attempts/efforts on their part to discourage pet owners from purchasing from us could cause our sales to decrease and could adversely affect our financial condition and results of operations.

The laws and regulations relating to the sale and delivery of prescription pet medications vary from state to state, but generally require that prescription pet medications be dispensed with authorization from a prescribing veterinarian. Some veterinarians resist providing our customers with a copy of their pet's prescription or resist authorizing the prescription to our pharmacy staff, thereby effectively preventing us from filling such prescriptions under applicable law. Certain veterinarians have also tried to discourage pet owners from purchasing from Internet mail order pharmacies. If the number of veterinarians who refuse to authorize prescriptions to our pharmacy staff increases, or if veterinarians are successful in discouraging pet owners from purchasing from us, our sales could decrease and our financial condition and results of operations may be materially adversely affected.

We face significant competition from veterinarians and other retailers and may not be able to compete profitably with them.

We compete directly and indirectly with veterinarians for the sale of pet medications and other health products. Veterinarians hold a competitive advantage because many pet owners may find it more convenient or preferable to purchase prescription medications directly from their veterinarians at the time of an office visit. We also compete directly and indirectly with both online and traditional retailers. Both online and traditional retailers may hold a competitive advantage because of longer operating histories, established brand names, greater resources, and/or a more established customer base.

Failure to comply with federal and state laws and regulations relating to privacy, data protection, advertising and consumer protection, or the expansion of current or the enactment of new laws or regulations relating to privacy, data protection, advertising and consumer protection, could adversely affect our business, financial condition, and results of operations.

We rely on a variety of marketing techniques, including email and social media marketing and postal mailings, and we are subject to various laws and regulations that govern such marketing and advertising practices. A variety of federal and state laws and regulations govern the collection, use, retention, sharing and security of consumer data, particularly in the context of online advertising which we rely upon to attract new customers. In addition, we also collect, store, and transmit employees' health information in order to administer employee benefits; accommodate disabilities and injuries; comply with public health requirements; and mitigate the spread of COVID-19 in the workplace.

Laws and regulations relating to privacy, data protection, marketing and advertising, and consumer protection are evolving and subject to potentially differing interpretations. These requirements may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another or may conflict with other rules or our practices. As a result, our practices may not have complied or may not comply in the future with all such laws, regulations, requirements and obligations. Any failure, or perceived failure, by us to comply with our posted privacy policies or with any federal or state privacy or consumer protection-related laws, regulations, industry self-regulatory principles, industry standards or codes of conduct, regulatory guidance, orders to which we may be subject or other legal obligations relating to privacy or consumer protection could adversely affect our reputation, brand and business, and may result in claims, liabilities, proceedings or actions against us by governmental entities, customers, suppliers or others, or may require us to change our operations and/or cease using certain data sets. Any such claims, proceedings or actions could hurt our reputation, brand and business, force us to incur significant expenses in defense of such proceedings or actions, distract our management, increase our costs of doing business, result in a loss of customers and suppliers and result in the imposition of monetary penalties. We may also be contractually required to indemnify and hold harmless third parties from the costs or consequences of non-compliance with any laws, regulations or other legal obligations relating to privacy or consumer protection or any inadvertent or unauthorized use or disclosure of data that we store or handle as part of operating our business.

Federal and state governmental authorities continue to evaluate the privacy implications inherent in the use of third-party “cookies” and other methods of online tracking for behavioral advertising and other purposes. The U.S. government has enacted, has considered or is considering legislation or regulations that could significantly restrict the ability of companies and individuals to engage in these activities, such as by regulating the level of consumer notice and consent required before a company can employ cookies or other electronic tracking tools or the use of data gathered with such tools. Additionally, some providers of consumer devices and web browsers have implemented, or announced plans to implement, means to make it easier for Internet users to prevent the placement of cookies or to block other tracking technologies, which could if widely adopted result in the use of third-party cookies and other methods of online tracking becoming significantly less effective. The regulation of the use of these cookies and other current online tracking and advertising practices or a loss in our ability to make effective use of services that employ such technologies could increase our costs of operations and limit our ability to acquire new customers on cost-effective terms and consequently, materially and adversely affect our business, financial condition, and results of operations.

In addition, various federal and state legislative and regulatory bodies, or self-regulatory organizations, may expand current laws or regulations, enact new laws or regulations or issue revised rules or guidance regarding privacy, data protection, consumer protection, and advertising. For example, in June, 2018 the State of California enacted the California Consumer Privacy Act of 2018 (the “CCPA”), which became effective on January 1, 2020. The CCPA requires companies that process information on California residents to make new disclosures to consumers about their data collection, use and sharing practices, and allows consumers to opt out of certain data sharing with third parties and provides a new cause of action for data breaches. Further, on November 3, 2020, the California Privacy Rights Act (the “CPRA”) was voted into law by California residents. The CPRA significantly amends the CCPA, and imposes additional data protection obligations on companies doing business in California, including additional consumer rights processes and opt outs for certain uses of sensitive data. It also creates a new California data protection agency specifically tasked to enforce the law, which could result in increased regulatory scrutiny of California businesses in the areas of data protection and security. The substantive requirements for businesses subject to the CPRA will go into effect on January 1, 2023, and become enforceable on July 1, 2023. Similar laws have been proposed in other states and at the federal level, and if passed, such laws may have potentially conflicting requirements that would make compliance challenging. Additionally, the Federal Trade Commission (the “FTC”) and many state attorneys general are interpreting federal and state consumer protection laws to impose standards for the online collection, use, dissemination and security of data. Consumer protection laws require us to publish statements that describe how we handle personal data and choices individuals may have about the way we handle their personal data. If such information that we publish is considered untrue, we may be subject to government claims of unfair or deceptive trade practices, which could lead to significant liabilities and consequences. Further, according to the FTC, violating consumers’ privacy rights or failing to take appropriate steps to keep consumers’ personal data secure may constitute unfair acts or practices in or affecting commerce in violation of Section 5(a) of the Federal Trade Commission Act. Each of these privacy, security, and data protection laws and regulations, and any other such changes or new laws or regulations, could impose significant limitations, require changes to our business, impose fines and other penalties or restrict our use or storage of personal information, which may increase our compliance expenses and make our business more costly or less efficient to conduct. Any such changes could compromise our ability to develop an adequate marketing strategy and pursue our growth strategy effectively, which, in turn, could adversely affect our business, financial condition, and results of operations.

Our ability to utilize net operating loss carryforwards may be subject to certain limitations.

Our ability to use our federal and state net operating losses to offset potential future taxable income and related income taxes that would otherwise be due is dependent upon our generation of future taxable income, and we cannot predict with certainty when, or whether, we will generate sufficient taxable income to use all of our net operating losses. In addition, Section 382 of the Internal Revenue Code of 1986, as amended (the “Code”), contains rules that impose an annual limitation on the ability of a company with net operating loss carryforwards that undergoes an ownership change, which is generally any change in ownership of more than 50% of its stock (by value) over a three-year period, to utilize its net operating loss carryforwards in years after the ownership change. These rules generally operate by focusing on ownership changes among holders owning directly or indirectly 5% or more of the shares of stock of a company or any change in ownership arising from a new issuance of shares of stock by such company. If a company’s income in any year is less than the annual limitation prescribed by Section 382 of the Code, the unused portion of such limitation amount may be carried forward to increase the limitation (and net operating loss carryforward utilization) in subsequent tax years.

We experienced an ownership change related to PetSmart’s acquisition of us that will result in an annual limitation under Section 382 of the Code, but we do not expect such limitation to have a material adverse effect on our ability to utilize net operating losses. In addition, if we were to undergo a further ownership change as a result of future transactions involving our common stock, including a follow-on offering of our common stock or purchases or sales of common stock between 5% holders, our ability to use our net operating loss carryforwards may be subject to additional limitation under Section 382 of the Code. As a result, a portion of our net operating loss carryforwards may expire before we are able to use them. If we are unable to utilize our net operating loss carryforwards, there may be a negative impact on our financial position and results of operations.

In addition to the aforementioned federal income tax implications pursuant to Section 382 of the Code, most states follow the general provisions of Section 382 of the Code, either explicitly or implicitly resulting in separate state net operating loss limitations.

We may be unable to adequately protect our intellectual property rights. Additionally, we may be subject to intellectual property infringement claims or other allegations, which could result in substantial damages and diversion of management’s efforts and attention.

We regard our brand, customer lists, trademarks, trade dress, domain names, trade secrets, proprietary technology and similar intellectual property as critical to our success. We rely on trademark, copyright and patent law, trade secret protection, agreements and other methods with our employees and others to protect our proprietary rights. Effective intellectual property protection may not be available in every country in which our products are, or may be made, available. The protection of our intellectual property rights may require the expenditure of significant financial, managerial and operational resources. Moreover, the steps we take to protect our intellectual property may not adequately protect our rights or prevent third parties from infringing or misappropriating our proprietary rights, and we may be unable to broadly enforce all of our intellectual property rights. Any of our intellectual property rights may be challenged by others or invalidated through administrative process or litigation. Our patent and trademark applications may never be granted. Additionally, the process of obtaining patent protection is expensive and time-consuming, and we may be unable to prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner. Even if issued, there can be no assurance that these patents will adequately protect our intellectual property, as the legal standards relating to the validity, enforceability and scope of protection of patent and other intellectual property rights are uncertain. We also cannot be certain that others will not independently develop or otherwise acquire equivalent or superior technology or intellectual property rights. Furthermore, our confidentiality agreements may not effectively prevent disclosure of our proprietary information, technologies and processes and may not provide an adequate remedy in the event of unauthorized disclosure of such information.

We might be required to spend significant resources to monitor and protect our intellectual property rights. For example, we may initiate claims or litigation against others for infringement, misappropriation or violation of our intellectual property rights or other proprietary rights or to establish the validity of such rights. However, we may be unable to discover or determine the extent of any infringement, misappropriation or other violation of our intellectual property rights and other proprietary rights. Despite our efforts, we may be unable to prevent third parties from infringing upon, misappropriating or otherwise violating our intellectual property rights and other proprietary rights. Any litigation, whether or not it is resolved in our favor, could result in significant expense to us and divert the efforts of our technical and management personnel, which may materially and adversely affect our business, financial condition, and results of operations.

In addition, our technology platform may use open source software. The use of such open source software may subject us to certain conditions, including the obligation to offer, distribute, or disclose our technology platform for no or reduced cost, make the proprietary source code subject to open source software licenses available to the public, license our software and systems that use open source software for the purpose of making derivative works, or allow reverse assembly, disassembly, or reverse engineering. We monitor our use of open source software to avoid subjecting our technology platform to conditions we do not intend. However, if our technology platform becomes subject to such unintended conditions, it could have an adverse effect on our business, financial condition, and results of operations.

Third parties have from time to time claimed, and may claim in the future, that we have infringed their intellectual property rights. These claims, whether meritorious or not, could be time-consuming, result in considerable litigation costs, result in injunctions against us or the payment of damages by us, require significant amounts of management time or result in the diversion of significant operational resources and expensive changes to our business model, result in the payment of substantial damages or injunctions against us, or require us to enter into costly royalty or licensing agreements, if available. In addition, we may be unable to obtain or utilize on terms that are favorable to us, or at all, licenses or other rights with respect to intellectual property we do not own. These risks have been amplified by the increase in third parties whose sole or primary business is to assert such claims. Any payments we are required to make and any injunctions we are required to comply with as a result of these claims could materially and adversely affect our business, financial condition, and results of operations.

We rely on the performance of members of management and highly skilled personnel, and if we are unable to attract, develop, motivate and retain well-qualified employees, our business could be harmed.

Our ability to maintain our competitive position is largely dependent on the services of our senior management and other key personnel. In addition, our future success depends on our continuing ability to attract, develop, motivate and retain highly qualified and skilled employees. The market for such positions is competitive. Qualified individuals are in high demand and we may incur significant costs to attract them. In addition, the loss of any of our senior management or other key employees or our inability to recruit and develop mid-level managers could materially and adversely affect our ability to execute our business plan and we may be unable to find adequate replacements. Other than our CEO, CFO and certain other senior executives, all of our employees are at-will employees, meaning that they may terminate their employment relationship with us at any time, and their knowledge of our business and industry would be extremely difficult to replace. If we fail to retain talented senior management and other key personnel, or if we do not succeed in attracting well-qualified employees or retaining and motivating existing employees, our business, financial condition, and results of operations may be materially and adversely affected.

Uncertainties in economic conditions and their impact on consumer spending patterns, particularly in the pet products market, could adversely impact our results of operations.

Our results of operations are sensitive to changes in certain macro-economic conditions that impact consumer spending on pet products and services. Some of the factors adversely affecting consumer spending on pet products and services include consumer confidence, levels of unemployment and general uncertainty regarding the overall future economic environment. We may experience declines in sales or changes in the types of products sold during economic downturns. Any material decline in the amount of consumer spending or other adverse economic changes could reduce our sales, and a decrease in the sales of higher-margin products could reduce profitability and, in each case, harm our business, financial condition, and results of operations.

Significant merchandise returns or refunds could harm our business.

We allow our customers to return products or offer refunds, subject to our return and refunds policy. If merchandise returns or refunds are significant or higher than anticipated and forecasted, our business, financial condition, and results of operations could be adversely affected. Further, we modify our policies relating to returns or refunds from time to time, and may do so in the future, which may result in customer dissatisfaction and harm to our reputation or brand, or an increase in the number of product returns or the amount of refunds we make.

Severe weather, including hurricanes, earthquakes and natural disasters could disrupt normal business operations, which could result in increased costs and materially and adversely affect our business, financial condition, and results of operations.

Several of our fulfillment centers, customer service centers, and corporate offices are located in Florida, Texas, and other areas that are susceptible to hurricanes, sea-level rise, earthquakes, and other natural disasters. Recent intense weather conditions may cause property insurance premiums to significantly increase in the future. We recognize that the frequency and intensity of

extreme weather events, sea-level rise, and other climatic changes may continue to increase, and as a result, our exposure to these events may increase. Therefore, as a result of the geographic location of our properties, we face risks, including higher costs, such as uninsured property losses and higher insurance premiums, as well as unexpected disruptions to our business and operations, which could materially and adversely affect our business, financial condition and results of operations.

We may seek to grow our business through acquisitions of, or investments in, new or complementary businesses, facilities, technologies or products, or through strategic alliances, and the failure to manage these acquisitions, investments or alliances, or to integrate them with our existing business, could have a material adverse effect on us.

From time to time we may consider opportunities to acquire or make investments in new or complementary businesses, facilities, technologies, offerings, or products, or enter into strategic alliances, that may enhance our capabilities, expand our outsourcing and supplier network, complement our current products or expand the breadth of our markets. Acquisitions, investments and other strategic alliances involve numerous risks, including:

- problems integrating the acquired business, facilities, technologies or products, including issues maintaining uniform standards, procedures, controls and policies;
- unanticipated costs associated with acquisitions, investments or strategic alliances;
- diversion of management's attention from our existing business;
- adverse effects on existing business relationships with suppliers, outsourced proprietary brand manufacturing partners, retail partners and distribution customers;
- risks associated with entering new markets in which we may have limited or no experience;
- potential loss of key employees of acquired businesses; and
- increased legal and accounting compliance costs.

Our ability to successfully grow through strategic transactions depends upon our ability to identify, negotiate, complete and integrate suitable target businesses, facilities, technologies and products and to obtain any necessary financing. These efforts could be expensive and time-consuming and may disrupt our ongoing business and prevent management from focusing on our operations. If we are unable to identify suitable acquisitions or strategic relationships, or if we are unable to integrate any acquired businesses, facilities, technologies and products effectively, our business, financial condition, and results of operations could be materially and adversely affected. Also, while we employ several different methodologies to assess potential business opportunities, the new businesses may not meet or exceed our expectations.

If we cannot successfully manage the unique challenges presented by international markets, we may not be successful in expanding our operations outside the U.S.

Our strategy may include the expansion of our operations to international markets. Although some of our executive officers have experience in international business from prior positions, we have little experience with operations outside the U.S. Our ability to successfully execute this strategy is affected by many of the same operational risks we face in expanding our U.S. operations. In addition, our international expansion may be adversely affected by our ability to identify and gain access to local suppliers, obtain and protect relevant trademarks, domain names, and other intellectual property, as well as by local laws and customs, legal and regulatory constraints, political and economic conditions and currency regulations of the countries or regions in which we may intend to operate in the future. Risks inherent in expanding our operations internationally also include, among others, the costs and difficulties of managing international operations, adverse tax consequences, domestic and international tariffs and other barriers to trade.

Risks Related to Our Industry

Competition in the pet products and services retail industry, especially Internet-based competition, is strong and presents an ongoing threat to the success of our business.

The pet products and services retail industry is very competitive. We compete with pet product retail stores, supermarkets, warehouse clubs and other mass and general retail and online merchandisers, including e-tailers, many of which are larger than us and have significantly greater capital resources than we do. We also compete with a number of specialty pet supply stores and independent pet stores, catalog retailers and other specialty e-tailers.

Many of our current competitors have, and potential competitors may have, longer operating histories, greater brand recognition, larger fulfillment infrastructures, greater technical capabilities, significantly greater financial, marketing and other resources and larger customer bases than we do. These factors may allow our competitors to derive greater net sales and profits from their existing customer base, acquire customers at lower costs or respond more quickly than we can to new or emerging technologies and changes in consumer preferences or habits. These competitors may engage in more extensive research and development efforts, undertake more far-reaching marketing campaigns and adopt more aggressive pricing policies (including but not limited to predatory pricing policies and the provision of substantial discounts), which may allow them to build larger customer bases or generate net sales from their customer bases more effectively than we do.

We have been able to compete successfully by differentiating ourselves from our competitors by providing a large selection of high-quality pet food, treats and supplies, competitive pricing, convenience and exceptional customer service. If changes in consumer preferences decrease the competitive advantage attributable to these factors, or if we fail to otherwise positively differentiate our product offering or customer experience from our competitors, our business, financial condition, and results of operations could be materially and adversely affected. In particular, a key component of our business strategy is to rely on our reputation for exceptional customer service. This is done, in part, by recruiting, hiring, training, and retaining employees who share our core values of delivering superior service to our customers and caring about pet parents and their needs. If our reputation is negatively affected by the actions of our employees, by our inability to conduct our operations in a manner that is appealing to current or prospective customers, or otherwise, our business, financial condition, and results of operations may be materially and adversely affected. In addition, if we are unable to maintain our current levels of customer service and our reputation for customer service as we grow or otherwise, our net sales may not continue to grow or may decline, and our business, financial condition, and results of operations may be materially and adversely affected.

We compete directly and indirectly with veterinarians for the sale of pet medications and other pet health products. Veterinarians hold a competitive advantage over us because many pet parents may find it more convenient or preferable to purchase these products directly from their veterinarians at the time of an office visit. We also compete directly and indirectly with both online and traditional pet pharmacies. Both online and traditional pet pharmacies may hold a competitive advantage over us because of longer operating histories, established brand names, greater resources, and/or an established customer base. Online pet pharmacies may have a competitive advantage over us because of established affiliate relationships that drive traffic to their website. Traditional pet pharmacies may hold a competitive advantage over us because pet parents may prefer to purchase these products from a store instead of online. In addition, we face growing competition from online and multichannel pet pharmacies, some of whom may have a lower cost structure than ours, as customers now routinely use computers, tablets, smartphones, and other mobile devices and mobile applications to shop online and compare prices and products in real time. In order to effectively compete in the future, we may be required to offer promotions and other incentives, which may result in lower operating margins and in turn adversely affect our results of operations. We also face a significant challenge from our competitors forming alliances with each other, such as those between online and traditional pet pharmacies. These relationships may enable both their retail and online stores to negotiate better pricing and better terms from suppliers by aggregating the demand for products and negotiating volume discounts, which could be a competitive disadvantage to us.

