

chewy

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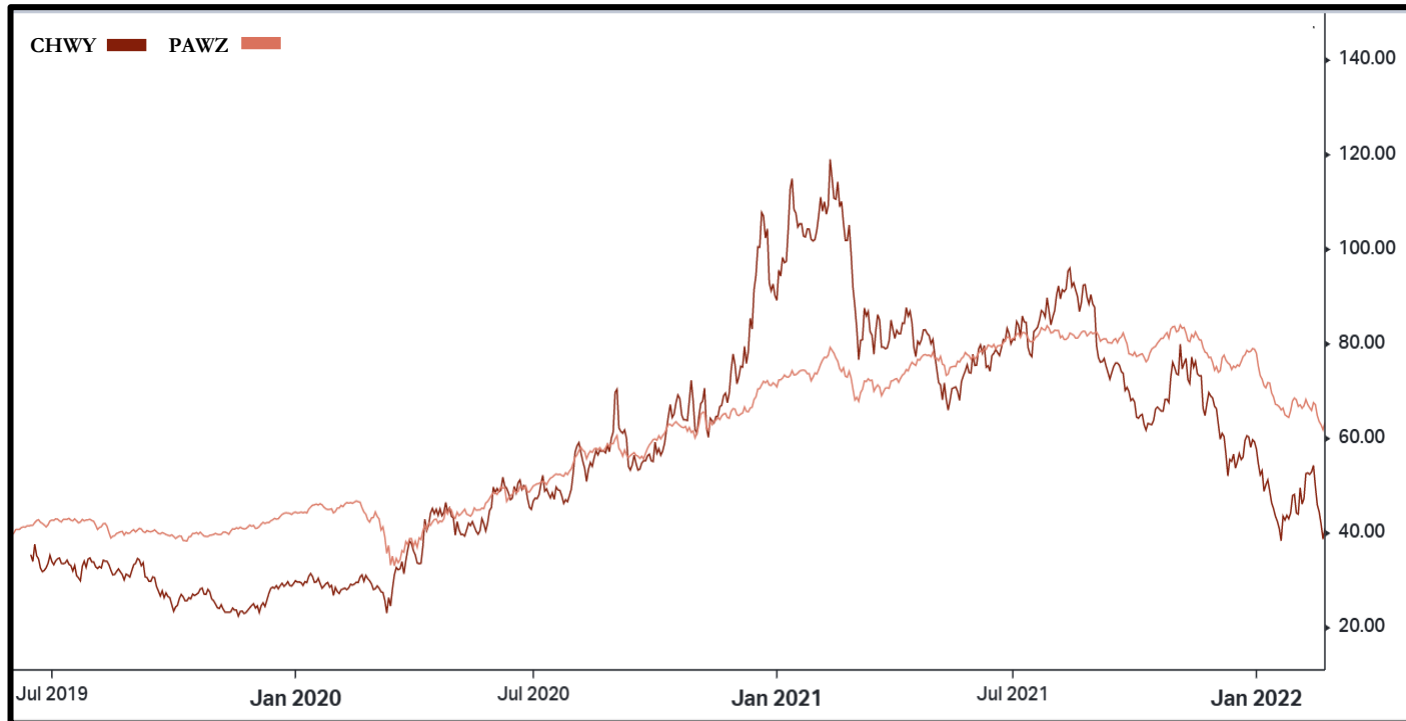
May 2023

We recommend a short position in Chewy, Inc. with a **14.01% downside** based on a **\$29.27 price target** with a timeframe of ~1 year. Our bull case has a downside of 25.91% and our bear case has an upside of 9.65%

Company Background



Chewy, Inc. is an **online retailer** with a concentration in the United States that sells pet food and treats, pet supplies, pet medication, and other pet-health items. Chewy was founded in 2011, went public in 2019, and now **offers over 110,000 products from 3,500 partner brands**. Chewy offers pet services for dogs, cats, fish, birds, small pets, horses, and reptiles.



