



Chewy.com

Important disclosures can be found in Appendix

July 2023

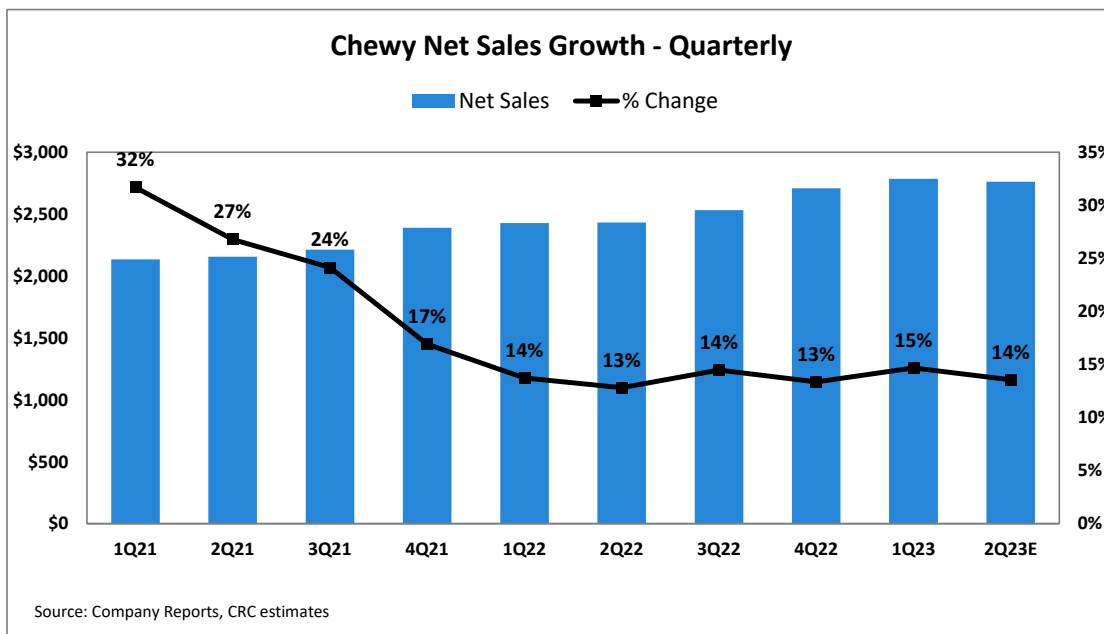
(PIC) Chewy.com – Promotional Environment Likely to Continue to Ramp; Tone on 2H23 Outlook Appears Optimistic

Bottom-line: Our research suggests sales trends are holding up well through mid-summer, and the tone on the outlook for the remainder of the year appears positive. This looks to be driven by strong underlying demand holding up as most Consumables categories lap significant price increases, strong customer retention, and promotional activity supporting sales in the current quarter and through the remainder of the year. Chewy also looks to be benefiting from certain manufacturers lapping elevated out-of-stocks around this time last year. Additionally, we continue to see robust demand for Pharmacy driven by share gains from the vet, cross selling, and incremental investment by manufacturers to promote. We see sales growth trends up 14% in 2Q, with annual growth at this time likely to come in around 12% (Chewy is expecting to grow total net sales 10-12%).

Key Data Points & Charts from Previous Round Of Research:

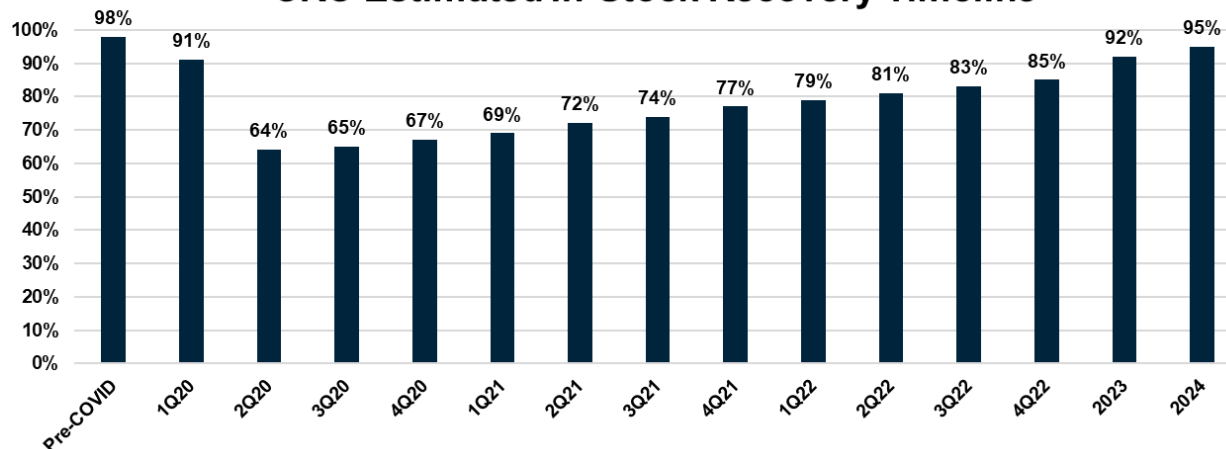
1. **Our research suggests pet consumers have continued to prioritize value in recent months which is benefiting share at Chewy, Amazon, and value retailers.**
 - a. Feedback suggests Chewy has seen strong household retention as most consumers take advantage of Autoship discounts for recurring shipments.
 - b. Feedback also points to enough of an opening price point offering that consumers can trade down to lower-ASP items while staying in the Chewy ecosystem.
 - c. It appears Chewy is open to bringing in additional, opening price point items to help connect with shoppers looking for the lowest priced items.
 - d. In addition to consumers looking to trade into smaller pack sizes at lower ASPs, our work continues to highlight strong demand across premium products that represent better ultimate value per pound.
 - e. Chewy continues to be viewed as a winner across the premium sub-segment with strong representation from the biggest pet specialty brands.
 - f. Overall, we see Walmart, dollar stores, Amazon, and Chewy as biggest net share winners in 2023. Walmart's dominant position is consistent this year vs. 2022.

2. **We are forecasting Chewy's net sales to grow ~14% in 2Q23 driven by high teens growth in Consumables categories, while hardgoods likely remain slightly negative and Pharmacy grows 20%+.**



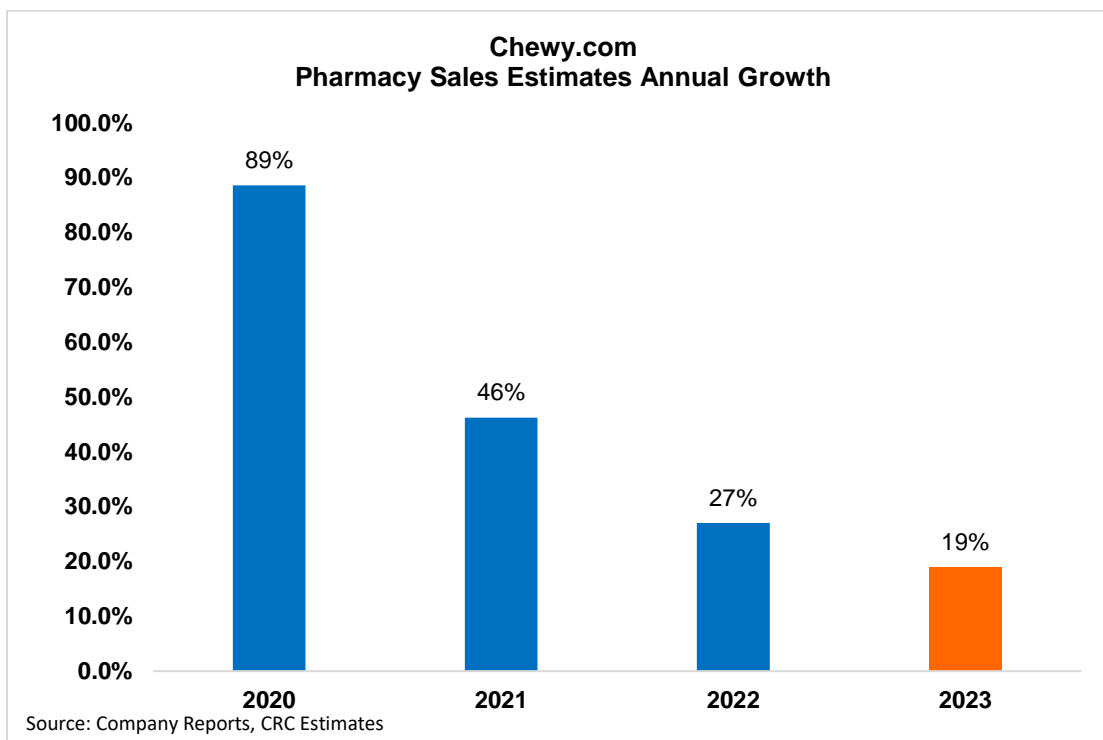
3. **Lapping inflation will likely continue to be the biggest sales headwind this year, with several Consumables categories approaching significant price increases in mid/late summer of 2022.** Our latest research suggests the gap between dollars and units has remained elevated relative to prior years, however most categories appear to be seeing enough of a recovery in units to help offset fading inflation tailwinds. While the majority of sales momentum over the past ~60 days seems to be coming from pricing, research appears confident that units will continue to recover and help offset slowing benefits. With several large brands appearing to take a wave of price increases in 1Q23, and continued opportunity to improve fill-rates, most in the channel do not expect to see deflation in the current year.
4. **Research suggests consumers have reacted positively to recent promotional events,** including several site-wide promotions aimed at driving larger baskets and driving repeat purchases by offering a gift card that can be used on a future purchase. While there has been some speculation that recent site-wide events have not driven as much incremental upside as prior events, consumers appear to remain engaged with promotional activity.
5. **Inventories appear to continue to improve.** As most food/treat manufacturers continue to work towards hitting pre-COVID in-stock levels, the gradual improvement in inventory availability seems to have been a tailwind for overall pet industry in recent months. The channel speculates that as lower priority retailers begin to see more consistent in-stock levels, this could be a slight headwind for accounts like Chewy who have been prioritized throughout the supply shortages in recent years. Our work also points to some recent fulfillment center capacity issues that could limit upside to near-term sales performance as Chewy works to alleviate labor and/or physical space challenges.