We expect competition in the pet products and services retail industry, in particular Internet-based competition, generally to continue to increase. If we fail to compete successfully, our business, financial condition, and results of operations could be materially and adversely affected.

Government regulation of the Internet and e-commerce is evolving, and unfavorable changes or failure by us to comply with these regulations could substantially harm our business, financial condition, and results of operations.

We are subject to general business regulations and laws as well as regulations and laws specifically governing the Internet and e-commerce. Existing and future regulations and laws could impede the growth of the Internet, e-commerce or mobile commerce, which could in turn adversely affect our growth. These regulations and laws may involve taxes, tariffs, privacy and data security, anti-spam, content protection, electronic contracts and communications, consumer protection and Internet neutrality. It is not clear how existing laws governing issues such as property ownership, sales and other taxes and consumer privacy apply to the Internet as the vast majority of these laws were adopted prior to the advent of the Internet and do not contemplate or address the unique issues raised by the Internet or e-commerce. It is possible that general business regulations and laws, or those specifically governing the Internet or e-commerce, may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or our practices. We cannot be sure that our practices have complied, comply or will comply fully with all such laws and regulations. Any failure, or perceived failure, by us to comply with any of these laws or regulations could result in damage to our reputation, a loss in business and proceedings or actions against us by governmental entities, customers, suppliers or others. Any such proceeding or action could hurt our reputation, force us to spend significant amounts in defense of these proceedings, distract our management, increase our costs

of doing business, decrease the use of our website and mobile applications by consumers and suppliers and may result in the imposition of monetary liabilities. We may also be contractually liable to indemnify and hold harmless third parties from the costs or consequences of non-compliance with any such laws or regulations. As a result, adverse developments with respect to these laws and regulations could substantially harm our business, financial condition, and results of operations.

Changes in tax treatment of companies engaged in e-commerce may adversely affect the commercial use of our website and mobile applications and our financial results.

On June 21, 2018, the Supreme Court of the United States overturned a prior decision under which e-tailers had not been required to collect sales tax unless they had a physical presence in the buyer's state. As a result, a state may now enforce or adopt laws requiring e-tailers to collect and remit sales tax even if the e-tailer has no physical presence within the taxing state. In response, an increasing number of states have adopted or are considering adopting laws or administrative practices, with or without notice, that impose sales or similar value added or consumption taxes on e-commerce activity, as well as taxes on all or a portion of gross revenue or other similar amounts earned by an e-tailer from sales to customers in the state. Since October 28, 2018, we have withheld sales tax to the extent required in all states to which we ship. If any state were to assert that we have any liability for sales tax for prior periods and seek to collect such tax in arrears and/or impose penalties for past non-payment of taxes, it could have an adverse effect on us. New legislation or regulations, the application of laws and regulations from jurisdictions, including other countries whose laws do not currently apply to our business, or the application of existing laws and regulations to the Internet and commercial online services could similarly result in significant additional taxes on our business. These taxes or tax collection obligations could have an adverse effect on us, including by way of creating additional administrative burdens on us. For instance, the Supreme Court's recent decision and the enactment and enforcement of laws resulting therefrom could also impact where we are required to file state income taxes. As a result, our effective income tax rate as well as the cost and growth of our business could be materially and adversely affected, which could in turn have a material adverse effect on our financial condition and results of operations. Furthermore, there is a possibility that we may be subject to significant fines or other payments for any past failures to comply with these requirements.

We are also subject to U.S. federal and state laws, regulations, and administrative practices that require us to collect information from our customers, vendors, merchants, and other third parties for tax reporting purposes and report such information to various government agencies. The scope of such requirements continues to expand, requiring us to develop and implement new compliance systems. Failure to comply with such laws and regulations could result in significant penalties. We cannot predict the effect of current attempts to impose sales, income or other taxes on e-commerce. New or revised taxes would likely increase the cost of doing business online and decrease the attractiveness of selling products over the Internet. New taxes could also create significant increases in internal costs necessary to capture data and collect and remit taxes. Any of these events could have a material adverse effect on our business, financial condition, and results of operations.

Risks Related to Our Indebtedness

Restrictions in our revolving credit facility could adversely affect our operating flexibility.

Our revolving credit facility limits our ability to, among other things:

- incur or guarantee additional debt;
- make certain investments and acquisitions;
- incur certain liens or permit them to exist;
- enter into certain types of transactions with affiliates;
- merge or consolidate with another company; and
- transfer, sell or otherwise dispose of assets.

Our revolving credit facility also contains covenants requiring us to maintain certain financial ratios. The provisions of our revolving credit facility may affect our ability to obtain future financing and to pursue attractive business opportunities and our flexibility in planning for, and reacting to, changes in business conditions. As a result, restrictions in our revolving credit facility could adversely affect our business, financial condition, and results of operations. In addition, a failure to comply with the provisions of our revolving credit facility could result in a default or an event of default that could enable our lenders to declare the outstanding principal of that debt, together with accrued and unpaid interest, to be immediately due and payable. If the payment of outstanding amounts under our revolving credit facility is accelerated, our assets may be insufficient to repay such amounts in full, and our stockholders could experience a partial or total loss of their investment. Please see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

We do not intend to pay dividends for the foreseeable future and the terms of our revolving credit facility may also restrict our ability to pay dividends.

We currently intend to retain any future earnings to finance the operation and expansion of our business and we do not expect to declare or pay any dividends in the foreseeable future. Moreover, the terms of our revolving credit facility may restrict our ability to pay dividends, and any additional debt we may incur in the future may include similar restrictions. As a result, stockholders must rely on sales of their Class A common stock after price appreciation as the only way to realize any future gains on their investment.

Risks Related to Our Relationship with and Separation from PetSmart

Since we are no longer controlled by or affiliated with PetSmart, we may be unable to continue to benefit from that relationship, which may adversely affect our operations and have a material adverse effect on us.

As of February 12, 2021, we were no longer controlled by PetSmart, although our company and PetSmart remain controlled by affiliates of BC Partners. Our relationship with PetSmart provided us with increased scale and reach. Since we are no longer controlled by PetSmart, we may incur increased costs and higher prices to our customers, which may adversely affect our business, financial condition, and results of operations.

If affiliates of BC Partners sell a controlling interest in our company to a third party in a private transaction, you may not realize any change-of-control premium on shares of our Class A common stock and we may become subject to the control of a presently unknown third party. Substantial future sales by affiliates of BC Partners or others of our common stock, or the perception that such sales may occur, could also depress the price of our Class A common stock.

Affiliates of BC Partners that control our company have the ability, should they choose to do so, to sell some or all of their shares of our common stock in a privately negotiated transaction or otherwise, which, if sufficient in size, could result in a change of control of our company. The ability of affiliates of BC Partners to sell their shares of our common stock, with no requirement for a concurrent offer to be made to acquire all of the shares of our Class A common stock that will be publicly traded hereafter, could prevent you from realizing any change-of-control premium on your shares of our Class A common stock that may otherwise accrue to affiliates of BC Partners on their sale of our common stock. Additionally, if affiliates of BC Partners sell their significant equity interest in our company, or if secured parties foreclose on any or all of the shares of Class B common stock beneficially owned by affiliates of BC Partners pursuant to the pledges that secure certain debt, including certain of PetSmart's credit facilities and indentures, we may become subject to the control of a presently unknown third party. Such third party may have conflicts of interest with those of other stockholders. In addition, if affiliates of BC Partners sell a controlling interest in our company to a third party, any outstanding indebtedness may be subject to acceleration and our commercial agreements and relationships could be impacted, all of which may adversely affect our ability to run our business as described herein and may have a material adverse effect on our results of operations and financial condition.

We have also granted certain registration rights to certain holders of our Class B common stock, including certain affiliates of BC Partners, pursuant to which they have the right to demand that we register Class A common stock beneficially owned by them under the Securities Act as well as the right to demand that we include any such shares in any registration statement that we file with the SEC, subject to certain exceptions.

We are unable to predict with certainty whether or when such holders of our Class B common stock will exercise its registration rights and/or sell a substantial number of shares of our common stock. The sale by affiliates of BC Partners of a substantial number of shares, or a perception that such sales could occur, could also significantly reduce the market price of our Class A common stock.

Conflicts of interest may arise because some of our directors own stock or other equity interests in PetSmart and hold management or board positions with PetSmart.

Some of our directors directly or indirectly own equity interests in PetSmart. In addition, some of our directors are also directors or officers of PetSmart or its parent companies. Ownership of such equity interests by our directors and the presence of directors or officers of PetSmart or its parent companies on our board of directors could create, or appear to create, conflicts of interest with respect to matters involving both us and any one of them, or involving us and PetSmart, that could have different implications for any of these investors than they do for us. Pursuant to our amended and restated certificate of incorporation, none of our non-employee directors have a duty, to the fullest extent permitted by law, to refrain from engaging in the same or similar business activities or lines of business in which we are now engaged in or from otherwise competing with

us. In addition, pursuant to our amended and restated certificate of incorporation, we may be unable to take advantage of corporate opportunities presented to individuals who are directors of both us and our affiliates, including PetSmart. As a result, we may be precluded from pursuing certain advantageous transactions or growth initiatives.

Our inability to resolve in a manner favorable to us any potential conflicts or disputes that arise between us and PetSmart or its subsidiaries with respect to our past and ongoing relationships may adversely affect our business and prospects.

Potential conflicts or disputes may arise between PetSmart or its subsidiaries and us in a number of areas relating to our past or ongoing relationships, including:

- tax, employee benefit, indemnification and other matters arising from our relationship with PetSmart or its subsidiaries;
- business combinations involving us;
- the nature, quality and pricing of services PetSmart or its subsidiaries have agreed to provide us;
- business opportunities that may be attractive to us and PetSmart or its subsidiaries;
- intellectual property or other proprietary rights; and
- joint sales and marketing activities with PetSmart or its subsidiaries.

The resolution of any potential conflicts or disputes between us and PetSmart or its subsidiaries over these or other matters may be unfavorable for us.

Risks Related to Ownership of Our Class A Common Stock

Our stock price has been, and may continue to be, volatile and may decline regardless of our operating performance.

Prior to our initial public offering in June 2019, there had been no public market for our Class A common stock. The market price of our Class A common stock has fluctuated significantly in response to numerous factors and may continue to fluctuate for these and other reasons, many of which are beyond our control, including:

- actual or anticipated fluctuations in our revenue and results of operations;
- the financial projections we may provide to the public, any changes in these projections or our failure to meet these projections;
- failure of securities analysts to maintain coverage of our company, changes in financial estimates or ratings by any securities analysts who follow our company or our failure to meet these estimates or the expectations of investors;
- announcements by us or our competitors of significant technical innovations, acquisitions, strategic partnerships, joint ventures, results of operations or capital commitments;
- changes in operating performance and stock market valuations of other retail or technology companies generally, or those in our industry in particular;
- price and volume fluctuations in the overall stock market, including as a result of trends in the economy as a whole;
- trading volume of our Class A common stock;
- the inclusion, exclusion or removal of our Class A common stock from any indices;
- changes in our board of directors or management;
- transactions in our Class A common stock by directors, officers, affiliates and other major investors;
- lawsuits threatened or filed against us;
- changes in laws or regulations applicable to our business;
- changes in our capital structure, such as future issuances of debt or equity securities;
- short sales, hedging and other derivative transactions involving our capital stock;
- general economic conditions in the U.S.;
- other events or factors, including those resulting from war, incidents of terrorism or responses to these events; and
- the other factors described in the sections of this report titled “Risk Factors” and “Cautionary Note Regarding Forward-Looking Statements.”

The stock market has recently experienced extreme price and volume fluctuations. The market prices of securities of companies have experienced fluctuations that often have been unrelated or disproportionate to their operating results. In the past, stockholders have sometimes instituted securities class action litigation against companies following periods of volatility in the market price of their securities. Any similar litigation against us could result in substantial costs, divert management's attention and resources, and harm our business, financial condition, and results of operations.

The dual class structure of our common stock may adversely affect the trading market for our Class A common stock.

In July 2017, S&P Dow Jones and FTSE Russell announced changes to their eligibility criteria for the inclusion of shares of public companies on certain indices, including the Russell 2000, the S&P 500, the S&P MidCap 400 and the S&P SmallCap 600, to exclude companies with multiple classes of shares of common stock from being added to these indices. As a result, our dual class capital structure would make us ineligible for inclusion in any of these indices, and mutual funds, exchange-traded funds and other investment vehicles that attempt to passively track these indices will not be investing in our stock. Furthermore, we cannot assure you that other stock indices will not take a similar approach to S&P Dow Jones or FTSE Russell in the future. Exclusion from indices could make our Class A common stock less attractive to investors and, as a result, the market price of our Class A common stock could be adversely affected.

Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of our company more difficult, limit attempts by our stockholders to replace or remove our current management and limit the market price of our Class A common stock.

Provisions in our amended and restated certificate of incorporation and amended and restated bylaws may have the effect of delaying or preventing a change of control or changes in our management. Our amended and restated certificate of incorporation and amended and restated bylaws include provisions that:

- permit the board of directors to establish the number of directors and fill any vacancies and newly created directorships;
- provide that a director may be removed only for cause and only by the affirmative vote of the holders of at least 66 2/3% of the votes that all of our stockholders would be entitled to cast in an annual election of directors;
- require at least 75% of the votes that all of our stockholders would be entitled to cast in an annual election of directors in order to amend our amended and restated certificate of incorporation and amended and restated bylaws after the date on which the outstanding shares of Class B common stock represent less than 50% of the combined voting power of our Class A common stock and Class B common stock;
- eliminate the ability of our stockholders to call special meetings of stockholders after the date on which the outstanding shares of Class B common stock represent less than 50% of the combined voting power of our Class A common stock and Class B common stock;
- prohibit stockholder action by written consent, instead requiring stockholder actions to be taken at a meeting of our stockholders, when the outstanding shares of our Class B common stock represent less than 50% of the combined voting power of our Class A common stock and Class B common stock;
- permit our board of directors, without further action by our stockholders, to fix the rights, preferences, privileges and restrictions of preferred stock, the rights of which may be greater than the rights of our Class A common stock;
- restrict the forum for certain litigation against us to Delaware;
- establish advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted upon by stockholders at annual stockholder meetings; and
- provide for a staggered board.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management. As a result, these provisions may adversely affect the market price and market for our Class A common stock if they are viewed as limiting the liquidity of our stock or as discouraging takeover attempts in the future.

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware is the exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware is the exclusive forum for any derivative action or proceeding brought on our behalf; any action asserting a breach of fiduciary duty; any action asserting a claim against us arising pursuant to the Delaware General Corporation Law (the "DGCL"), our amended and restated certificate of incorporation or our amended and restated bylaws; or any action asserting a claim against us that is governed by the internal affairs doctrine. The choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and other employees. Alternatively, if a court were to find the choice of forum provision contained in our amended and restated certificate of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could materially and adversely affect our business, financial condition, and results of operations.

Affiliates of BC Partners control the direction of our business and the concentrated ownership of our common stock will prevent other stockholders from influencing significant decisions.

As of March 23, 2021, affiliates of BC Partners beneficially owned more than 50% of our outstanding shares of common stock and, together with its affiliates, exercised control over more than 95% of the voting power of our outstanding common stock. So long as BC Partners and/or its affiliates remain our controlling stockholder they will be able to control, directly or indirectly, and subject to applicable law, all matters affecting us, including:

- any determination with respect to our business direction and policies, including the appointment and removal of officers and directors;
- any determinations with respect to mergers, business combinations or disposition of assets;
- compensation and benefit programs and other human resources policy decisions;
- the payment of dividends on our common stock; and
- determinations with respect to tax matters.

Because BC Partners and its affiliates' interests may differ from ours or from those of our other stockholders, actions that BC Partners or its affiliates take with respect to us, as our controlling stockholder, may not be favorable to us or our other stockholders, including holders of our Class A common stock. In addition, even if BC Partners and/or its affiliates were to control less than a majority of the voting power of our outstanding common stock, it may be able to influence the outcome of such matters so long as it owns a significant portion of our common stock.

In addition, certain of our stockholders which are affiliated with BC Partners have granted, and in the future may grant, a security interest in shares of our common stock beneficially owned by them, to secure certain debt, including debt of PetSmart, each of which includes customary default provisions. In the event of a default under the agreements governing such debt, the secured parties may foreclose upon any and all shares of our common stock pledged to them. Future transfers by BC Partners and their affiliates of Class B common stock, which entitles each holder thereof to ten votes per share (including transfers by secured parties that foreclose on Class B common stock), will generally result in those shares converting on a one-to-one basis to Class A common stock, which entitles each holder thereof to one vote per share. As a result, such transfers will have the effect, over time, of increasing the relative voting power of holders of Class B common stock who retain their shares in the long-term, which may include our directors and their affiliates.

We are a “controlled company” within the meaning of the rules of NYSE and, as a result, qualify for, and rely on, exemptions from certain corporate governance requirements.

As of March 23, 2021, affiliates of BC Partners control a majority of the voting power of our outstanding common stock. As a result, we are considered as a “controlled company” within the meaning of the corporate governance standards of the NYSE. Under these rules, a listed company of which more than 50% of the voting power is held by an individual, group or another company is a “controlled company” and may elect not to comply with certain corporate governance requirements, including:

- the requirement that a majority of the board of directors consist of independent directors;
- the requirement that our nominating and corporate governance committee be composed entirely of independent directors with a written charter addressing the committee’s purpose and responsibilities;
- the requirement that our compensation committee be composed entirely of independent directors with a written charter addressing the committee’s purpose and responsibilities; and
- the requirement for an annual performance evaluation of our corporate governance and compensation committees.

While affiliates of BC Partners control a majority of the voting power of our outstanding common stock, we intend to rely on these exemptions and, as a result, will not have a majority of independent directors on our board of directors. Our nominating and corporate governance and compensation committees will also not consist entirely of independent directors. Accordingly, holders of our Class A common stock do not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of the NYSE.

General Risk Factors

Future litigation could have a material adverse effect on our business and results of operations.

Lawsuits and other administrative or legal proceedings that may arise in the course of our operations can involve substantial costs, including the costs associated with investigation, litigation and possible settlement, judgment, penalty or fine. In addition, lawsuits and other legal proceedings may be time consuming and may require a commitment of management and personnel resources that will be diverted from our normal business operations. Although we generally maintain insurance to mitigate certain costs, there can be no assurance that costs associated with lawsuits or other legal proceedings will not exceed the limits of insurance policies. Moreover, we may be unable to continue to maintain our existing insurance at a reasonable cost, if at all, or to secure additional coverage, which may result in costs associated with lawsuits and other legal proceedings being uninsured. Our business, financial condition, and results of operations could be adversely affected if a judgment, penalty or fine is not fully covered by insurance.