Stock Price	\$33.93
Market Cap*	\$1,422
LTM Revenue*	\$1,010
Adjusted EBITDA*	\$139.06
Diluted EPS	\$11.81
Shares Outstanding*	426

**All numbers are represented with TTM Data and are in millions (\$) except for EPS*

Comparable Companies

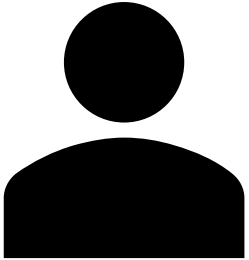


Basic Information			LTM				Valuation				Ests
Ticker	Name	Market Cap	EV	Revenue	SBC	P/E	EV/NTM Revenue	EV/NTM FCF	EV/NTM EBITDA	Net Leverage	
CHWY	Chewy Inc	\$14,635.69	\$19,349.76	\$10,098.94	\$124.92	67.09x	1.72x	80.54x	61.37x	-1.61x	
Pet Goods/Services											
<i>Basket 1: DTC Pet Goods/Services</i>											
WOOF	Petco Health & Wellness Co Inc	\$2,544.84	\$6,474.93	\$6,035.97	\$46.05	18.73x	1.03x	58.37x	12.25x	5.12x	
TRUP	Trupanion Inc	\$1,704.79	\$1,796.40	\$905.18	\$26.38	-73.42x	1.7x	29.15x	194.67x	-23.68x	
FRG	Franchise Group Inc	\$952.88	\$3,593.55	\$4,397.83	\$11.91	10.05x	.81x	18.01x	10.28x	7.35x	
PETS	PetMed Express Inc	\$331.23	\$270.65	\$260.45	\$3.59	38.34x	1.03x	-	17.02x	-13.43x	
BARK	BARK Inc	\$218.53	\$234.18	\$538.12	\$14.11	-4.62x	.44x	-3.54x	-7.7x	8.25x	
Average		\$1,150.45	\$2,473.94	\$2,427.51	\$20.41	-2.18x	1.x	25.49x	45.31x	-3.28x	
Median		\$952.88	\$1,796.40	\$905.18	\$14.11	10.05x	1.03x	23.58x	12.25x	5.12x	
<i>Basket 2: Pet Food Manufacturers</i>											
SJM	J M Smucker Co/The	\$16,249.21	\$20,597.42	\$8,328.20	\$17.00	17.86x	2.43x	33.71x	12.73x	2.68x	
FRPT	Freshpet Inc	\$3,132.75	\$2,407.89	\$595.34	\$20.61	-177.55x	3.2x	-11.64x	46.88x	-5.06x	
CENT	Central Garden & Pet Co	\$2,063.80	\$3,339.83	\$3,304.85	\$4.90	3.24x	.99x	-155.92x	9.87x	3.3x	
Average		\$7,148.59	\$8,781.71	\$4,076.13	\$14.17	-52.15x	2.21x	-44.62x	23.16x	.31x	
Median		\$3,132.75	\$3,339.83	\$3,304.85	\$17.00	3.24x	2.43x	-11.64x	12.73x	2.68x	
<i>Basket 3: Pharmaceutical/Pet Health Manufacturers</i>											
ZTS	Zoetis Inc	\$80,830.27	\$72,521.07	\$8,080.00	\$54.00	32.21x	8.39x	41.51x	19.49x	.26x	
IDXX	IDEXX Laboratories Inc	\$40,033.56	\$35,080.15	\$3,367.32	\$45.11	50.16x	9.62x	54.22x	29.35x	.96x	
ELAN	Elanco Animal Health Inc	\$4,566.20	\$11,428.19	\$4,411.00	\$46.61	11.8x	2.64x	14.97x	11.93x	5.52x	
HSKA	Heska Corp	\$1,273.60	\$620.05	\$257.31	\$12.64	1977.64x	2.21x	23.85x	20.82x	-7.04x	
Average		\$31,675.91	\$29,912.36	\$4,028.91	\$39.59	517.95x	5.72x	33.64x	20.4x	-.07x	
Median		\$22,299.88	\$23,254.17	\$3,889.16	\$45.86	41.19x	5.52x	32.68x	20.16x	.61x	
Niche E-Commerce											
ETSY	Etsy Inc	\$12,780.27	\$16,239.70	\$2,566.11	\$182.40	25.28x	5.87x	23.05x	21.29x	.44x	
W	Wayfair Inc	\$3,847.76	\$6,448.70	\$12,218.00	\$416.33	-6.45x	.54x	-12.78x	-80.15x	-22.71x	
RVLV	Revolve Group Inc	\$1,750.49	\$1,430.86	\$1,101.42	\$4.63	16.78x	1.21x	21.28x	16.5x	-5.13x	
FTCH	Farfetch Ltd	\$1,751.91	\$2,398.68	\$2,316.68	\$235.17	-2.51x	.88x	78.51x	75.24x	-11.31x	
REAL	RealReal Inc/The	\$114.14	\$425.81	\$603.49	\$46.30	-.92x	.68x	-4.26x	-5.85x	-.11x	
Average		\$4,048.91	\$5,388.75	\$3,761.14	\$176.97	6.44x	1.84x	21.16x	5.4x	-7.76x	
Median		\$1,751.91	\$2,398.68	\$2,316.68	\$182.40	-.92x	.88x	21.28x	16.5x	-5.13x	