CRC Estimated In-Stock Recovery Timeline



6. **2023 sales forecasts remained consistent with our prior update, and suggests growth likely at the high end of Chewy’s 10-12% forecast for the year.** Our research points to Chewy likely to continue to gain some degree of market share and retain the majority of pet consumers who have joined the platform in recent years. There appears to be enough opening price point offerings as well as planned promotional activity in 2H that the channel believes will resonate with pet parents.
7. **Healthcare DTC feedback remains positive while Vetcove slowing Practice Hub interest.** Our work indicates Rx progress remains above manufacturer expectations which appears to be driving incremental investment in promotions/advertising on Chewy. We are hearing this is further extending share gains for Chewy from the vet clinic. Overall, manufacturers appear to be budgeting for 2023 growth around 20%. Our work suggests 2Q-to-date pharmacy sales are running closer to 25% growth and similar to strong 1Q results.

Healthcare outlook overall remains positive as share gains and manufacturer investment is expected to continue. Specifically, our work is calling out more investment likely to come over the next three quarters as parasiticide competition is expected to increase. The channel notes these investments, funded by manufacturers, are helping drive awareness and compliance for prescription medications on Chewy broadly. Additionally, the channel is noting Chewy is placing more emphasis on their DTC Rx business, reallocating some marketing funds from their vet platform, Practice Hub. We are hearing Vetcove is beginning to formally launch their home delivery platform (upgrading from Beta) which is likely driving less interest in Practice Hub due to better vet economics. Overall, the channel views this reallocation of marketing spend as wise, as ROI in DTC has remained much higher than the investment in the vet platform.



8. **Early feedback on 2024 suggests Consumables categories could continue to grow mid/high single digits, and Hardgoods are expected to rebound to some degree following two years of likely negative growth.** Most categories are not expecting to see much/any benefit from additional rounds of price increases, and anticipate 2024 growth will get back to being driven by positive unit/tonnage volume. While there may be some shift out of the extreme value retail channels, Chewy is expected to remain a top priority for most manufacturers.
9. **Our work pointed to a mixed “Blue Box” event this year.** Planning leading up to Chewy’s key promotional event of the summer appeared to be a bit disjointed this year. There appeared to be some confusion among buying teams and Chewy’s supplier network around branding and promotional dynamics. While shoppers appear to be prioritizing shopping for items during promotional windows, this year’s Blue Box/Site Wide event in June did not appear to materially exceed plans.
10. **Pureplay pet retailers seem poised to continue to outperform brick and mortar pet specialty accounts.** Our work suggests trends at PetSmart and especially Petco have underperformed Chewy and Amazon on average over the past ~60 days. With compelling price points, growing variety of assortment, convenience of ship to home, and few pet adoptions leading to fewer first-time trips to physical pet stores, feedback points to share shifts continuing to favor the digitally oriented pet retailers.

APPENDIX

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