Our ability to raise capital in the future may be limited and our failure to raise capital when needed could prevent us from growing.

In the future, we could be required to raise capital through public or private financing or other arrangements. Such financing may not be available on acceptable terms, or at all, and our failure to raise capital when needed could harm our business. We may sell Class A common stock, convertible securities and other equity securities in one or more transactions at prices and in a manner as we may determine from time to time. If we sell any such securities in subsequent transactions, investors in our Class A common stock may be materially diluted. New investors in such subsequent transactions could gain rights, preferences and privileges senior to those of holders of our Class A common stock. Debt financing, if available, may involve restrictive covenants and could reduce our operational flexibility or profitability. If we cannot raise funds on acceptable terms, we may be forced to raise funds on undesirable terms, or our business may contract or we may be unable to grow our business or respond to competitive pressures, any of which could have a material adverse effect on our business, financial condition, and results of operations.

We may experience fluctuations in our tax obligations and effective tax rate, which could materially and adversely affect our results of operations.

We are subject to U.S. federal and state income taxes. Tax laws, regulations and administrative practices in various jurisdictions may be subject to significant change, with or without advance notice, due to economic, political and other conditions, and significant judgment is required in evaluating and estimating our provision and accruals for these taxes. There are many transactions that occur during the ordinary course of business for which the ultimate tax determination is uncertain. Our effective tax rates could be affected by numerous factors, such as changes in tax, accounting and other laws, regulations,

administrative practices, principles and interpretations, the mix and level of earnings in a given taxing jurisdiction or our ownership or capital structures.

Further, the U.S. federal income tax legislation enacted in Public Law No. 115-97 (the “Tax Cuts and Jobs Act”) is highly complex, subject to interpretation, and contains significant changes to U.S. tax law, including, but not limited to, a reduction in the corporate tax rate, significant additional limitations on the deductibility of interest, substantial revisions to the taxation of international operations, and limitations on the use of net operating losses generated in tax years beginning after December 31, 2017. The presentation of our financial condition and results of operations is based upon our current interpretation of the provisions contained in the Tax Cuts and Jobs Act. In the future, the Treasury Department and the U.S. Internal Revenue Service (“IRS”) are expected to release regulations and interpretive guidance relating to the legislation contained in the Tax Cuts and Jobs Act. Any significant variance of our current interpretation of such legislation from any future regulations or interpretive guidance could result in a change to the presentation of our financial condition and results of operations and could materially and adversely affect our business, financial condition, and results of operations.

If our internal control over financial reporting or our disclosure controls and procedures are not effective, we may be unable to accurately report our financial results, prevent fraud or file our periodic reports in a timely manner, which may cause investors to lose confidence in our reported financial information and may lead to a decline in our stock price.

Until our initial public offering in June 2019, we were not subject to the internal control and financial reporting requirements that are required of a publicly-traded company. Beginning with the fiscal year ended January 31, 2021, we are required to comply with the requirements of The Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”). The Sarbanes-Oxley Act requires that we maintain effective internal control over financial reporting and disclosure controls and procedures. In particular, we must perform system and process evaluation, document our controls and perform testing of our key controls over financial reporting to allow management and our independent public accounting firm to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Our testing, or the subsequent testing by our independent public accounting firm, may reveal deficiencies in our internal control over financial reporting that are deemed to be material weaknesses. If we are not able to comply with the requirements of Section 404 in a timely manner, or if we or our accounting firm identify deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, the market price of our stock would likely decline and we could be subject to lawsuits, sanctions or investigations by regulatory authorities, which would require additional financial and management resources.

The requirements of being a public company may strain our resources, divert management’s attention and affect our ability to attract and retain qualified board members.

As a public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act and any rules promulgated thereunder, as well as the rules of NYSE. The requirements of these rules and regulations increase our legal and financial compliance costs, make some activities more difficult, time-consuming or costly and increase demand on our systems and resources. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal controls for financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight are required, and, as a result, management’s attention may be diverted from other business concerns. These rules and regulations can also make it more difficult for us to attract and retain qualified independent members of our board of directors. Additionally, these rules and regulations make it more difficult and more expensive for us to obtain director and officer liability insurance. Additionally, we expect these rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance. We may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. The increased costs of compliance with public company reporting requirements and our potential failure to satisfy these requirements can have a material adverse effect on our operations, business, financial condition or results of operations.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our co-headquarters are located in Dania Beach, Florida and Boston, Massachusetts. In addition, we lease and operate fulfillment centers in 13 locations, at which we receive products from vendors, ship products to customers, and receive and process returns from customers. We also lease and operate customer service centers in four locations. The following table sets forth the location, use and size of certain of our properties as of March 23, 2021:

Use	Location	Square Footage
Florida co-headquarters	1855 Griffin Road, Dania Beach, FL 33004	113,832
Boston co-headquarters	343 Congress Street, Boston, MA 02210	69,079
Fulfillment center	600 New Commerce Boulevard, Wilkes-Barre, PA 18706	808,160
Fulfillment center	255 S. 143rd Avenue, Goodyear, AZ 85338	801,424
Fulfillment center	100 Goodman Drive, Etters, PA 17319	732,000
Fulfillment center	3280 Lightner Road, Dayton, OH 45377	690,500
Fulfillment center	255 Front Creek Road, Salisbury, NC 28146	690,500
Fulfillment center	37 Archbald Heights Road, Jessup, PA 18434	690,500
Fulfillment center	7243 Grady Niblo Road, Dallas, TX 75236	663,000
Fulfillment center	3380 N.W. 35 Avenue Road, Ocala, FL 34475	611,676
Fulfillment center	40 Dauphin Drive, Mechanicsburg, PA 17050	604,333
Fulfillment center	1974 Innovation Boulevard, Clayton, IN 46118	597,844
Fulfillment center	385 Milan Drive, McCarran, NV 89434	566,866
Fulfillment center	30901 West 191st St, Edgerton, KS 66021	436,866
Fulfillment center	11403 Bluegrass Parkway, Suite 650, Louisville, KY 40299	27,679
Customer service center	3251 Hollywood Boulevard, Hollywood, FL 33021	100,928
Customer service center	930 E. Campbell Road, Suite 200, Richardson, TX 75081	57,120
Customer service center	1950 N. Stemmons Freeway, Dallas, TX 75207	51,934
Customer service center	3621 Fern Valley Road, Louisville, KY 40219	25,274

We believe that all of our properties have been adequately maintained, are in good condition, and are generally suitable and adequate for our current needs.

Item 3. Legal Proceedings

Information concerning legal proceedings is provided in Item 8 of Part II, “Financial Statements and Supplementary Data–Note 4 – Commitments and Contingencies–Legal Matters” and is incorporated by reference herein.

Item 4. Mine Safety Disclosures

Not applicable.

Information About Our Executive Officers

The following information relates to our executive officers:

Name	Age	Position
Sumit Singh	41	Chief Executive Officer and Director
Mario Marte	45	Chief Financial Officer
Satish Mehta	56	Chief Technology Officer
Susan Helfrick	54	General Counsel and Secretary

Sumit Singh

Mr. Singh is the CEO of Chewy, Inc. and serves on Chewy's Board of Directors. He was named CEO in March 2018, following a seven-month stint in his role as Chief Operating Officer, and has served as a director since April 2019. In 2019, he led the Company through its IPO. Mr. Singh was subsequently named to the 2020 'Bloomberg 50', *Bloomberg Businessweek's* annual list of innovators, entrepreneurs, and leaders who have changed the global business landscape over the past year, and to Comparably's 'Best CEOs 2020.'

Prior to joining Chewy, Mr. Singh held senior leadership positions at Amazon, where from 2015 to 2017, he served as Worldwide Director of Amazon, Inc.'s Consumables businesses (fresh and pantry) and, from 2013 to 2015, as General Manager for Amazon, Inc.'s North American merchant fulfillment and third-party businesses. Prior to Amazon, Inc., Mr. Singh served in senior management positions at Dell Technologies, Inc. He has nearly 20 years of global leadership experience that spans e-commerce, technology, retail and logistics.

He holds a Bachelor of Technology degree from Punjab Technical University and a Master's in Engineering from the University of Texas at Austin, where, in 2019, he was inducted into the Academy of Distinguished Alumni for outstanding achievement. He also holds an MBA from the University of Chicago, Booth School of Business.

Mario Marte

Mr. Marte has served as our Chief Financial Officer since September 2018. Mr. Marte joined Chewy in April 2015 and had previously been serving as Chewy's Vice President—Finance & Treasurer. In 2017, he had significant involvement in PetSmart's acquisition of Chewy and in 2019, he played an active role in leading the Company through its IPO. From September 2011 to April 2015, Mr. Marte served as the Vice President—Financial Planning & Analysis for Hilton Worldwide Holdings, Inc. From July 2003 to September 2011, Mr. Marte worked at American Airlines, serving in various positions, including as the Division Controller—Onboard Service. Mr. Marte has served on the board of directors of Best Buy Co., Inc. (NYSE "BBY") since January 2021. Mr. Marte holds a B.S. in computer engineering from the University of South Florida, and an M.B.A. from Duke University's Fuqua School of Business.

Satish Mehta

Mr. Mehta has served as our Chief Technology Officer since June 2018. From July 2017 to June 2018, Mr. Mehta served as the Vice President—Data and Analytics Solutions for UnitedHealth Group. Prior to that, Mr. Mehta served in various capacities at Staples Inc., including serving as their Vice President, Price—Data & Analytics, Omni-Channel and Innovation Labs from January 2014 to July 2017. Mr. Mehta's experience also includes over eight years of service, from November 2005 to January 2014, at Yahoo!, in various positions including as their Senior Director, Global Data and Ad Tech. Mr. Mehta holds a B.S. in physics and math from Jawaharlal Nehru University, and an M.B.A. from California Miramar University.

Susan Helfrick

Ms. Helfrick has served as our General Counsel since December 2014 and as our Secretary since October 2015. From February 2009 to July 2014, Ms. Helfrick served as the General Counsel Americas and Executive Vice President at GfK. Ms. Helfrick has previously also served as the Assistant General Counsel and Vice President of Goldman Sachs from August 2007 to January 2009, as well as the Managing Director and Associate General Counsel of HSBC Securities from May 2005 to August 2007. Ms. Helfrick's experience also includes serving as a Director at UBS from May 2000 to May 2005, an Associate at Skadden, Arps, Slate, Meagher & Flom LLP from May 1997 to May 2000, and as a staff attorney at the Securities and Exchange Commission from May 1995 to May 1997. Ms. Helfrick holds an LL.M. from Georgetown University Law Center, an M.B.A. from Cornell Jonson Graduate School of Management, a J.D. from the Dickinson School of Law at Pennsylvania State University, and a B.A. from the University of Pittsburgh.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information for Common Stock

Our Class A common stock, par value \$0.01 per share, is listed on the New York Stock Exchange under the symbol "CHWY" and began trading on June 14, 2019. Prior to that date, there was no public trading market for our Class A common stock. There is no public trading market for our Class B common stock, par value \$0.01 per share.

Holders of Common Stock

As of the close of business on March 23, 2021, there were 73 stockholders of record of our Class A common stock and 3 stockholders of our Class B common stock. The actual number of holders of our Class A common stock is greater than the number of record holders, and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers or other nominees. The number of holders of record present here also do not include stockholders whose shares may be held in trust by other entities.

Dividend Policy

We have never declared or paid any cash dividends on our capital stock, and we do not currently intend to pay any cash dividends for the foreseeable future. We expect to retain future earnings, if any, to fund the development and growth of our business. Any future determination to pay dividends on our common stock will be made at the discretion of the Board and will depend upon, among other factors, our financial condition, operating results, current and anticipated cash needs, plans for expansion and other factors that the Board may deem relevant. In addition, the terms of our credit facilities contain restrictions on our ability to declare and pay cash dividends on our capital stock.

Use of Proceeds and Issuer Purchases of Equity Securities

Unregistered Sales of Equity Securities

There were no sales of unregistered equity securities during the thirteen weeks ended January 31, 2021.

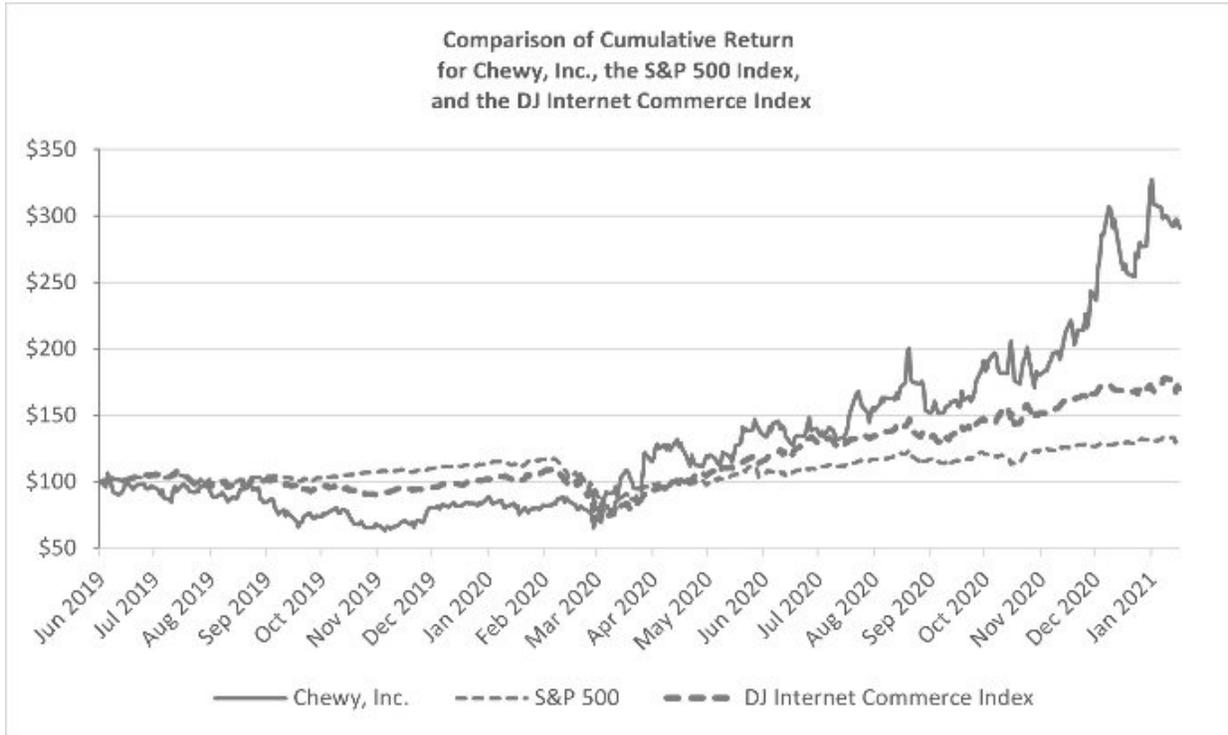
Issuer Purchases of Equity Securities

There were no repurchases of equity securities during the thirteen weeks ended January 31, 2021.

Cumulative Stock Performance Graph

The following performance graph shall not be deemed “soliciting material” or to be “filed” with the SEC for purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any filing of Chewy, Inc. under the Securities Act, or the Exchange Act.

The following graph compares the cumulative total return to stockholders of our Class A common stock relative to the cumulative total returns of the S&P 500 Index and DJ Internet Commerce Index. An investment of \$100 is assumed to have been made in our Class A common stock and in the indices on June 14, 2019, the date our Class A common stock began trading on the NYSE, and their relative performance is tracked through January 31, 2021. The comparisons are based on historical data and are not indicative of, nor intended to forecast, the future performance of our Class A common stock.



Item 6. Selected Consolidated Financial Data

The Company is not providing information with respect to this Item as it is choosing to voluntarily comply with the amendments to Item 301 of Regulation S-K.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

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

Overview

We are the largest pure-play pet e-tailer in the United States, offering virtually every product a pet needs. We launched Chewy in 2011 to bring the best of the neighborhood pet store shopping experience to a larger audience, enhanced by the depth and wide selection of products and around-the-clock convenience that only e-commerce can offer. We believe that we are the preeminent online destination for pet parents as a result of our broad selection of high-quality products, which we offer at great prices and deliver with an exceptional level of care and a personal touch. We are the trusted source for pet parents and continually develop innovative ways for our customers to engage with us. We partner with approximately 2,500 of the best and most trusted brands in the pet industry, and we create and offer our own outstanding proprietary brands. Through our website and mobile applications, we offer our customers more than 70,000 products, compelling merchandising, an easy and enjoyable shopping experience, and exceptional customer service.

COVID-19

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

As this crisis has unfolded, we have continued to monitor conditions and adapt our operations to meet federal, state and local standards. We have done so to continue meeting the needs of our rapidly growing community of pets and pet parents and to ensure the safety and well-being of our team members. We cannot predict the duration or severity of COVID-19 or its ultimate impact on the broader economy or our operations and liquidity. As such, the situation remains unpredictable and risks still remain. Please refer to the “Cautionary Note Regarding Forward-Looking Statements” in this 10-K Report and in the section titled “Risk Factors” in Item 1A of this 10-K Report.

Fiscal Year End

The Company has a 52 or 53-week fiscal year ending each year on the Sunday that is closest to January 31 of that year. The Company’s 2020 fiscal year ended January 31, 2021 and included 52 weeks (“Fiscal Year 2020”). The Company’s 2019 fiscal year ended February 2, 2020 and included 52 weeks (“Fiscal Year 2019”). The Company’s 2018 fiscal year ended February 3, 2019 and included 53 weeks (“Fiscal Year 2018”).

Key Financial and Operating Data

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

	Fiscal Year			% change	
	2020	2019	2018	2020 vs. 2019	2019 vs. 2018
<i>(in thousands, except net sales per active customer and percentages)</i>					
Financial and Operating Data					
Net sales	\$ 7,146,264	\$ 4,846,743	\$ 3,532,837	47.4 %	37.2 %
Net loss ⁽¹⁾	\$ (92,486)	\$ (252,370)	\$ (267,890)	63.4 %	5.8 %
Net margin ⁽¹⁾	(1.3)%	(5.2)%	(7.6)%		
Adjusted EBITDA ⁽²⁾	\$ 85,157	\$ (81,025)	\$ (228,905)	205.1 %	64.6 %
Adjusted EBITDA margin ⁽²⁾	1.2 %	(1.7)%	(6.5)%		
Net cash provided by (used in) operating activities	\$ 132,755	\$ 46,581	\$ (13,415)	185.0 %	n/m
Free cash flow ⁽²⁾	\$ 2,012	\$ (2,055)	\$ (57,575)	197.9 %	96.4 %
Active customers	19,206	13,459	10,585	42.7 %	27.2 %
Net sales per active customer	\$ 372	\$ 360	\$ 334	3.3 %	7.8 %
Autoshop customer sales	\$ 4,889,485	\$ 3,362,835	\$ 2,322,480	45.4 %	44.8 %
Autoshop customer sales as a percentage of net sales	68.4 %	69.4 %	65.7 %		

n/m - not meaningful

⁽¹⁾ Includes share-based compensation expense, including related taxes, of \$129.2 million, \$136.2 million, and \$14.4 million, for Fiscal Year 2020, Fiscal Year 2019, and Fiscal Year 2018, respectively.