Consumer Lifecycle



Consumer



3,500+ Public Label Brands



CHWY Private Label Brands



Auto-Ship



Online Retail



Product Ecosystem



Consumables

Food and treats from over 3,500 private and public brands

Hardgoods

Animal products; toys, cages, tanks, as well as a “Pet Parent” shop

Other

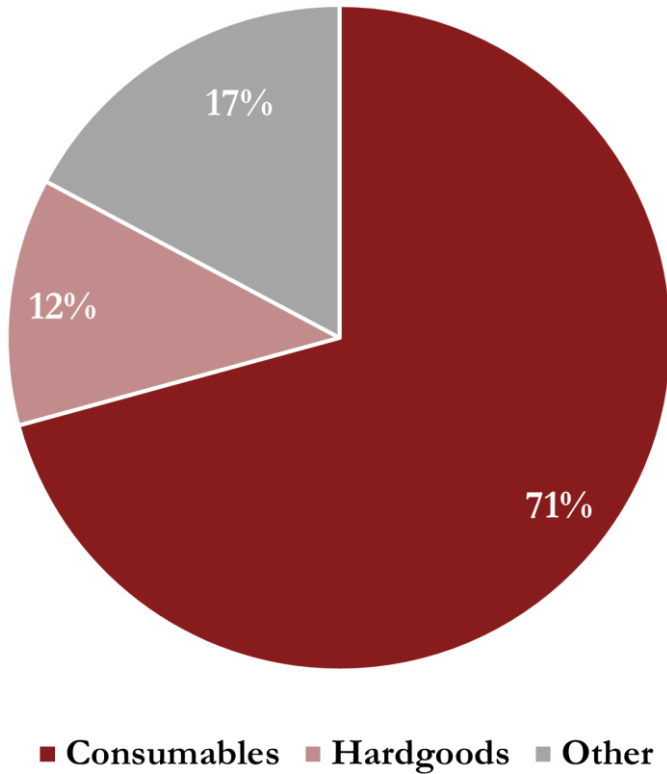
Pet prescriptions, medications, and other pet health products