⁽²⁾ Adjusted EBITDA, adjusted EBITDA margin and free cash flow are non-GAAP financial measures. See “Non-GAAP Financial Measures” below.

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

Non-GAAP Financial Measures

Adjusted EBITDA and Adjusted EBITDA Margin

To provide investors with additional information regarding our financial results, we have disclosed here and elsewhere in this 10-K Report adjusted EBITDA, a non-GAAP financial measure that we calculate as net loss excluding depreciation and amortization; share-based compensation expense and related taxes; income tax provision; interest income (expense), net; management fee expense; transaction 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 loss, the most directly comparable GAAP financial measure.

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

We believe it is useful to exclude non-cash charges, such as depreciation and amortization, share-based compensation expense and management fee expense from our adjusted EBITDA because the amount of such expenses in any specific period may not directly correlate to the underlying performance of our business operations. We believe it is useful to exclude income tax provision; interest income (expense), net; 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 (e.g. IPO 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 loss, net margin, and our other GAAP results.

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

(\$ in thousands, except percentages)

Reconciliation of Net Loss to Adjusted EBITDA	Fiscal Year		
	2020	2019	2018
Net loss	\$ (92,486)	\$ (252,370)	\$ (267,890)
Add (deduct):			
Depreciation and amortization	35,664	30,645	23,210
Share-based compensation expense and related taxes	129,208	136,237	14,351
Interest expense (income), net	2,022	(356)	124
Management fee expense ⁽¹⁾	1,300	1,300	1,300
Transaction related costs	2,369	1,396	—
Other	7,080	2,123	—
Adjusted EBITDA	\$ 85,157	\$ (81,025)	\$ (228,905)
Net sales	\$ 7,146,264	\$ 4,846,743	\$ 3,532,837
Net Margin	(1.3)%	(5.2)%	(7.6)%
Adjusted EBITDA margin	1.2%	(1.7)%	(6.5)%

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

Free Cash Flow

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

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

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

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

(\$ in thousands)

Reconciliation of Net Cash Provided by (Used in) Operating Activities to Free Cash Flow	Fiscal Year		
	2020	2019	2018
Net cash provided by (used in) operating activities	\$ 132,755	\$ 46,581	\$ (13,415)
Deduct:			
Capital expenditures	(130,743)	(48,636)	(44,160)
Free Cash Flow	\$ 2,012	\$ (2,055)	\$ (57,575)

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

Key Operating Metrics

Active Customers

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

Net Sales Per Active Customer

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

Autoship and Autoship Customer Sales

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

Autoship Customer Sales as a Percentage of Net Sales

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

Components of Results of Consolidated Operations

Net Sales

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

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

Cost of Goods Sold

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

Selling, General and Administrative

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

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

Advertising and Marketing

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

Presentation of Results of Consolidated Operations and Liquidity and Capital Resources

The following discussion and analysis of our Results of Consolidated Operations and Liquidity and Capital Resources includes a comparison of Fiscal Year 2020 to Fiscal Year 2019. A similar discussion and analysis which compares Fiscal Year 2019 to Fiscal Year 2018 may be found in the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our annual report filed with the Securities and Exchange Commission (the “SEC”) pursuant to Section 13 or 15(d) under the Exchange Act on April 2, 2020.

Results of Consolidated Operations

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

(\$ in thousands)	Fiscal Year							
	2020	2019	2018	% change		% of net sales		
				2020 vs. 2019	2019 vs. 2018	2020	2019	2018
Consolidated Statements of Operations								
Net sales	\$ 7,146,264	\$ 4,846,743	\$ 3,532,837	47.4 %	37.2 %	100.0 %	100.0 %	100.0 %
Costs of goods sold	5,325,457	3,702,683	2,818,032	43.8 %	31.4 %	74.5 %	76.4 %	79.8 %
Gross profit	1,820,807	1,144,060	714,805	59.2 %	60.1 %	25.5 %	23.6 %	20.2 %
Operating expenses:								
Selling, general and administrative	1,397,969	969,890	589,507	44.1 %	64.5 %	19.6 %	20.0 %	16.7 %
Advertising and marketing	513,302	426,896	393,064	20.2 %	8.6 %	7.2 %	8.8 %	11.1 %
Total operating expenses	1,911,271	1,396,786	982,571	36.8 %	42.2 %	26.7 %	28.8 %	27.8 %
Loss from operations	(90,464)	(252,726)	(267,766)	64.2 %	5.6 %	(1.3)%	(5.2)%	(7.6)%
Interest (expense) income, net	(2,022)	356	(124)	n/m	n/m	— %	— %	— %
Loss before income tax provision	(92,486)	(252,370)	(267,890)	63.4 %	5.8 %	(1.3)%	(5.2)%	(7.6)%
Income tax provision	—	—	—	— %	— %	— %	— %	— %
Net loss	\$ (92,486)	\$ (252,370)	\$ (267,890)	63.4 %	5.8 %	(1.3)%	(5.2)%	(7.6)%

n/m - not meaningful

Net Sales

(\$ in thousands)	Fiscal Year			2020 vs. 2019		2019 vs. 2018	
	2020	2019	2018 ⁽¹⁾	\$ Change	% Change	\$ Change	% Change
Consumables	\$ 4,967,673	\$ 3,596,778	\$ 2,708,156	\$ 1,370,895	38.1 %	\$ 888,622	32.8 %
Hardgoods	1,153,639	705,087	551,425	448,552	63.6 %	153,662	27.9 %
Other	1,024,952	544,878	273,256	480,074	88.1 %	271,622	99.4 %
Net sales	\$ 7,146,264	\$ 4,846,743	\$ 3,532,837	\$ 2,299,521	47.4 %	\$ 1,313,906	37.2 %

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

Net sales for Fiscal Year 2020 increased by \$2.3 billion, or 47.4%, to \$7.1 billion compared to \$4.8 billion for Fiscal Year 2019. This increase was primarily due to growth in our customer base, with the number of active customers increasing by 5.7 million, or 42.7% year-over-year. Spending among our active customers increased with net sales per active customer increasing \$12, or 3.3%, to \$372 in Fiscal Year 2020 compared to Fiscal Year 2019, driven by catalog expansion and growth across all verticals.

Cost of Goods Sold and Gross Profit

Cost of goods sold for Fiscal Year 2020 increased by \$1.6 billion, or 43.8%, to \$5.3 billion compared to \$3.7 billion in Fiscal Year 2019. This increase was primarily due to a 48.9% increase in orders shipped and associated product costs, outbound freight, and shipping supply costs. The increase in cost of goods sold was lower than the increase in orders on a percentage basis, primarily as a result of realized supply chain efficiencies and change in mix of sales as hardgoods, healthcare, and proprietary brand businesses continue to grow faster than the overall business.

Gross profit for Fiscal Year 2020 increased by \$676.7 million, or 59.2%, to \$1.8 billion compared to \$1.1 billion in Fiscal Year 2019. This increase was primarily due to the year-over-year increase in net sales as described above. Gross profit as a percentage of net sales for Fiscal Year 2020 increased by approximately 190 basis points compared to Fiscal Year 2019, primarily due to margin expansion across all verticals including continued growth in our proprietary brands, hardgoods, and healthcare businesses.

Selling, General and Administrative

Selling, general and administrative expenses for Fiscal Year 2020 increased by \$428.1 million, or 44.1%, to \$1.4 billion compared to \$969.9 million in Fiscal Year 2019. This increase was primarily due to an increase of \$324.8 million in fulfillment costs largely attributable to increased investments to support overall growth of our business including the opening of new fulfillment centers in Archbald, Pennsylvania, Salisbury, North Carolina, a limited catalog fulfillment center in Kansas City, Missouri, a customer service center in Dallas, Texas, annualization of the Dayton, Ohio facility we launched during the thirteen weeks ended August 4, 2019, growth of fulfillment and customer service headcount, and temporary incentive wages and bonuses as well as incremental cleaning and sanitation costs attributable to COVID-19. Facilities expenses and other general administrative expenses increased by \$132.9 million, primarily due to expanding our corporate offices and increased headcount as a result of business growth as well as an increase in expenses incurred due to IT initiatives and operating as a public company. Partially offsetting these increases, we recognized a reduction in non-income tax based reserves of \$15.9 million and a decrease of \$13.7 million in non-cash share-based compensation expense due to the continued vesting of share-based awards.

Advertising and Marketing

Advertising and marketing expenses for Fiscal Year 2020 increased by \$86.4 million, or 20.2%, to \$513.3 million compared to \$426.9 million in Fiscal Year 2019. The increase was primarily due to an increase in advertising and marketing spend through existing channels which contributed to an increase in the number of active customers of 5.7 million.

Liquidity and Capital Resources

We finance our operations and capital expenditures primarily through cash flows generated by operations and equity offerings. Our principal sources of liquidity are expected to be our cash and cash equivalents and our revolving credit facility. Cash and cash equivalents consist primarily of cash on deposit with banks and investments in money market funds. Cash and cash equivalents totaled \$563.3 million as of January 31, 2021, an increase of \$351.3 million from February 2, 2020.

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

We have contractual obligations and other commitments that will need to be funded in the future, in addition to our working capital, capital expenditures and other strategic initiatives. Material contractual obligations generally relate to operating and real estate lease obligations.

Operating and real estate lease obligations relate to fulfillment and customer service centers, corporate offices and certain equipment under non-cancelable operating leases, which expire at various dates through 2034. Real estate obligations include legally binding minimum lease payments for operating lease arrangements which have not yet commenced. As of January 31, 2021, operating and real estate lease obligations included legally binding minimum lease payments of \$770.3 million. For additional information related to real estate and operating leases, see Note 6 – Leases, in the “Notes to Consolidated Financial Statements” included in Part II, Item 8, Financial Statements and Supplementary Data, of this 10-K Report.

Initial Public Offering

During Fiscal Year 2019, we closed our initial public offering (“IPO”), in which we issued and sold 5.6 million shares of our Class A common stock at a public offering price of \$22.00 per share, raising \$110.3 million in net proceeds after deducting underwriting discounts, commissions, and offering costs of \$6.2 million. For additional information, see Note 7 – Stockholders’ Deficit, in the “Notes to Consolidated Financial Statements” included in Part II, Item 8, Financial Statements and Supplementary Data, of this 10-K Report.

2020 Equity Offering

During Fiscal Year 2020, we issued and sold 5,865,000 shares of Class A common stock at a public offering price of \$54.40 per share, raising \$318.4 million in net proceeds after deducting offering costs of \$0.6 million. For additional information, see Note 7 – Stockholders’ Deficit, in the “Notes to Consolidated Financial Statements” included in Part II, Item 8, Financial Statements and Supplementary Data, of this 10-K Report.

Cash Flows

(\$ in thousands)	Fiscal Year		
	2020	2019	2018
Net cash provided by (used in) operating activities	\$ 132,755	\$ 46,581	\$ (13,415)
Net cash (used in) provided by investing activities	\$ (123,695)	\$ (49,861)	\$ 31,838
Net cash provided by financing activities	\$ 342,197	\$ 127,037	\$ 1,141

Operating Activities

Net cash provided by operating activities was \$132.8 million for Fiscal Year 2020, which primarily consisted of \$92.5 million of net loss, non-cash adjustments such as depreciation and amortization expense of \$35.7 million and share-based compensation expense of \$121.3 million, and a cash increase of \$56.8 million from the management of working capital. Cash increases from working capital were primarily driven by an increase in fulfillment and payroll liabilities, and partially offset by the increase in inventory purchases exceeding the increase in payables.

Net cash provided by operating activities was \$46.6 million for Fiscal Year 2019, which primarily consisted of \$252.4 million of net loss, non-cash adjustments such as depreciation and amortization expense of \$30.6 million and share-based compensation expense of \$134.9 million, and a cash increase of \$122.2 million from the management of working capital. Cash increases from working capital were primarily driven by an increase in fulfillment liabilities and the increase in payables exceeding the increase in inventory purchases.

Investing Activities

Net cash used in investing activities was \$123.7 million for Fiscal Year 2020, primarily consisting of \$130.7 million of capital expenditures related to the launch of new fulfillment centers, the expansion of corporate and customer service offices, and additional investments in IT hardware and software, partially offset by \$9.0 million of cash reimbursements, net of advances from PetSmart.

Net cash used in investing activities was \$49.9 million for Fiscal Year 2019, primarily consisting of \$48.7 million of capital expenditures related to the launch of new fulfillment centers, the expansion of corporate and customer service offices, and additional investments in IT hardware and software, and \$1.2 million of cash advances, net of reimbursements from PetSmart.

Financing activities

Net cash provided by financing activities was \$342.2 million for Fiscal Year 2020 primarily consisting of \$318.4 million of proceeds from our equity offering in September 2020, net of offering costs and \$23.2 million received pursuant to the tax sharing agreement with PetSmart.

Net cash provided by financing activities was \$127.0 million for Fiscal Year 2019, primarily consisting of \$110.3 million of proceeds from our IPO, net of underwriting discounts, commissions and offering costs and \$17.3 million received pursuant to the tax sharing agreement with PetSmart.

ABL Credit Facility

On June 18, 2019, we entered into a five-year senior secured asset-backed credit facility (the “ABL Credit Facility”) which provides for non-amortizing revolving loans in an aggregate principal amount of up to \$300 million, subject to a borrowing base comprised of, among other things, inventory and sales receivables (subject to certain reserves). The ABL Credit Facility provides the right to request incremental commitments and add incremental asset-based revolving loan facilities in an aggregate principal amount of up to \$100 million, subject to customary conditions. As of January 31, 2021, we had no outstanding borrowings under the ABL Credit Facility.

For additional information with respect to our ABL Credit Facility, see Note 5 – Debt in the Notes to Consolidated Financial Statements included in Part II, Item 8, Financial Statements and Supplementary Data, of this 10-K Report.

Critical Accounting Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of our consolidated financial statements and related disclosures requires us to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, net sales, costs and expenses and related disclosures. We believe that the estimates, assumptions and judgments involved in the accounting policies described below have the greatest potential impact on our financial statements and, therefore, we consider these to be our critical accounting policies. Accordingly, we evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ from these estimates under different assumptions and conditions. See Note 2 – Summary of Significant Accounting Policies, in the “Notes to Consolidated Financial Statements” included in Part II, Item 8, Financial Statements and Supplementary Data, of this 10-K Report for a description of our significant accounting policies as well as a description of recently adopted accounting pronouncements and recently issued accounting pronouncements not yet adopted as of the date of this 10-K Report.

Share-Based Compensation

We measure the cost of employee services received in exchange for a grant of a share-based award using the grant-date fair value of the award. For grants of restricted stock units subject to service-based vesting conditions, the fair value is established based on the market price on the date of the grant. The fair value of restricted stock unit grants subject to market-based vesting conditions is determined on the date of grant using a Monte Carlo model to simulate total stockholder return for Chewy and peer companies. The Company accounts for forfeitures as they occur.

The Monte Carlo simulation requires the use of several variables to estimate the grant-date fair value of our share-based compensation awards including our stock price and a number of assumptions, including volatility, performance period, risk-free interest rate and expected dividends. The risk-free interest rate utilized is based on a 5-year term-matched zero-coupon U.S. Treasury security yield at the time of grant. Expected volatility is based on historical volatility of the stock of our peer firms.

Income Taxes

Estimates of deferred income taxes reflect management’s assessment of actual future taxes to be paid on items reflected in the consolidated financial statements, giving consideration to both timing and the probability of realization. Actual income taxes could vary from these estimates due to future changes in income tax law, state income tax apportionment or the outcome of any review of our tax returns by the IRS, as well as actual operating results that may vary significantly from anticipated results. For additional information on deferred tax assets and liabilities, see Item 8 of Part II, “Financial Statements and Supplementary Data”, Note 9 – Income Taxes.

We also recognize liabilities for uncertain tax positions based on the two-step process prescribed by the accounting guidance for uncertainty in income taxes. We determine whether it is more likely than not that a tax position will be sustained upon examination. The tax benefit of any tax position that meets the more likely than not recognition threshold is calculated as the largest amount that is more than 50% likely of being realized upon resolution of the contingency. This measurement step is inherently difficult and requires subjective estimations of such amounts to determine the probability of various possible outcomes. We consider many factors when evaluating and estimating our tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes.

Recent Accounting Pronouncements

Information regarding recent accounting pronouncements is included in Item 8 of Part II, “Financial Statements and Supplementary Data”, Note 2 in the “Notes to Consolidated Financial Statements” of this 10-K Report.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We have operations only within the U.S. and therefore do not have foreign currency exposure. We are exposed to market risks in the ordinary course of our business, including the effects of interest rate changes. Information relating to quantitative and qualitative disclosures about these market risks is set forth below.

Interest Rate Risk

Our cash equivalents consist primarily of demand and money market accounts and have an original maturity date of 90 days or less. The fair value of our cash and cash equivalents would not be significantly affected by either an increase or decrease in interest rates due mainly to the short term nature of these instruments. Any future borrowings incurred under our revolving credit facility will accrue interest at a floating rate based on a formula tied to certain market rates at the time of incurrence. A 10% increase or decrease in interest rates would not have a material effect on our interest income or expense.

Item 8. Financial Statements and Supplementary Data

**CHEWY, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

Report of Independent Registered Public Accounting Firm	48
Consolidated Balance Sheets	50
Consolidated Statements of Operations	51
Consolidated Statements of Stockholders' Deficit	52
Consolidated Statements of Cash Flows	53
Notes to Consolidated Financial Statements	54

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Chewy, Inc.:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Chewy, Inc. and subsidiaries (the “Company”) as of January 31, 2021, and February 2, 2020, the related consolidated statements of operations, and stockholders’ deficit, and cash flows, for each of the years ended January 31, 2021, February 2, 2020, and February 3, 2019, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of January 31, 2021, and February 2, 2020, and the results of its operations and its cash flows for the years ended January 31, 2021, February 2, 2020, and February 3, 2019, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of January 31, 2021, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 30, 2021, expressed an unqualified opinion on the Company's internal control over financial reporting.

Change in Accounting Principle

The Company changed its method of accounting for leases beginning with the year ended February 2, 2020 due to the adoption of Accounting Standards Update No. 2016-02 Leases (Topic 842). Our opinion is not modified with respect to this matter.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Vendor Rebates — Refer to Note 2 to the financial statements

Critical Audit Matter Description

The Company has agreements with vendors to primarily receive either percentage or volume based rebates. Amounts received from vendors are considered a reduction of the carrying value of the Company’s inventory and, therefore, such amounts are ultimately recorded as a reduction of cost of goods sold in the consolidated statements of operations.

Given the significance of vendor rebates to the financial statements, the terms and the significant number of the individual vendor agreements, auditing vendor rebates was complex and subjective due to the extent of effort required to evaluate whether the vendor rebates were recorded in accordance with the terms of the vendor agreements and that the rebates deferred as a reduction of the carrying value of inventory were complete and accurate.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to evaluating whether the vendor rebates were recorded in accordance with the terms of the vendor agreements and the completeness and accuracy of deferred vendor rebates included the following, among others:

- We tested the effectiveness of controls over the recording of vendor rebates, including management's controls over the calculation of vendor rebates earned and the determination of the deferred vendor rebates recorded as a reduction to inventory.
- We selected a sample of vendor rebates earned during the year and, using the terms of the vendor agreement, recalculated the amount recorded as a reduction of the carrying value of inventory.
- We tested the amount of the deferred vendor rebates recorded as a reduction of cost of goods sold by developing an expectation of the amount based on the turnover of inventory in the current year and compared our expectation to the amount recorded.

/s/ Deloitte & Touche LLP
Phoenix, Arizona
March 30, 2021

We have served as the Company's auditor since 2017.

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

	As of	
	January 31, 2021	February 2, 2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 563,345	\$ 212,088
Accounts receivable	100,699	80,478
Inventories	513,304	317,808
Due from Parent, net	21,869	626
Prepaid expenses and other current assets	27,561	18,789
Total current assets	1,226,778	629,789
Property and equipment, net	210,017	118,731
Operating lease right-of-use assets	297,213	179,052
Other non-current assets	6,902	4,749
Total assets	<u>\$ 1,740,910</u>	<u>\$ 932,321</u>
Liabilities and stockholders' deficit		
Current liabilities:		
Trade accounts payable	\$ 778,365	\$ 683,049
Accrued expenses and other current liabilities	602,497	417,489
Total current liabilities	1,380,862	1,100,538
Operating lease liabilities	328,231	200,439
Other long-term liabilities	33,821	35,318
Total liabilities	1,742,914	1,336,295
Commitments and contingencies (Note 4)		
Stockholders' deficit:		
Preferred stock, \$0.01 par value per share, 5,000,000 shares authorized, no shares issued and outstanding as of January 31, 2021 and February 2, 2020	—	—
Class A common stock, \$0.01 par value per share, 1,500,000,000 shares authorized, 97,708,518 and 66,445,422 shares issued and outstanding as of January 31, 2021 and February 2, 2020, respectively	977	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 January 31, 2021 and February 2, 2020, respectively	3,173	3,349
Additional paid-in capital	1,930,804	1,436,484
Accumulated deficit	(1,936,958)	(1,844,472)
Total stockholders' deficit	(2,004)	(403,974)
Total liabilities and stockholders' deficit	<u>\$ 1,740,910</u>	<u>\$ 932,321</u>

See accompanying Notes to Consolidated Financial Statements.

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

	Fiscal Year		
	2020	2019	2018
Net sales	\$ 7,146,264	\$ 4,846,743	\$ 3,532,837
Cost of goods sold	5,325,457	3,702,683	2,818,032
Gross profit	1,820,807	1,144,060	714,805
Operating expenses:			
Selling, general and administrative	1,397,969	969,890	589,507
Advertising and marketing	513,302	426,896	393,064
Total operating expenses	1,911,271	1,396,786	982,571
Loss from operations	(90,464)	(252,726)	(267,766)
Interest (expense) income, net	(2,022)	356	(124)
Loss before income tax provision	(92,486)	(252,370)	(267,890)
Income tax provision	—	—	—
Net loss	\$ (92,486)	\$ (252,370)	\$ (267,890)
Net loss per share attributable to common Class A and Class B stockholders, basic and diluted	\$ (0.23)	\$ (0.63)	\$ (0.68)
Weighted average common shares used in computing net loss per share attributable to common Class A and Class B stockholders, basic and diluted	407,240	398,256	393,000

See accompanying Notes to Consolidated Financial Statements.

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

	Class A and Class B Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount			
Balance as of January 28, 2018	—	—	\$ 1,240,509	\$ (1,324,212)	\$ (83,703)
Share-based compensation expense	—	—	14,351	—	14,351
Contribution from Parent	—	—	1,300	—	1,300
Net loss	—	—	—	(267,890)	(267,890)
Balance as of February 3, 2019	—	—	1,256,160	(1,592,102)	(335,942)
Issuance of Class A common stock upon initial public offering, net of underwriting discounts, commissions and offering costs	5,600	56	110,293	—	110,349
Change in capital structure	393,000	3,930	(3,930)	—	—
Distribution to Parent	83	1	(1)	—	—
Share-based compensation expense	—	—	134,926	—	134,926
Vesting of share-based compensation awards	2,685	27	(251)	—	(224)
Contribution from Parent	—	—	1,300	—	1,300
Tax sharing agreement with Parent	—	—	17,497	—	17,497
Termination of loan from Parent	—	—	(79,510)	—	(79,510)
Net loss	—	—	—	(252,370)	(252,370)
Balance as of February 2, 2020	401,368	4,014	1,436,484	(1,844,472)	(403,974)
Issuance of Class A common stock, net of offering costs	5,865	59	318,329	—	318,388
Share-based compensation expense	—	—	121,265	—	121,265
Vesting of share-based compensation awards	7,533	74	(74)	—	—
Distribution to Parent	280	3	(3)	—	—
Contribution from Parent	—	—	1,300	—	1,300
Tax sharing agreement with Parent	—	—	53,503	—	53,503
Net loss	—	—	—	(92,486)	(92,486)
Balance as of January 31, 2021	415,046	4,150	\$ 1,930,804	\$ (1,936,958)	\$ (2,004)

See accompanying Notes to Consolidated Financial Statements.

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

	Fiscal Year		
	2020	2019	2018
Cash flows from operating activities			
Net loss	\$ (92,486)	\$ (252,370)	\$ (267,890)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	35,664	30,645	23,210
Share-based compensation expense	121,265	134,926	14,351
Non-cash lease expense	25,996	18,208	—
Amortization of deferred rent	—	—	9,872
Other	306	2,511	670
Net change in operating assets and liabilities:			
Accounts receivable	(20,221)	(31,740)	(12,208)
Inventories	(195,496)	(96,953)	(54,851)
Prepaid expenses and other current assets	(9,661)	(10,134)	(5,530)
Other non-current assets	(442)	(2,125)	797
Trade accounts payable	95,316	180,169	167,453
Accrued expenses and other current liabilities	186,895	80,824	102,041
Operating lease liabilities	(12,884)	(10,304)	—
Other long-term liabilities	(1,497)	2,924	8,670
Net cash provided by (used in) operating activities	132,755	46,581	(13,415)
Cash flows from investing activities			
Capital expenditures	(130,743)	(48,636)	(44,160)
Cash reimbursements from Parent, net of advances	9,048	(1,225)	75,998
Other	(2,000)	—	—
Net cash (used in) provided by investing activities	(123,695)	(49,861)	31,838
Cash flows from financing activities			
Proceeds from issuance of common stock, net of offering costs	318,388	—	—
Proceeds from initial public offering, net of underwriting discounts, commissions and offering costs	—	110,349	—
Proceeds from tax sharing agreement with Parent	23,212	17,300	—
Contribution from Parent	1,300	1,300	1,300
Payment of debt issuance costs	—	(1,459)	—
Principal repayments of finance lease obligations	(703)	(229)	(159)
Other	—	(224)	—
Net cash provided by financing activities	342,197	127,037	1,141
Net increase in cash and cash equivalents	351,257	123,757	19,564
Cash and cash equivalents, as of beginning of period	212,088	88,331	68,767
Cash and cash equivalents, as of end of period	\$ 563,345	\$ 212,088	\$ 88,331
Supplemental disclosure of cash flow information			
Cash paid for interest	\$ 1,896	\$ 375	\$ 34

See accompanying Notes to Consolidated Financial Statements.

CHEWY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Description of Business

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

During the fiscal year ended January 31, 2021, the Company was controlled by PetSmart, Inc. (“PetSmart” or the “Parent”), PetSmart is wholly-owned by a consortium including private investment funds advised by BC Partners, La Caisse de dépôt et placement du Québec, affiliates of GIC Special Investments Pte Ltd, affiliates of StepStone Group LP and funds advised by Longview Asset Management, LLC (collectively, the “Sponsors”), and controlled by affiliates of BC Partners.

On February 12, 2021, PetSmart completed a refinancing transaction and in connection with such transaction all shares of the Company’s common stock held by PetSmart and its subsidiaries were distributed to affiliates of BC Partners. Subsequent to the distribution, PetSmart no longer directly or indirectly owns any shares of the Company’s common stock.

Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The Company’s accompanying consolidated financial statements and related notes have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) as set forth in the Financial Accounting Standards Board’s (“FASB”) accounting standards codification (“ASC”).

Fiscal Year

The Company has a 52 or 53-week fiscal year ending each year on the Sunday that is closest to January 31 of that year. The Company’s 2020 fiscal year ended January 31, 2021 and included 52 weeks (“Fiscal Year 2020”). The Company’s 2019 fiscal year ended February 2, 2020 and included 52 weeks (“Fiscal Year 2019”). The Company’s 2018 fiscal year ended February 3, 2019 and included 53 weeks (“Fiscal Year 2018”).

Principles of Consolidation

The consolidated financial statements and related notes include the accounts of Chewy, Inc. and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

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

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

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents. Cash equivalents primarily consist of institutional money market funds and are carried at cost, which approximates fair value.

Concentration of Credit Risk

The Company maintains the majority of its cash and cash equivalents in accounts with large financial institutions. At times, balances in these accounts may exceed federally insured limits; however, to date, the Company has not incurred any losses on its deposits of cash and cash equivalents.

Accounts Receivable

The Company's accounts receivable are comprised of customer and vendor receivables. The Company's net customer receivables were \$81.1 million and \$58.3 million as of January 31, 2021 and February 2, 2020, respectively, and consist of credit and debit card receivables from banks, which typically settle within five business days. The Company's vendor receivables were \$19.6 million and \$22.2 million as of January 31, 2021 and February 2, 2020, respectively. The Company does not maintain an allowance for doubtful accounts as historical losses on customer and vendor receivables have not been significant.

Inventories

The Company's inventories represent finished goods, consist of products available for sale and are accounted for using the first-in, first-out (FIFO) method and valued at the lower of cost or net realizable value.

Inventory costs consist of product and inbound shipping and handling costs. Inventory valuation requires the Company to make judgments, based on currently available information, about the likely method of disposition, such as through sales to individual customers or returns to product vendors. Inventory valuation losses are recorded as cost of goods sold and historical losses have not been significant.

Due from Parent, net

Transactions between the Company and the Parent relate to funding operations and capital contributions. Balances that are due from and due to Parent are regularly cash settled and have been included in the consolidated balance sheets on a net basis. Cash advances provided to and reimbursed by the Parent to fund Parent operations has been classified on a net basis in the consolidated statements of cash flows as investing activities. Cash received from the Parent in connection with the tax sharing agreement and cash received as capital contributions have been classified in the consolidated statements of cash flows as financing activities. For more information, see Note 11 – "Certain Relationships and Related Party Transactions".

Property and Equipment, net

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is calculated over the estimated useful lives of the related assets using the straight-line method. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the remaining lease term (including renewals that are reasonably assured) or the estimated useful lives of the improvements. For software application projects which develop new software or enhance existing licensed or internally-developed software, external costs and certain internal costs, including payroll and payroll-related costs of employees, directly associated with developing these software applications for internal use are capitalized subsequent to the preliminary stage of development. Internal-use software costs are amortized using the straight-line method over the estimated useful life of the software when the project is substantially complete and ready for its intended use.

The estimated useful lives of property and equipment are principally as follows:

Furniture, fixtures and equipment	5 to 10 years
Computer equipment and software	3 to 5 years
Leasehold improvements and finance lease assets	Shorter of the lease term or estimated useful life

Expenditures for major additions and improvements are capitalized and minor replacements, maintenance, and repairs are expensed as incurred. When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gains or losses are included in the Company's results of operations for the respective period.

Impairment of Long-Lived Assets

The Company's long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Conditions that would necessitate an impairment assessment include a significant decline in the observable market value of an asset, a significant change in the extent or manner in which an asset is used, or any other significant adverse change that would indicate that the carrying amount of an asset or group of assets may not be recoverable. For asset groups held and used, the carrying value of the asset group is considered recoverable when the estimated undiscounted future cash flows expected to be generated from the use and eventual disposition of the asset group exceed the respective carrying value. In the event that the carrying value is not considered recoverable, an impairment charge would be recognized for the asset group to be held and used equal to the excess of the carrying value above the estimated fair value of the asset group. Impairment charges are recognized within selling, general and administrative expenses in the consolidated statements of operations. The Company did not have any impairment charges for Fiscal Year 2020, Fiscal Year 2019, and Fiscal Year 2018.

Accrued Expenses and Other Current Liabilities

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

	As of	
	January 31, 2021	February 2, 2020
Outbound fulfillment	\$ 310,700	\$ 182,589
Advertising and marketing	85,835	96,836
Payroll liabilities	72,467	30,791
Accrued expenses and other	133,495	107,273
Total accrued expenses and other current liabilities	\$ 602,497	\$ 417,489

Self-Insurance Accruals

The Company uses a combination of self-insurance programs and large-deductible purchased insurance to provide for the costs of medical and workers' compensation claims. The Company periodically evaluates its level of insurance coverage and adjusts its insurance levels based on risk tolerance and premium expense. Liabilities for the risks the Company retains, including estimates of claims incurred but not reported, are not discounted and are estimated, in part, by considering historical cost experience, demographic and severity factors, and judgments about current and expected levels of cost per claim and retention levels. Additionally, claims may emerge in future years for events that occurred in a prior year at a rate that differs from previous actuarial projections. The Company believes the actuarial methods are appropriate for measuring these self-insurance accruals. However, based on the number of claims and the length of time from incurrence of the claims to ultimate settlement, the use of any estimation method is sensitive to the assumptions and factors described above. Accordingly, changes in these assumptions and factors can affect the estimated liability and those amounts may be different than the actual costs paid to settle the claims.

Defined Contribution Plans

The Company maintains a 401(k) defined contribution plan which covers all employees who meet minimum requirements and elect to participate. The Company is currently matching employee contributions, up to specified percentages of those contributions.

Revenue Recognition

Chewy recognizes revenues from product sales when the customer orders an item through Chewy's website or mobile applications via the electronic shopping cart, funds are collected from the customer and the item is shipped from one of the Company's fulfillment centers and delivered to the carrier. Certain products are shipped directly from manufacturers to Chewy customers. For all of the preceding, the Company is considered to be a principal to these transactions and revenue is recognized on a gross basis as the Company is (i) the primary entity responsible for fulfilling the promise to provide the specified products in the arrangement with the customer and provides the primary customer service for all products sold on Chewy's website or mobile applications, (ii) has inventory risk before the products have been transferred to a customer and maintains inventory risk upon accepting returns, and (iii) has discretion in establishing the price for the specified products sold on Chewy's website or mobile applications.

Chewy generates net sales from sales of pet food, pet products, pet medications and other pet health products, and related shipping fees. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring products. To encourage customers to purchase its products, the Company periodically provides incentive offers. Generally, these promotions include current discount offers, such as percentage discounts off current purchases and other similar offers. These offers, when accepted by customers, are treated as a reduction to the transaction price. Revenue typically consists of the consideration received from the customer when the order is executed less a refund allowance, which is estimated using historical experience.

Taxes collected from customers for remittance to governmental authorities are excluded from net sales.

Cost of Goods Sold

Cost of goods sold includes the purchase price of inventory sold, freight costs associated with inventory, shipping supply costs, inventory shrinkage costs and valuation adjustments and reductions for promotions and discounts offered by the Company's vendors.

Vendor Rebates

The Company has agreements with vendors to receive either percentage or volume rebates. Additionally, certain vendors provide funding for discounts relating to the Autoship subscription program which are passed on to the Company's customers. The Company primarily receives agreed upon percentage rebates from vendors, however, certain of its vendor rebates are dependent upon reaching minimum purchase thresholds. In these instances, the Company evaluates the likelihood of reaching purchase thresholds using past experience and current year forecasts. When volume rebates can be reasonably estimated and it is probable that minimum purchase thresholds will be met, the Company records a portion of the rebate as it makes progress towards the purchase threshold. The Company also receives vendor funding in the form of advertising agreements related to general marketing activities. Amounts received from vendors are considered a reduction of the carrying value of the Company's inventory and, therefore, such amounts are ultimately recorded as a reduction of cost of goods sold in the consolidated statements of operations.

Vendor Concentration Risk

The Company purchases inventory from several hundred vendors worldwide. Sales of products from the Company's three largest vendors represented approximately 32.6%, 32.5%, and 30.1% of the Company's net sales for Fiscal Year 2020, Fiscal Year 2019, and Fiscal Year 2018, respectively.

Selling, General and Administrative

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

Fulfillment

Fulfillment costs represent those costs incurred in operating and staffing fulfillment and customer service centers, including costs attributable to buying, receiving, inspecting and warehousing inventories, picking, packaging and preparing customer orders for shipment, payment processing and related transaction costs, and responding to inquiries from customers. For Fiscal Year 2020, Fiscal Year 2019, and Fiscal Year 2018 the Company recorded fulfillment costs of \$871.0 million, \$546.2 million, and \$403.9 million, respectively, which are included within selling, general and administrative expenses in the consolidated statements of operations. Included within fulfillment costs are merchant processing fees charged by third parties that provide merchant processing services for credit cards. For Fiscal Year 2020, Fiscal Year 2019, and Fiscal Year 2018, the Company recorded merchant processing fees of \$146.0 million, \$101.0 million, and \$74.1 million, respectively, which are included within selling, general and administrative expenses in the consolidated statements of operations.

Share-Based Compensation

The Company recognizes share-based compensation expense based on the equity award's grant date fair value. For grants of restricted stock units subject to service-based vesting conditions, the fair value is established based on the market price on the date of the grant. For grants of restricted stock units subject to market-based vesting conditions, the fair value is established using the Monte Carlo simulation lattice model. The determination of the fair value of share-based awards is affected by the Company's stock price and a number of assumptions, including volatility, performance period, risk-free interest rate and expected dividends. The Company accounts for forfeitures as they occur. The grant date fair value of each restricted stock unit is amortized over the requisite service period.

Advertising and Marketing

Advertising and marketing expenses primarily consist of advertising and payroll and related expenses for personnel engaged in marketing, business development and selling activities. Advertising and marketing costs are expensed in the period that the advertising first takes place.

Leases

The Company has operating and finance lease agreements for its fulfillment and customer service centers, corporate offices, and certain equipment. The Company determines if an arrangement contains a lease at inception based on the ability to control a physically distinct asset. Operating and finance lease right-of-use assets are recorded in the consolidated balance sheets based on the initial measurement of the lease liability as adjusted to include prepaid rent and initial direct costs less any lease incentives received. Lease liabilities are measured at the commencement date based on the present value of the lease payments over the lease term. Lease payments are generally fixed but may include provisions for future rent increases based on a market index. The Company separately accounts for lease and non-lease components within lease agreements; the non-lease components primarily relate to common area maintenance for real estate leases. The Company uses its incremental borrowing rate to present value the lease liability as key inputs to determine the interest rate implicit in the lease are not shared by lessors.

Operating lease expense is recorded on a straight-line basis over the lease term. Right-of-use assets and lease liabilities for short-term leases are not recognized in the consolidated balance sheets. Payments for short-term leases are recognized in the consolidated statements of operations on a straight-line basis over the lease term.