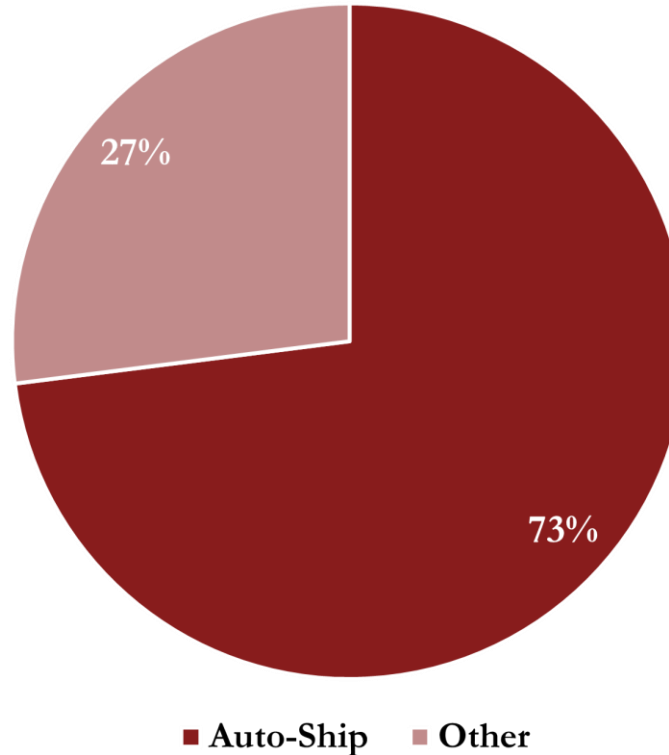
Revenue Breakdown



Product Split



Revenue Split



Auto-Ship

Free subscription program that lets customers schedule **recurring deliveries of their pet supplies** and receive 5% off their orders. Customers may select which products, and how often they want these products delivered.

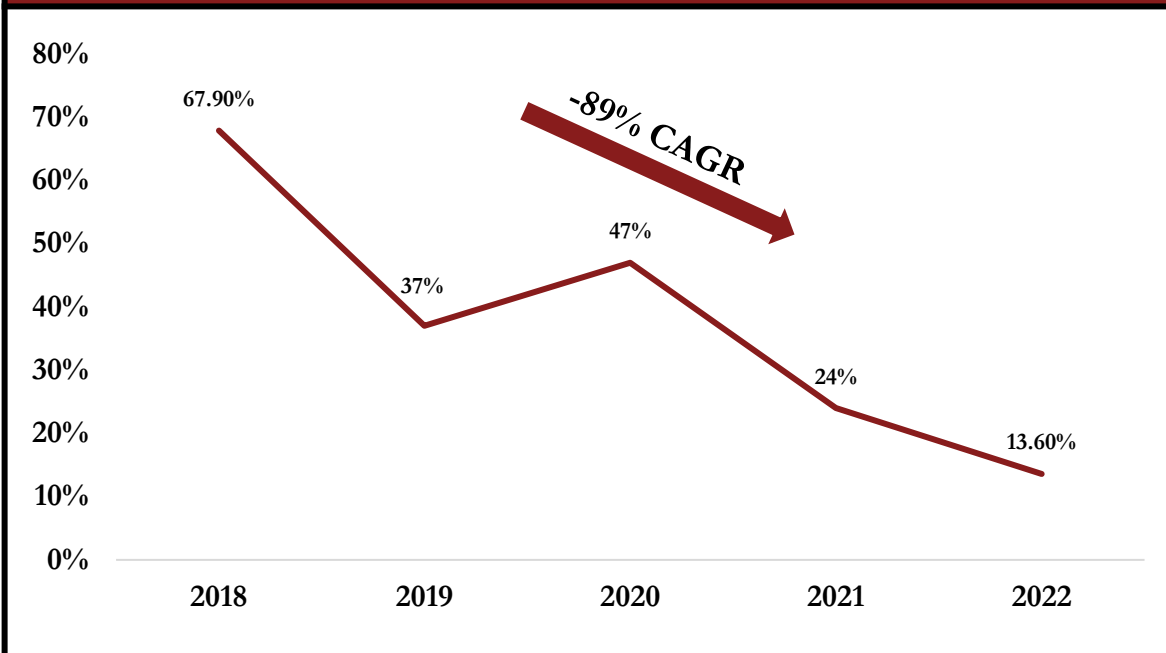
Management Discussion

“We’re also **not assuming any hardgoods reacceleration happening in 2023**.... And we stand prepared to invest if we see further deterioration or opportunities alike.”
- Q4 FY22 Earnings Call