Income and Other Taxes

Income taxes are accounted for under the asset and liability method, under which deferred tax assets and liabilities are recognized for the future tax consequences of events that have been recognized in the Company's financial statements or tax returns. The Company's calculation relies on several factors, including pre-tax earnings and losses, differences between tax laws and accounting rules, statutory tax rates, uncertain tax positions, and valuation allowances. Valuation allowances are established when, in the Company's judgment, it is more likely than not that its deferred tax assets will not be realized based on all available evidence. Management considers all available evidence, both positive and negative, including historical levels of income, expectations and risks associated with estimates of future taxable income and ongoing tax planning strategies in assessing the need for a valuation allowance.

Chewy determines whether it is more likely than not that a tax position will be sustained upon examination. If it is not more likely than not that a position will be sustained, no amount of benefit attributable to the position is recognized. The tax benefit of any tax position that meets the more likely than not recognition threshold is calculated as the largest amount that is more than 50% likely of being realized upon resolution of the contingency.

The Company collects and remits sales tax in jurisdictions in which it has a physical presence or it believes nexus exists. The Company maintains liabilities for potential exposure in states where taxability is uncertain and the Company did not collect sales tax.

Segments

Operating segments are defined as components of an entity for which separate financial information is available and that is regularly reviewed by the Chief Operating Decision Maker (“CODM”) in deciding how to allocate resources to an individual segment and in assessing performance. The Company’s CODM is its Chief Executive Officer. The Company has determined that it operates in one operating segment and one reportable segment, as the CODM reviews financial information presented on a consolidated basis for purposes of making operating decisions, allocating resources, and evaluating financial performance.

Loss Contingencies

Certain conditions may exist which may result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. The Company’s management assesses such contingent liabilities and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company, or unasserted claims that may result in such proceedings, the Company evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability is estimable, the liability would be accrued in the Company’s consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, the nature of the contingent liability, together with an estimate of the range of possible loss, if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed. Unasserted claims that are not considered probable of being asserted and those for which an unfavorable outcome is not reasonably possible have not been disclosed.

Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To increase the comparability of fair value measures, the following hierarchy prioritizes the inputs to valuation methodologies used to measure fair value:

Level 1-Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2-Valuations based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3-Valuations based on unobservable inputs reflecting the Company’s assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

The Company’s cash equivalents are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices. The carrying amounts of the Company’s cash and cash equivalents, accounts receivable, trade accounts payable, and accrued expenses and other current liabilities approximate fair value based on the short-term maturities of these instruments.

Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

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

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

Recently Issued Accounting Pronouncements

ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. In December 2019, the FASB issued this ASU to simplify the accounting for income taxes by eliminating certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period, and the recognition of deferred tax liabilities for outside basis differences. This ASU also clarifies and simplifies other aspects of the accounting for income taxes. This update is effective at the beginning of the Company's 2021 fiscal year. The adoption of this standard will not have a material impact on the Company's consolidated financial statements.

i. Property and Equipment, net

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

	As of	
	January 31, 2021	February 2, 2020
Furniture, fixtures and equipment	\$ 91,496	\$ 67,894
Computer equipment	43,347	32,259
Internal-use software	56,977	30,222
Leasehold improvements	80,641	39,447
Construction in progress	41,914	18,927
	314,375	188,749
Less: accumulated depreciation and amortization	104,358	70,018
Property and equipment, net	\$ 210,017	\$ 118,731

Internal-use software includes labor and license costs associated with software development for internal use. As of January 31, 2021 and February 2, 2020, the Company had accumulated amortization related to internal-use software of \$22.5 million and \$15.9 million, respectively.

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

For Fiscal Year 2020, Fiscal Year 2019, and Fiscal Year 2018, the Company recorded depreciation expense on property and equipment of \$28.3 million, \$22.0 million, and \$17.9 million, respectively, and amortization expense related to internal-use software costs of \$7.4 million, \$8.6 million, and \$5.3 million, respectively. The aforementioned depreciation and amortization expenses were included within selling, general and administrative expenses in the consolidated statements of operations.

i. Commitments and Contingencies

Legal Matters

Various legal claims arise from time to time in the normal course of business. In assessing loss contingencies related to legal proceedings that are pending against the Company, or unasserted claims that may result in such proceedings, the Company evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

The Company believes that it has adequately accrued for the potential impact of loss contingencies that are probable and reasonably estimable. The Company does not believe that the ultimate resolution of any matters to which it is presently a party will have a material adverse effect on the Company's results of operations, financial condition or cash flows. However, the results of these matters cannot be predicted with certainty, and an unfavorable resolution of one or more of these matters could have a material adverse effect on the Company's financial condition, results of operations or cash flows.

International Business Machines Corporation ("IBM") alleges that the Company is infringing four of its patents by operation of the Chewy.com website. On February 15, 2021, the Company filed a declaration judgment action in the United States District Court for the Southern District of New York against IBM seeking the court's declaration that the Company is not infringing the four asserted IBM patents. The Company denies the allegations of any infringement and intends to vigorously defend itself in this matter. The possible loss or range of loss associated with this matter is not estimable.

i. Debt

ABL Credit Facility

On June 18, 2019, the Company entered into a five-year senior secured asset-backed credit facility (the "ABL Credit Facility") which provides for non-amortizing revolving loans in an aggregate principal amount of up to \$300 million, subject to a borrowing base comprised of, among other things, inventory and sales receivables (subject to certain reserves). The ABL Credit Facility provides the right to request incremental commitments and add incremental asset-based revolving loan facilities in an aggregate principal amount of up to \$100 million, subject to customary conditions.

Borrowings under the ABL Credit Facility bear interest at a rate per annum equal to an applicable margin, plus, at the Company's option, either a base rate or a LIBOR rate. The applicable margin is generally determined based on the average excess liquidity during the immediately preceding fiscal quarter as a percentage of the maximum borrowing amount under the ABL Credit Facility, and is between 0.25% and 0.75% for base rate loans and between 1.25% and 1.75% for LIBOR loans. The Company is also required to pay a commitment fee of between 0.25% and 0.375% with respect to the undrawn portion of the commitments, which is generally based on average daily usage of the facility.

All obligations under the ABL Credit Facility are guaranteed on a senior secured first-lien basis by the Company's wholly-owned domestic subsidiaries, subject to certain exceptions, and secured, subject to permitted liens and other exceptions, by a perfected first-priority security interest in substantially all of the Company's and its wholly-owned domestic subsidiaries' assets.

The ABL Credit Facility contains a number of covenants that, among other things, restrict the Company's and its restricted subsidiaries' ability to:

- incur or guarantee additional debt and issue certain equity securities;
- make certain investments and acquisitions;
- make certain restricted payments and payments of certain indebtedness;
- incur certain liens or permit them to exist;
- enter into certain types of transactions with affiliates;
- merge or consolidate with another company; and
- transfer, sell or otherwise dispose of assets.

Each of these restrictions is subject to various exceptions.

In addition, the ABL Credit Facility requires the Company to maintain a minimum fixed charge coverage ratio of 1.0:1.0 if excess availability under the facility is less than the greater of 10% of the maximum borrowing amount and \$30.0 million for a certain period of time. The ABL Credit Facility also contains certain customary affirmative covenants and events of default for facilities of this type, including an event of default upon a change in control. As of January 31, 2021, the Company had no outstanding borrowings under the ABL Credit Facility.

i. **Leases**

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

The Company's finance leases as of January 31, 2021 and February 2, 2020 were not material and were included in property and equipment, on the Company's consolidated balance sheets. The table below presents the operating lease-related assets and liabilities recorded on the consolidated balance sheets (in thousands):

Leases	Balance Sheet Classification	As of	
		January 31, 2021	February 2, 2020
Assets			
Operating	Operating lease right-of-use assets	\$ 297,213	\$ 179,052
Total operating lease assets		<u>\$ 297,213</u>	<u>\$ 179,052</u>
Liabilities			
Current			
Operating	Accrued expenses and other current liabilities	\$ 19,142	\$ 15,491
Non-current			
Operating	Operating lease liabilities	328,231	200,439
Total operating lease liabilities		<u>\$ 347,373</u>	<u>\$ 215,930</u>

For Fiscal Year 2020 and Fiscal Year 2019, assets acquired in exchange for new operating lease liabilities were \$119.0 million and \$30.7 million, respectively. Lease expense primarily related to operating lease costs and were included within selling, general and administrative expenses in the consolidated statements of operations. Lease expense for Fiscal Year 2020 and Fiscal Year 2019 was \$62.2 million, and \$47.9 million, of which short-term and variable lease payments were \$12.2 million and \$9.3 million, respectively.

As of January 31, 2021, the weighted-average remaining lease term and weighted-average discount rate for operating leases was 12.3 years and 9.8%, respectively. As of February 2, 2020, the weighted-average remaining lease term and weighted-average discount rate for operating leases was 10.4 years and 11.3%, respectively.

Operating cash flows related to cash paid for operating leases were approximately \$52.9 million and \$37.9 million for Fiscal Years 2020 and 2019, respectively.

The table below presents the maturity of lease liabilities as of January 31, 2021 (in thousands):

	Operating Leases
2021	\$ 42,983
2022	51,005
2023	48,003
2024	44,135
2025	43,856
Thereafter	372,801
Total lease payments	602,783
Less: interest	255,410
Present value of lease liabilities	\$ 347,373

The table above includes all locations for which the Company had the right to control the use of the property. In addition, as of January 31, 2021, the Company had lease arrangements which had not yet commenced with total future lease payments of \$167.5 million. The lease term for these lease arrangements is approximately 17.0 years.

On August 12, 2020, the Company finalized agreements with a local government agency for certain ad valorem tax benefits provided to the Company in connection with a maximum capital investment of \$70.0 million in property, plant, and equipment purchases for a new fulfillment center over a three-year timeframe. To facilitate the incentives, the government agency will issue its Taxable Industrial Development Revenue Bonds, Series 2020 (the “Bonds”), in a maximum aggregate principal amount of \$70.0 million. In exchange for the Bonds, the Company will convey the purchased equipment to the local government agency and will lease the equipment from this agency. The Company will not pay any cash for the Bonds nor receive any cash for the conveyance of the equipment. Upon termination of the lease, including early termination, the equipment will be conveyed to the Company for a nominal fee.

Stockholders’ Deficit

Common Stock

Initial Public Offering

On June 18, 2019, the Company closed its initial public offering (“IPO”), in which it issued and sold 5,600,000 shares of its Class A common stock. The price at IPO was \$22.00 per share. The Company received net proceeds of approximately \$110.3 million from the IPO after deducting underwriting discounts and commissions of \$6.2 million and offering costs.

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

2020 Equity Offering

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

Voting Rights

Holders of the Company's Class A and Class B common stock are entitled to vote together as a single class on all matters submitted to a vote or for the consent of the stockholders of the Company, unless otherwise required by law or the Company's amended and restated certificate of incorporation. Holders of Class A common stock are entitled to one vote per share and holders of Class B common stock are entitled to ten votes per share.

Dividends

Subject to the preferences applicable to any series of preferred stock, if any, outstanding, holders of Class A and Class B common stock are entitled to share equally, on a per share basis, in dividends and other distributions of cash, property or securities of the Company.

Liquidation

Subject to the preferences applicable to any series of preferred stock, if any, outstanding, in the event of the voluntary or involuntary liquidation, dissolution, distribution of assets or winding up of the Company, all assets of the Company available for distribution to common stockholders would be divided among and paid ratably to holders of Class A and Class B common stock.

Conversion of Class B Common Stock

Voluntary Conversion

Each share of Class B common stock is convertible into one fully paid and nonassessable share of Class A common stock at the option of the holder thereof with the prior written consent of the Company.

On December 20, 2019, a wholly-owned subsidiary of PetSmart, converted 6,352,546 shares of the Company's Class B common stock into Class A common stock and sold such Class A common stock. Subsequently, on January 6, 2020, a wholly-owned subsidiary of PetSmart, converted 3,850,000 shares of the Company's Class B common stock into Class A common stock and sold such Class A common stock.

On May 8, 2020, Buddy Chester Sub LLC, a wholly-owned subsidiary of PetSmart, converted 17,584,098 shares of the Company's Class B common stock into Class A common stock. On May 11, 2020, Buddy Chester Sub LLC entered into a variable forward purchase agreement to deliver up to 17,584,098 shares of the Company's Class A common stock at the exchange date, which is expected to be May 16, 2023. The number of shares to be issued will be based on the trading price of the common stock at that time.

Automatic Conversion

All shares of Class B common stock shall automatically, without further action by any holder, be converted into an identical number of shares of fully paid and nonassessable Class A common stock (i) on the first trading day on or after the date on which the outstanding shares of Class B common stock constitute less than 7.5% of the aggregate number of shares of common stock then outstanding, or (ii) upon the occurrence of an event, specified by the affirmative vote (or written consent) of the holders of a majority of the then-outstanding shares of Class B common stock, voting as a separate class.

In addition, each share of Class B common stock will convert automatically into one share of Class A common stock (i) upon the sale or transfer of such share of Class B common stock, except for certain transfers described in the Company's amended and restated certificate of incorporation, including transfers to affiliates of the holder and another holder of Class B common stock, or (ii) if the holder is not an affiliate of any of the Sponsors.

Preferred Stock

Preferred stock may be issued from time to time by the Company for such consideration as may be fixed by the board of directors. Except as otherwise required by law, holders of any series of preferred stock shall be entitled to only such voting rights, if any, as shall expressly be granted by the Company's amended and restated certificate of incorporation.

i. Share-Based Compensation

2019 Omnibus Incentive Plan

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

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

Service and Performance-Based Awards

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

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

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

Service-Based Awards

During the fiscal year ended January 31, 2021, the Company granted restricted stock units with a service-based vesting condition ("RSUs"). The service-based vesting condition for employees will be satisfied with respect to 25% of an employee's RSUs on the one-year anniversary of the vesting commencement date and 12.5% of an employee's RSUs at the end of each six month period thereafter, subject to the employee's continued employment with the Company through the applicable vesting date. The Company records share-based compensation expense for RSUs on a straight-line basis over the requisite service period. The Company accounts for forfeitures as they occur.

Service and Performance-Based Awards Activity

The following table summarizes the activity related to the Company's PRSUs for Fiscal Year 2020 (in thousands, except for weighted average grant date fair value):

	Number of PRSUs	Weighted Average Grant Date Fair Value
Outstanding as of February 2, 2020	21,284	\$ 36.20
Granted	805	\$ 32.30
Vested	(7,823)	\$ 36.42
Forfeited	(1,255)	\$ 34.94
Unvested and outstanding as of January 31, 2021	13,011	\$ 35.95

The total fair value of PRSUs that vested during Fiscal Year 2020 and Fiscal Year 2019 was \$784.4 million and \$103.3 million, respectively. As of January 31, 2021, total unrecognized compensation expense related to unvested PRSUs was \$82.5 million and is expected to be recognized over a weighted-average expected performance period of 1.7 years.

During Fiscal Year 2020 and Fiscal Year 2019, vesting occurred for 279,925 and 82,941 PRSUs, respectively, previously granted to a director of the Company. For accounting purposes, the issuance of Class A common stock upon vesting of these PRSUs is treated as a distribution to the Parent because such director is an employee of the Parent.

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

Performance period	5 years
Weighted-average risk-free interest rate	1.8%
Weighted-average volatility	49.6%
Weighted-average dividend yield	—%

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

Service-Based Awards Activity

The following table summarizes the activity related to the Company's RSUs for Fiscal Year 2020 (in thousands, except for weighted average grant date fair value):

	Number of RSUs	Weighted Average Grant Date Fair Value
Outstanding as of February 2, 2020	—	\$ —
Granted	774	\$ 48.28
Forfeited	(61)	\$ 41.81
Unvested and outstanding as of January 31, 2021	<u>713</u>	<u>\$ 48.58</u>

As of January 31, 2021, total unrecognized compensation expense related to unvested RSUs was \$29.3 million and is expected to be recognized over a weighted-average expected performance period of 3.4 years.

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

As of January 31, 2021, there were 7.5 million additional shares of Class A common stock reserved for future issuance under the 2019 Plan.

Citrus Profits Interest Plan

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

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

Share-Based Compensation Expense

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

	Fiscal Year		
	2020	2019	2018
PRSUs	\$ 115,505	\$ 124,761	\$ —
RSUs	5,760	—	—
PIUs	—	10,165	14,351
Total share-based compensation expense	\$ 121,265	\$ 134,926	\$ 14,351

4. Income Taxes

Chewy is subject to taxation in the U.S. and various state and local jurisdictions. The Company's losses and tax attributes were previously included in PetSmart's consolidated tax return activity at the U.S. federal level and any applicable state and local level. Income taxes as presented in the Company's consolidated financial statements have been prepared based on the separate return method. As of January 31, 2021, Chewy is no longer a member of PetSmart's affiliated group for U.S. federal income tax purposes. For presentation purposes, the Company has reduced the deferred tax attributes previously utilized by PetSmart, along with the associated valuation allowances, from the financial statements in order to properly reflect the deferred tax attributes available to the Company; this had no net impact on the Company's income tax expense.

The Company did not have a current or deferred provision for income taxes for any taxing jurisdiction during Fiscal Year 2020, Fiscal Year 2019, and Fiscal Year 2018.

The Company's effective income tax rate reconciliation is as follows for the periods presented:

	Fiscal Year		
	2020	2019	2018
Federal statutory rate	21.0 %	21.0 %	21.0 %
State income taxes, net of federal tax benefit	20.6 %	4.4 %	1.5 %
Change in tax rate	1.7 %	0.6 %	— %
Share-based compensation	73.0 %	4.0 %	— %
Research and development tax credit	7.8 %	1.3 %	— %
Other	0.9 %	(3.4)%	(1.1)%
Change in valuation allowance	(125.0)%	(27.9)%	(21.4)%
Effective rate	— %	— %	— %

The temporary differences which comprise the Company's deferred taxes are as follows for the periods presented (in thousands):

	As of	
	January 31, 2021	February 2, 2020
Deferred tax assets:		
Operating lease liabilities	\$ 89,117	\$ 53,578
Inventories	3,883	7,485
Share-based compensation	31,372	29,639
Accrued expenses and reserves	22,865	10,814
Other	4,044	12,882
Net operating loss carryforwards	87,881	190,307
Total deferred tax assets	239,162	304,705
Less: valuation allowance	124,012	242,974
Deferred tax assets, net of valuation allowance	115,150	61,731
Deferred tax liabilities:		
Operating lease right-of-use assets	76,249	44,428
Depreciation	37,821	15,681
Prepays	1,080	1,622
Total deferred tax liabilities	115,150	61,731
Net deferred tax assets	\$ —	\$ —

Valuation Allowance

The valuation allowance decreased by \$119.0 million during Fiscal Year 2020. The decrease in the valuation allowance primarily relates to: (i) a decrease of \$233.8 million relating to write-offs of attributes utilized by PetSmart, (ii) an increase of \$1.5 million relating to changes to the Company's state blended rate, (iii) an increase of \$106.8 million relating to current year activity, and (iv) an increase of \$6.5 million relating to miscellaneous adjustments to the Company's deferred tax assets and liabilities.

The ultimate realization of deferred tax assets depends on the generation of future taxable income during the periods in which those temporary differences are deductible. The Company considers the scheduled reversal of deferred tax liabilities (including the effect of available carryback and carryforward periods) in making this assessment. To fully utilize the net operating loss ("NOL") and tax credits carryforwards the Company will need to generate sufficient future taxable income in each respective jurisdiction. Due to the Company's history of losses, it is more likely than not that its deferred tax assets will not be realized as of January 31, 2021. Accordingly, the Company has established a full valuation allowance on its net deferred tax assets. A valuation allowance is recorded when it is more likely than not that some portion of the deferred tax assets will not be realized. To the extent that a valuation allowance has been established and it is subsequently determined that it is more likely than not that the deferred tax assets will be recovered, the valuation allowance will be released.

The following summarizes the activity related to valuation allowances on deferred tax assets (in thousands):

	Fiscal Year		
	2020	2019	2018
Valuation allowance, as of beginning of period	\$ 242,974	\$ 172,481	\$ 115,143
Valuation allowances established	113,286	69,009	57,232
Changes to existing valuation allowances	1,528	1,484	106
Reduction of valuation allowance as a result of deconsolidation	(233,776)	—	—
Valuation allowance, as of end of period	\$ 124,012	\$ 242,974	\$ 172,481

Net Operating Loss and Tax Credit Carryforwards

As of January 31, 2021, the Company had federal and state NOL carryforwards of \$295.8 million and \$522.1 million, respectively, of which \$25.1 million expire by 2032. The remaining \$792.8 million expire after 2032, with \$226.6 million having definitive expiration dates and the remaining \$566.2 million with no expiration but can only be used to offset 80% of the Company's future taxable income. The state NOLs are presented as an apportioned amount. NOLs generated in jurisdictions that were previously filed on a combined basis with PetSmart were reduced by \$890.4 million in Fiscal Year 2020 as separate return accounting under ASC 740, *Income Taxes*, was no longer being applied. Therefore, all NOLs reported as of January 31, 2021 consist of amounts generated in previously consolidated jurisdictions post-tax deconsolidation, and in jurisdictions with separate entity filing since Chewy's nexus inception date.

As of January 31, 2021, the Company recorded a deferred tax asset of \$87.9 million, before any valuation allowance, with respect to federal and state NOL carryforwards. These deferred tax assets expire as follows (in thousands):

2021	\$	36
2025		75
2028		10
2030		444
2032		881
Thereafter		11,605
Indefinite		74,830
Total loss carryforwards	\$	87,881

The Company participates in various federal and state credit programs which provide credits against current and future tax liabilities. Credits not used in the current year are carried forward to future years.

As of January 31, 2021, the Company had the following tax credit carryforwards (in thousands):

Year of Expiration	Research and Development	Work Opportunity	Total
2022	\$ 62	\$ —	\$ 62
2023	82	—	82
2039	1,536	—	1,536
2040	2,909	339	3,248
	\$ 4,589	\$ 339	\$ 4,928

Accounting for Uncertain Tax Positions

The benefits of uncertain tax positions ("UTP") are recorded in the Company's consolidated financial statements only after establishing a more likely than not probability that the UTP will withstand challenge, if any, from tax authorities.

As of January 31, 2021 and February 2, 2020, the Company did not have any uncertain tax positions.

The Company is currently not involved in any income tax audits. During Fiscal Year 2020, the Company closed a federal income tax examination with the Internal Revenue Service ("IRS") for the period from March 17, 2016 through December 31, 2016, which represents the stub period after the Company's conversion to a corporation. The Company may be subject to examination by the IRS and various states for the year ended May 30, 2017 and thereafter.

Tax Sharing Agreement

Concurrent with the IPO in Fiscal Year 2019, the Company and PetSmart entered into a tax sharing agreement which governs the respective rights, responsibilities, and obligations of the Company and PetSmart with respect to tax matters, including taxes attributable to PetSmart, entitlement to refunds, allocation of tax attributes, preparation of tax returns, certain tax elections, control of tax contests and other tax matters regarding U.S. federal, state, and local income taxes.

During Fiscal Years 2020 and 2019, the Company collected \$23.2 million and \$17.3 million, respectively, pursuant to the tax sharing agreement, which covers the periods prior to the tax deconsolidation. Though the tax sharing agreement was effectively terminated upon tax deconsolidation, future settlements will occur upon the filing of final tax returns. As of January 31, 2021, the Company had a \$30.5 million receivable related to the tax sharing agreement which is expected to be collected during the next fiscal year.

0. Net Loss per Share

Basic and diluted net loss per share attributable to common stockholders is presented using the two class method required for participating securities. Under the two class method, net loss attributable to common stockholders is determined by allocating undistributed earnings between common stock and participating securities. Undistributed earnings for the periods presented are calculated as net loss less distributed earnings. Undistributed earnings are allocated proportionally to common Class A and Class B stockholders as both classes are entitled to share equally, on a per share basis, in dividends and other distributions.

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

For Fiscal Year 2020, Fiscal Year 2019, and Fiscal Year 2018, the Company's basic and diluted net loss per share attributable to common Class A and Class B stockholders are the same because the Company has generated a net loss to common stockholders and common stock equivalents are excluded from diluted net loss per share as they have an antidilutive impact. For Fiscal Year 2020 and Fiscal Year 2019, the computation of net loss per share attributable to common stockholders does not include 13.7 million and 21.3 million potential common shares, respectively, as the effect of their inclusion would have been antidilutive.

1. Certain Relationships and Related Party Transactions

The Company's consolidated financial statements include management fee expenses of \$1.3 million allocated to the Company by the Parent for organizational oversight and certain limited corporate functions provided by its sponsors for Fiscal Year 2020, Fiscal Year 2019, and Fiscal Year 2018. Allocated costs are included within selling, general and administrative expenses in the consolidated statements of operations.

From time to time, prior to the completion of the IPO, the Company used funding from or provided funding to the Parent, as needed, in the normal course of business. The Company and PetSmart were parties to an intercompany loan agreement pursuant to which each party made loans from time to time to the other. In connection with the signing of an underwriting agreement pursuant to which the Company received substantially all of the net proceeds from the Company's sale of shares of Class A common stock as part of the IPO, the loan agreement was terminated without cash repayment of the outstanding loan. The termination of the intercompany loan resulted in a \$79.5 million reduction of the Company's due from Parent balance during Fiscal Year 2019.

Since July 2, 2018, certain of the Company's pharmacy operations have been and continue to be conducted through a wholly-owned subsidiary of PetSmart. The Company has entered into a services agreement with PetSmart that provides for the payment of a management fee due from PetSmart with respect to this arrangement. The Company recognized \$40.1 million, \$41.1 million and \$12.9 million within net sales in the consolidated statement of operations for the services provided during Fiscal Year 2020, Fiscal Year 2019, and Fiscal Year 2018, respectively.

PetSmart Guarantees

PetSmart previously provided a guarantee of payment with respect to certain equipment and other leases that the Company entered into and served as a guarantor in respect of the Company's obligations under a credit insurance policy in favor of certain of the Company's suppliers. As of February 12, 2021, all such guarantees had been released, with the exception of guarantees pertaining to three of the Company's lease agreements.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Management’s Evaluation of Disclosure Controls and Procedures

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

As of the end of the period covered by this 10-K Report, our management, under the supervision and with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e) and 15d-15(e). Based upon this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of January 31, 2021.

Management’s Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Management conducted an assessment of the effectiveness of the Company’s internal control over financial reporting based on the criteria set forth in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Management has concluded that its internal control over financial reporting was effective as of January 31, 2021 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with U.S. GAAP. The effectiveness of our internal control over financial reporting as of January 31, 2021, has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report, which appears in Part II, Item 8 of this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting during the fiscal year ended January 31, 2021. We have not experienced any material impact to our internal controls over financial reporting despite the fact that many of our employees are working remotely due to the COVID-19 pandemic. We are continually monitoring and assessing the impact of COVID-19 on our internal controls.

Limitations on the Effectiveness of Controls

Our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives as specified above. Management does not expect, however, that our disclosure controls and procedures will prevent or detect all error and fraud. Any control system, no matter how well designed and operated, is based on certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Chewy, Inc.:

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Chewy, Inc. and subsidiaries (the “Company”) as of January 31, 2021, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 31, 2021, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended January 31, 2021, of the Company and our report dated March 30, 2021, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP
Phoenix, Arizona
March 30, 2021

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Incorporated herein by reference is the text found in this Form 10-K under the caption, “Information About Our Executive Officers”. The remaining information regarding our directors, executive officers and corporate governance is incorporated herein by reference from our Definitive Proxy Statement for the 2020 Annual Meeting of Stockholders (“2020 Proxy”) to be filed pursuant to Regulation 14A within 120 days after the close of the fiscal year ended January 31, 2021.

Item 11. Executive Compensation

Information on executive compensation is incorporated herein by reference from our 2020 Proxy, including the information under the heading “Compensation Committee Report”, to be filed pursuant to Regulation 14A within 120 days after the close of the fiscal year ended January 31, 2021.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information on security ownership of certain beneficial owners and management and related shareholder matters is incorporated herein by reference from our 2020 Proxy to be filed pursuant to Regulation 14A within 120 days after the close of the fiscal year ended January 31, 2021.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information on certain relationships and related transactions and director independence is incorporated herein by reference from our 2020 Proxy to be filed pursuant to Regulation 14A within 120 days after the close of the fiscal year ended January 31, 2021.

Item 14. Principal Accountant Fees and Services

Information on principal accounting fees and services is incorporated herein by reference from our 2020 Proxy to be filed pursuant to Regulation 14A within 120 days after the close of the fiscal year ended January 31, 2021.

PART IV

Item 15. Exhibits and Financial Statement Schedules

- a. The following documents are filed as part of this Annual Report on Form 10-K:
 - 1. **Consolidated Financial Statements** - Our consolidated financial statements are listed in the “Index to Consolidated Financial Statements and Schedule” under Part II, Item 8 of this Annual Report on Form 10-K.
 - 2. **Financial Statement Schedules** - All schedules have been omitted because the required information is included in the consolidated financial statements or the notes thereto, or because it is not required.
 - 3. **Exhibits Required by Item 601 of Regulation S-K** - The information called for by this paragraph is set forth in Item 15(b) below.
- b. The documents listed in the Exhibit Index of this Annual Report on Form 10-K are incorporated by reference or are filed with this Annual Report on Form 10-K, in each case as indicated therein (numbered in accordance with Item 601 of Regulation S-K).

Exhibit No.	Exhibit Description	Incorporation by Reference				Filed Herewith
		Form	File No.	No.	Date	
3.1	Amended and Restated Certificate of Incorporation of Chewy Inc.	8-K	001-38936	3.1	June 18, 2019	
3.2	Amended and Restated Bylaws of Chewy, Inc.	10-K	001-38936	3.2	April 2, 2020	
4.1	Description of the Registrant's securities registered pursuant to Section 12 of the Securities Exchange Act of 1934					X
10.1	Amendment No. 1 to Intercompany Services Agreement, dated February 12, 2021, by and between Chewy, Inc. and Chewy Pharmacy KY, LLC					X
10.2	Amendment No. 2 to Master Transaction Agreement, dated as of February 12, 2021, by and between Chewy, Inc. and PetSmart LLC					X
10.3	Amendment to Master Transaction Agreement, dated as of August 12, 2020, by and between Chewy, Inc. and PetSmart, Inc.	10-Q	001-38936	10.1	December 8, 2020	
10.4	Investor Rights Agreement, dated June 13, 2019, by and among Chewy, Inc. and certain holders identified therein	8-K	001-38936	10.1	June 18, 2019	
10.5	ABL Credit Agreement dated as of June 18, 2019, among Chewy Inc., Wells Fargo Bank National Association, as administrative agent, and the Lenders (as defined therein) party thereto	8-K	001-38936	10.4	June 18, 2019	
10.6	*Form of Director and Officer Indemnification Agreement	S-1/A	333-231095	10.2	June 3, 2019	
10.7	*Chewy, Inc. 2019 Omnibus Incentive Plan	S-8	333-232188	4.1	June 18, 2019	
10.8	Master Transaction Agreement, dated June 13, 2019, by and among Chewy, Inc. and PetSmart, Inc.	8-K	001-38936	10.2	June 18, 2019	
10.9	Tax Matters Agreement, dated June 13, 2019, by and among Chewy, Inc., Argos Intermediate Holdco I Inc. and PetSmart, Inc.	8-K	001-38936	10.3	June 18, 2019	
10.10	Intercompany Services Agreement, dated as of July 2, 2018, between Chewy, Inc. and Chewy Pharmacy KY, LLC	S-1	333-231095	10.6	April 29, 2019	
10.11	Master Purchase Agreement, dated as of February 7, 2019, between Chewy, Inc. and PetSmart Home Office, Inc.	S-1/A	333-231095	10.7	May 30, 2019	
10.12	*Amended and Restated Executive Employment Agreement, dated June 1, 2019, between Sumit Singh and Chewy, Inc.	S-1/A	333-231095	10.8	June 3, 2019	
10.13	Stockholders Agreement, dated as of April 17, 2019, between Chewy, Inc. and the other parties named therein	S-1/A	333-231095	10.10	May 17, 2019	
10.14	Amendment to Master Purchase Agreement, effective as of May 15, 2019, between Chewy, Inc. and PetSmart Home Office, Inc.	S-1/A	333-231095	10.11	May 30, 2019	
10.15	*Form of Restricted Stock Unit Agreement	S-1/A	333-231095	10.11	June 3, 2019	
10.16	Master Procurement Agreement, dated as of May 31, 2019, between Chewy, Inc. and The China Joint Business Arrangement between PetSmart International Holdings I LLC and PetSmart International Holdings II LLC	S-1/A	333-231095	10.12	June 3, 2019	
10.17	*Executive Employment Agreement, dated June 2, 2019, between Susan Helfrick and Chewy, Inc.	S-1/A	333-231095	10.13	June 3, 2019	
10.18	*Executive Employment Agreement, dated June 2, 2019, between Mario Marte and Chewy, Inc.	S-1/A	333-231095	10.14	June 3, 2019	
21.1	Significant Subsidiaries of Chewy, Inc.					X
23.1	Consent of Independent Registered Public Accounting Firm.					X
31.1	Certification of the Principal Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Certification of the Principal Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1	Certifications of the Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document					X
101.SCH	XBRL Taxonomy Extension Schema Document					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)					X

* Denotes management contract or compensatory plan or arrangement required to be filed as an exhibit hereto

Item 16. Form 10-K Summary

None.

DESCRIPTION OF THE REGISTRANT'S SECURITIES
REGISTERED PURSUANT TO SECTION 12 OF THE
SECURITIES EXCHANGE ACT OF 1934

DESCRIPTION OF CLASS A COMMON STOCK

Chewy, Inc. (the "Company") has one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended: the Class A common stock, par value \$0.01 per share, of the Company.

The following description of the Class A common stock does not purport to be complete and is subject to the Company's amended and restated certificate of incorporation and amended and restated bylaws and the provisions of applicable law. Copies of these documents have been filed as exhibits to the Company's Annual Report on Form 10-K, of which this Exhibit 4.1 is a part.

Authorized Capitalization

General

The Company's authorized capital stock consists of 1,900,000,000 shares, all with a par value of \$0.01 per share, of which:

- 1,500,000,000 shares are designated as Class A common stock;
- 395,000,000 shares are designated as Class B common stock; and
- 5,000,000 shares are designated as preferred stock.

The Company's board of directors is authorized, without stockholder approval except as required by the listing standards of the New York Stock Exchange ("NYSE"), to issue additional shares of the Company's capital stock.

Class A Common Stock and Class B Common Stock

Voting Rights

Holders of Class A common stock are entitled to one vote per share on any matter that is submitted to a vote of the Company's stockholders. Holders of Class B common stock are entitled to ten votes per share on any matter that is submitted to a vote of the Company's stockholders. Holders of shares of Class A common stock and Class B common stock vote together as a single class on any matter (including the election of directors) that is submitted to a vote of the Company's stockholders, unless otherwise required by law or the Company's amended and restated certificate of incorporation.

The Company's amended and restated certificate of incorporation does not provide for cumulative voting for the election of directors.

Economic Rights

Except as otherwise expressly provided in the Company's amended and restated certificate of incorporation, or as required by applicable law, all shares of Class A common stock and Class B common stock have the same rights and privileges and rank equally, share ratably and are identical in all respects for all matters, including those described below.

Dividends and Distributions. Subject to preferences that may apply to any shares of preferred stock outstanding at the time, the holders of Class A common stock and Class B common stock are entitled to share equally, identically and ratably, on a per share basis, with respect to any dividend or distribution of cash or property paid or distributed by the Company, unless different treatment of the shares of the affected class is approved by the affirmative vote of the holders of a majority of the outstanding shares of such affected class, voting separately as a class; provided,

however, that if a dividend or distribution is paid in the form of Class A common stock or Class B common stock (or rights to acquire shares of Class A common stock or Class B common stock), then the holders of the Class A common stock shall receive Class A common stock (or rights to acquire Class A common stock) and holders of Class B common stock shall receive Class B common stock (or rights to acquire Class B common stock).

Liquidation Rights. In the event of the Company's liquidation, dissolution or winding-up, the holders of Class A common stock and Class B common stock will be entitled to share equally, identically and ratably in all assets remaining after the payment of any liabilities, liquidation preferences and accrued or declared but unpaid dividends, if any, with respect to any outstanding preferred stock, unless a different treatment is approved by the affirmative vote of the holders of a majority of the outstanding shares of such affected class, voting separately as a class.

Change of Control Transactions. The holders of Class A common stock and Class B common stock are treated equally and identically with respect to shares of Class A common stock or Class B common stock owned by them, unless different treatment of the shares of each class is approved by the affirmative vote of the holders of a majority of the outstanding shares of the class treated differently, voting separately as a class, on (a) the closing of the sale, transfer or other disposition of all or substantially all of the Company's assets, (b) the consummation of a merger, reorganization, consolidation or share transfer which results in the Company's voting securities outstanding immediately before the transaction (or the voting securities issued with respect to the Company's voting securities outstanding immediately before the transaction) representing less than a majority of the combined voting power of the voting securities of the company or the surviving or acquiring entity or (c) the closing of the transfer (whether by merger, consolidation or otherwise), in one transaction or a series of related transactions, to a person or group of affiliated persons of securities of the company if, after closing, the transferee person or group would hold 50% or more of the outstanding voting power of the company (or the surviving or acquiring entity). However, consideration to be paid or received by a holder of common stock in connection with any such assets sale, merger, reorganization, consolidation or share transfer under any employment, consulting, severance or other arrangement will be disregarded for the purposes of determining whether holders of common stock are treated equally and identically.

Subdivisions and Combinations. If the Company subdivides or combines in any manner outstanding shares of Class A common stock or Class B common stock, the outstanding shares of the other class will be subdivided or combined in the same manner, unless different treatment of the shares of each class is approved by the affirmative vote of the holders of a majority of the outstanding shares of Class A common stock and by the affirmative vote of the holders of a majority of the outstanding shares of Class B common stock, each voting separately as a class.

No Preemptive or Similar Rights

The Company's Class A common stock and Class B common stock are not entitled to preemptive rights and are not subject to conversion, redemption or sinking fund provisions, except for the conversion provisions with respect to the Class B common stock described below.

Conversion

Each share of Class B common stock is convertible at any time at the option of the holder into one share of Class A common stock. In addition, each share of Class B common stock, will convert automatically into one share of Class A common stock (i) upon the sale or transfer of such share of Class B common stock, except for certain transfers described in the Company's amended and restated certificate of incorporation, including transfers to affiliates of the holder and another holder of Class B common stock, (ii) if the holder is not an affiliate of any of BC Partners, La Caisse de dépôt et placement du Québec, GIC Private Limited, Longview Asset Management LLC or StepStone Group LP and (iii) on the final conversion date, defined as the first trading day on or after the date on which the outstanding shares of Class B common stock represent less than 7.5% of the then outstanding Class A and Class B common stock. Once transferred and converted into Class A common stock, the Class B common stock may not be reissued.

Anti-Takeover Provisions

Removal of Directors

The Company's amended and restated certificate of incorporation and the Company's amended and restated bylaws provide that a director may be removed only for cause and only by the affirmative vote of the holders of at least 66 2/3% of the votes that all of the Company's stockholders would be entitled to cast in an annual election of directors. Any vacancy on the Company's board of directors, including a vacancy resulting from an enlargement of the Company's board of directors, may be filled only by vote of a majority of the Company's directors then in office. In addition, the Company's amended and restated certificate of incorporation and the Company's amended and restated bylaws provide for the Company's board of directors to be divided into three classes with staggered three-year terms. Only one class of directors are elected at each annual meeting of the Company's stockholders, with the other classes continuing for the remainder of their respective three-year terms.

The limitations on the removal of directors and filling of vacancies could make it more difficult for a third party to acquire, or discourage a third party from seeking to acquire, control of the Company.

Super-Majority Voting

The General Corporation Law of the State of Delaware ("DGCL") provides generally that the affirmative vote of a majority of the shares entitled to vote on any matter is required to amend a corporation's certificate of incorporation or bylaws, unless a corporation's certificate of incorporation or bylaws, as the case may be, requires a greater percentage. The Company's amended and restated bylaws may be amended, altered, changed or repealed by a majority vote of the Company's board of directors; provided that, in addition to any other vote otherwise required by law, after the date on which the outstanding shares of Class B common stock represent less than 50% of the combined voting power of the Company's Class A common stock and Class B common stock, the affirmative vote of at least 75% of the voting power of the Company's outstanding shares of Class A common stock and Class B common stock will be required to amend, alter, change or repeal the Company's amended and restated bylaws. Additionally, after the date on which the outstanding shares of Class B common stock represent less than 50% of the combined voting power of the Company's Class A common stock and Class B common stock, the affirmative vote of at least 75% of the voting power of the outstanding shares of Class A common stock and Class B common stock entitled to vote on the adoption, alteration, amendment or repeal of the Company's amended and restated certificate of incorporation, voting as a single class, will be required to amend or repeal or to adopt any provision inconsistent with specified provisions of the Company's amended and restated certificate of incorporation. This requirement of a supermajority vote to approve amendments to the Company's amended and restated certificate of incorporation and amended and restated bylaws could enable a minority of the Company's stockholders to exercise veto power over any such amendments.

Stockholder Action; Special Meeting of Stockholders; Advance Notice Requirements for Stockholder Proposals

The Company's amended and restated certificate of incorporation and amended and restated bylaws provide for stockholder actions at a duly called meeting of stockholders or, before the date on which the outstanding shares of Class B common stock represent less than 50% of the combined voting power of the Company's Class A common stock and Class B common stock, by written consent. The Company's amended and restated certificate of incorporation and the Company's amended and restated bylaws also provide that, except as otherwise required by law, special meetings of the Company's stockholders can only be called by the Company's chairman of the board, the Company's Chief Executive Officer or the Company's board of directors or, before the date on which the outstanding shares of Class B common stock represent less than 50% of the combined voting power of the Company's Class A common stock and Class B common stock, at the request of holders of 50% or more of the voting power of the Company's outstanding Class A common stock and Class B common stock.

In addition, the Company's amended and restated bylaws include advance notice procedures for stockholder proposals to be brought before an annual meeting of the stockholders, including the nomination of directors. Stockholders at an annual meeting may only consider the proposals specified in the notice of meeting or brought before the meeting by or at the direction of the board of directors, or by a stockholder of record on the record date for the meeting, who is entitled to vote at the meeting and who has delivered a timely written notice in proper form to the Company's secretary, of the stockholder's intention to bring such business before the meeting. These provisions could have the effect of delaying until the next stockholder meeting any stockholder actions, even if they are favored by the holders of a majority of the Company's outstanding voting securities.

Authorized But Unissued Shares

The authorized but unissued shares of the Company's common stock and preferred stock are available for future issuance without stockholder approval, subject to any limitations imposed by the listing standards of the NYSE. These additional shares may be used for a variety of corporate finance transactions, acquisitions and employee benefit plans. The existence of authorized but unissued and unreserved common stock and preferred stock could make more difficult or discourage an attempt to obtain control of the Company by means of a proxy contest, tender offer, merger or otherwise.

Delaware Anti-Takeover Statute

Section 203 of the DGCL provides that if a person acquires 15% or more of the voting stock of a Delaware corporation, such person becomes an "interested stockholder" and may not engage in certain "business combinations" with the corporation for a period of three years from the time such person acquired 15% or more of the corporation's voting stock, unless: (1) the board of directors approves the acquisition of stock or the merger transaction before the time that the person becomes an interested stockholder, (2) the interested stockholder owns at least 85% of the outstanding voting stock of the corporation at the time the merger transaction commences (excluding voting stock owned by directors who are also officers and certain employee stock plans), or (3) the merger transaction is approved by the board of directors and by the affirmative vote at a meeting, not by written consent, of stockholders of two-thirds of the holders of the outstanding voting stock which is not owned by the interested stockholder. A Delaware corporation may elect in its certificate of incorporation or bylaws not to be governed by this particular Delaware law.

Under the Company's amended and restated certificate of incorporation, the Company opted out of Section 203 of the DGCL and is therefore not subject to Section 203.

Corporate Opportunity

The Company's amended and restated certificate of incorporation provides that the Company renounces any interest or expectancy in, or in being offered an opportunity to participate in, any business opportunity that may from time to time be presented to BC Partners, La Caisse de dépôt et placement du Québec, GIC Private Limited, Longview Asset Management LLC, StepStone Group LP or certain of their respective affiliates, or any of their respective officers, directors, agents, stockholders, members, partners, affiliates and subsidiaries (other than the Company and its subsidiaries) and that may be a business opportunity for such parties, even if the opportunity is one that the Company might reasonably have pursued or had the ability or desire to pursue if granted the opportunity to do so. No such person will be liable to the Company for breach of any fiduciary or other duty, as a director or officer or otherwise, by reason of the fact that such person, acting in good faith, pursues or acquires any such business opportunity, directs any such business opportunity to another person or fails to present any such business opportunity, or information regarding any such business opportunity, to the Company unless, in the case of any such person who is the Company's director or officer, any such business opportunity is expressly offered to such director or officer solely in his or her capacity as the Company's director or officer. None of BC Partners, La Caisse de dépôt et placement du Québec, GIC Private Limited, Longview Asset Management LLC, StepStone Group LP or any of their respective affiliates or representatives has any duty to refrain from engaging directly or indirectly in the same or similar business activities or lines of business as the Company or any of the Company's subsidiaries.

Limitations on Liability and Indemnification of Officers and Directors

The Company's amended and restated certificate of incorporation limits the liability of the Company's directors to the fullest extent permitted by the DGCL, and the Company's amended and restated bylaws will provide that the Company will indemnify them to the fullest extent permitted by such law. The Company expects to enter into indemnification agreements with the Company's current directors and executive officers prior to the completion of this offering and expect to enter into a similar agreement with any new directors or executive officers.

Exclusive Jurisdiction of Certain Actions

The Company's amended and restated certificate of incorporation will require, to the fullest extent permitted by law, that derivative action or proceeding brought on the Company's behalf, actions against directors, officers, employees or stockholder for breach of fiduciary duty, any action asserting a claim against the Company or any director or officer arising pursuant to any provision of the Delaware General Corporation Law or the Company's amended and restated certificate of incorporation or bylaws or as to which the DGCL confers jurisdiction on the Court of Chancery of the State of Delaware, or any action asserting a claim against the Company or any director or officer governed by the internal affairs doctrine may be brought only in the Court of Chancery of the State of Delaware (or, if the Court of Chancery does not have jurisdiction, the federal district court for the District of Delaware). Although the Company believes this provision benefits the Company by providing increased consistency in the application of Delaware law in the types of lawsuits to which it applies, the provision may have the effect of discouraging lawsuits against the Company's directors and officers.

Transfer Agent and Registrar

The transfer agent and registrar for the Company's common stock is American Stock Transfer & Trust Company, LLC. Its address is 6201 15th Avenue, Brooklyn, NY 11219.

Stock Exchange

The Company's Class A common stock is listed on the NYSE under the symbol "CHWY."

**AMENDMENT NO. 1
TO
INTERCOMPANY SERVICES AGREEMENT**

This AMENDMENT NO. 1 to the INTERCOMPANY SERVICES AGREEMENT (this "First Amendment"), is made effective as of February 12, 2021 (the "Effective Date"), by and between Chewy Pharmacy KY, LLC, a Delaware limited liability company (the "Company"), and Chewy, Inc., a Delaware corporation (the "Service Provider"). Each party hereto may be referred to in this First Amendment as a "Party" or, collectively, the "Parties." Capitalized terms used and not defined in this First Amendment shall have the meanings set forth in the Agreement (as defined below).

WHEREAS, the Company and the Service Provider executed that certain Intercompany Services Agreement dated as of July 2, 2018 (the "Agreement"); and

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

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

1. The First Amendment will be effective as of the Effective Date.
2. Section 6.2 of the Agreement will be amended and restated as follows:

"6.2 Compliance. The Company will cooperate with Service Provider's efforts to maintain compliance with the Regulatory Requirements."
3. A new Section 10 to the Agreement shall be added as follows:

"10. Indemnification. Service Provider agrees to defend, hold harmless, and indemnify Company, its parent, PetSmart LLC, PetSmart LLC's subsidiaries and its and their respective successors, assigns, directors, officers, stockholders, members, employees, and agents (collectively, the "Company Representatives"), from and against any and all claims, actions, liabilities, damages, losses, fines, penalties, costs, and expenses, including reasonable attorneys' fees (collectively referred to as "Claims"), actually or allegedly, directly or indirectly, arising out of (i) any breach of this Agreement caused by Service Provider or a Service Provider Representative (as defined below) or (ii) the violation of any applicable law or regulation by Service Provider or a Service Provider Representative in connection with Service Provider's provision of the Services. Notwithstanding the foregoing, Service Provider shall not be liable for any special, indirect, consequential or punitive damages in connection with any Claim, except to the extent the Company is required to pay such damages pursuant to an order by a court or regulator.

Company agrees to defend, hold harmless, and indemnify Service Provider, its subsidiaries and its and their respective successors, assigns, directors, officers, stockholders, members, employees, and agents (collectively, the "Service Provider Representatives"), from and against any and all Claims, actually or allegedly, directly or indirectly, arising out of any breach of this Agreement caused by a Company Representative who is not also an officer or employee of the Service Provider. Notwithstanding the foregoing, Company shall not be liable for any special, indirect, consequential or punitive damages in connection with any Claim, except to the extent the Service Provider is required to pay such damages pursuant to an order by a court or regulator."
4. Except as specifically modified in this First Amendment, the Agreement shall remain unchanged and in full force and effect.

5. If any term contained in this First Amendment conflicts with any term contained in the Agreement or any previously executed amendment, the term contained in this First Amendment shall prevail.
6. This First Amendment may be executed in one or more counterparts, each of which shall be deemed an original and all of which shall constitute but one and the same instrument.
7. The Parties acknowledge that they have read this First Amendment and agree to be bound by its terms. The Parties further agree that the First Amendment constitutes the entire agreement between the Parties with respect to the subject matter therein.

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

CHEWY PHARMACY KY, LLC

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

CHEWY, INC.

By: /s/ Susan Helfrick
Susan Helfrick
General Counsel

**AMENDMENT NO. 2
TO
MASTER TRANSACTION AGREEMENT**

This AMENDMENT NO. 2 to the MASTER TRANSACTION AGREEMENT (this "Second Amendment"), is made effective as of February 12, 2021 (the "Effective Date"), by and between Chewy, Inc., a Delaware corporation ("Chewy"), and PetSmart LLC, a Delaware limited liability company (f/k/a PetSmart, Inc.) ("PetSmart"). Each party hereto may be referred to in this Second Amendment as a "Party" or, collectively, the "Parties." Capitalized terms used and not defined in this Second Amendment shall have the meanings set forth in the Agreement (as defined below).

WHEREAS, Chewy and PetSmart executed that certain Master Transaction Agreement dated June 13, 2019, as amended by Amendment No. 1 to the Master Transaction Agreement (the "First Amendment"), effective as of August 12, 2020 (as amended, the "Agreement"); and

WHEREAS, as of the Effective Date, Chewy will no longer be a subsidiary of PetSmart and the Parties now desire to amend the Agreement to reflect certain transition matters.

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

1. A new Section 3.7 shall be added to the Agreement and shall read as follows:

The Parties shall work in good faith to expeditiously establish independent insurance broker, and third party administrator engagements and separate lines of insurance coverage for Chewy where joint coverage remains after the Effective Date, with the exception of property, cargo, and terrorism insurance, which the Parties will cooperate to split on or around April 1, 2021. In addition, the Parties will work in good faith to finalize and enter into an assumption agreement with the Parties' current primary casualty insurer whereby Chewy will agree to directly provide collateral and assume all liability for claims/losses attributable to Chewy for all outstanding workers' compensation and auto claims attributable to Chewy as of the Effective Date and Chewy shall pay the administrative fee set forth in the agreement.

2. The following paragraph is hereby added to the end of Section 9.10:

Chewy further agrees to defend, hold harmless and indemnify the PetSmart Representatives, from and against any and all claims, demands, losses, penalties, costs and expenses against or incurred by the PetSmart Representatives arising out of or related to (i) Chewy's failure to pay insurance premiums attributable to Chewy on policies where PetSmart is a named insured or additional insured when due (including, but not limited to, premiums owed as a result of audits or increased values declared in statement of values for property insurance), (ii) liability attributable to Chewy and associated with any existing or previously existing PetSmart insurance program covering Chewy, (iii) liability attributable to Chewy under Chewy insurance programs existing prior to PetSmart's acquisition of Chewy (iv) Chewy's failure to satisfy any self-insured retention or guaranteed cost or statutory, or deductible billing program obligations associated with any claim(s) under insurance policies where PetSmart is a named insured or additional insured, (v) retrospective premiums, assessments or taxes resulting from workers' compensation or other insurance program audits attributable to Chewy's activities, (vi) collateral costs associated with the casualty insurance program and attributable to Chewy until the programs are split and Chewy completes a claims assumption agreement collateralizing existing claims with the carrier, (vii) annual true-up costs attributable to Chewy as determined by the third party claims administrator, (viii) any broker fees incurred or owed attributable to Chewy, and (ix) any calls on surety bonds or bond premiums for the benefit of Chewy.

PetSmart separately agrees to defend, hold harmless and indemnify the Chewy Representatives, from and against any and all claims, demands, losses, penalties, costs and expenses against or incurred by the Chewy Representatives arising out of or related to PetSmart's (i) failure to pay any insurance related expense attributable to it when due, including but not limited to, insurance premiums (including, but not limited to, premiums owed due to increased values declared in statement of values for property insurance) or (ii) failure to maintain any insurance policy until the time that Chewy is able to secure its own replacement policy. The Parties agree that for any policies where joint coverage remains after the Effective Date, the Parties will continue to follow their previously agreed premium allocations until such date as Chewy obtains separate coverage.

3. Annex A to the Agreement is amended and restated as set forth on Annex A hereto.
4. Annex B to the Agreement is amended and restated as set forth on Annex B hereto.
5. Except as specifically modified in this Second Amendment, the Agreement shall remain unchanged and in full force and effect.
6. If any term contained in this Second Amendment conflicts with any term contained in the Agreement or any previously executed amendment, the term contained in this Second Amendment shall prevail.
7. This Second Amendment may be executed in one or more counterparts, each of which shall be deemed an original and all of which shall constitute but one and the same instrument.
8. The Parties acknowledge that they have read this Second Amendment and agree to be bound by its terms. The Parties further agree that the Second Amendment constitutes the entire agreement between the Parties with respect to the subject matter therein.

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

CHEWY, INC.

By: /s/ Susan Helfrick
Susan Helfrick
General Counsel

PETSMART, INC.

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

ANNEX A

DESCRIPTION OF SUPPORT SERVICES

- Chewy’s use of specified facilities leased by PetSmart or its subsidiaries
 - PetSmart assistance in coordinating the administration or testing of any 401(k) or similar employee benefit plan under which the Parties are deemed to be within the same “control group”, but excluding any health and wellness plans
 - Chewy’s inclusion on specified insurance and similar policies obtained by PetSmart and claims management assistance
 - Corporate filings and other specified administrative support, including:
 - Tax filings other than Tax Returns prepared on a consolidated, combined, or unitary basis, which costs and/or expenses are allocated pursuant to Section 3.6
 - Excluding any filings with the Securities and Exchange Commission or other agencies related to Chewy being a publicly traded company
 - Other corporate or administrative support services as agreed to in writing by the Parties
-

ANNEX B

EXISTING GUARANTEES

- Guarantee by PetSmart in favor of NP Goodyear AZ Industrial, LLC, in accordance with the terms and conditions set out in the Limited Guaranty of Payment dated August 16, 2017.
- Guarantee by PetSmart in favor of NP Dayton Chewy, LLC, in accordance with the terms and conditions set out in the Limited Guaranty of Payment dated July 27, 2018.
- Guarantee by PetSmart in favor of Design Center Of The Americas, LLC in accordance with the terms and conditions set out in the Limited Guaranty of Payment dated 2017.

Significant Subsidiaries of Chewy, Inc.

None.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-232188 on Form S-8 and Registration Statement No. 333-248843 on Form S-3 of our reports dated March 30, 2021, relating to the consolidated financial statements of Chewy, Inc. and subsidiaries (the “Company”) and the effectiveness of the Company’s internal control over financial reporting appearing in this Annual Report on Form 10-K of Chewy, Inc. and subsidiaries for the year ended January 31, 2021.

/s/ Deloitte & Touche LLP

Phoenix, Arizona
March 30, 2021

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

I, Sumit Singh, certify that:

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

Date: March 30, 2021

/s/ Sumit Singh

Sumit Singh

Chief Executive Officer

(Principal Executive Officer)

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

I, Mario Marte, certify that:

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

Date: March 30, 2021

/s/ Mario Marte

Mario Marte
Chief Financial Officer
(Principal Financial Officer)

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

In connection with the Annual Report of Chewy, Inc. (the “Company”) on Form 10-K for the period ended January 31, 2021, as filed with the Securities and Exchange Commission (the “Annual Report”), we, Sumit Singh, Chief Executive Officer of the Company, and Mario Marte, Chief Financial Officer of the Company, each certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of our knowledge:

1. The Annual Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 30, 2021

/s/ Sumit Singh

Sumit Singh
Chief Executive Officer
(Principal Executive Officer)

/s/ Mario Marte

Mario Marte
Chief Financial Officer
(Principal Financial Officer)