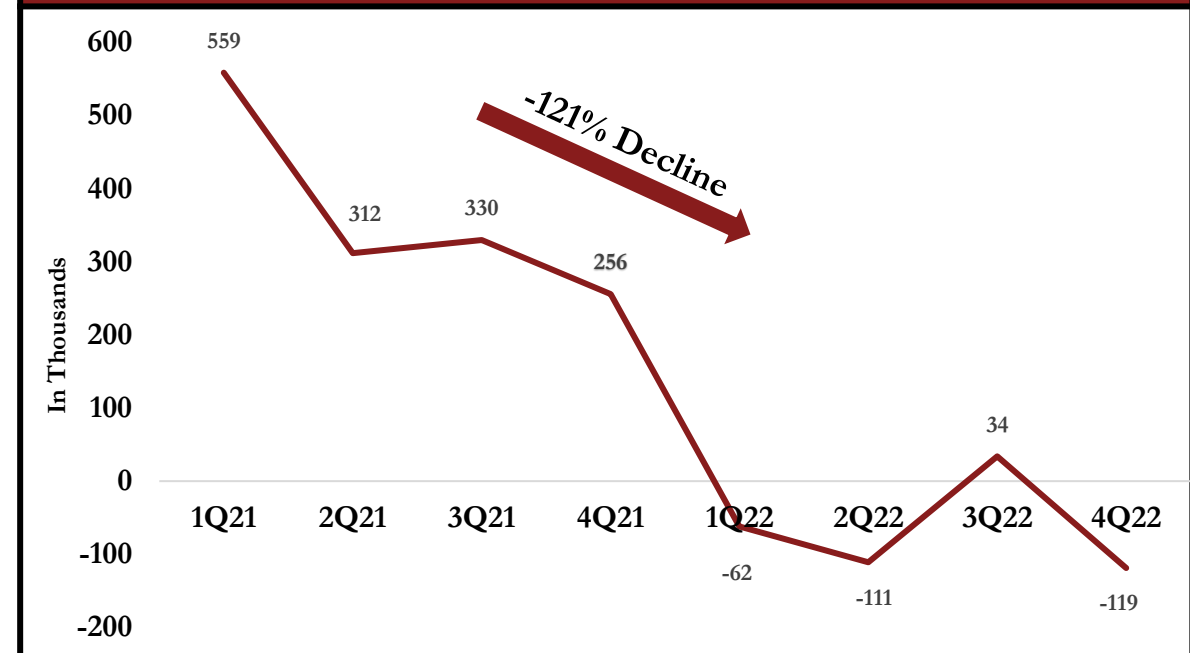
“Customer decline reflects the continued softness in discretionary spending experienced across the broader economy as well as the residual impact of attrition from our 2020 and 2021 cohorts.”

-2022 Shareholder Letter

Net Sales Growth YoY



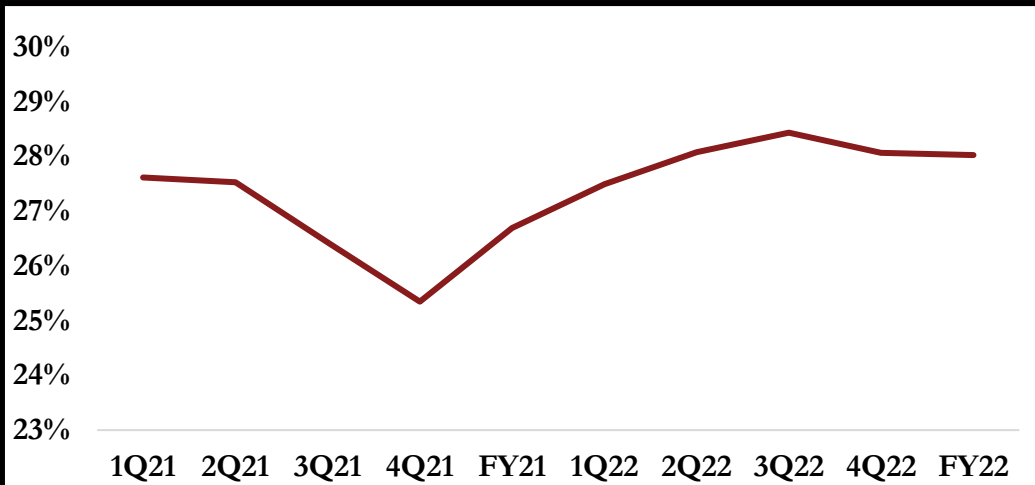
Customer Acquisition Growth QoQ



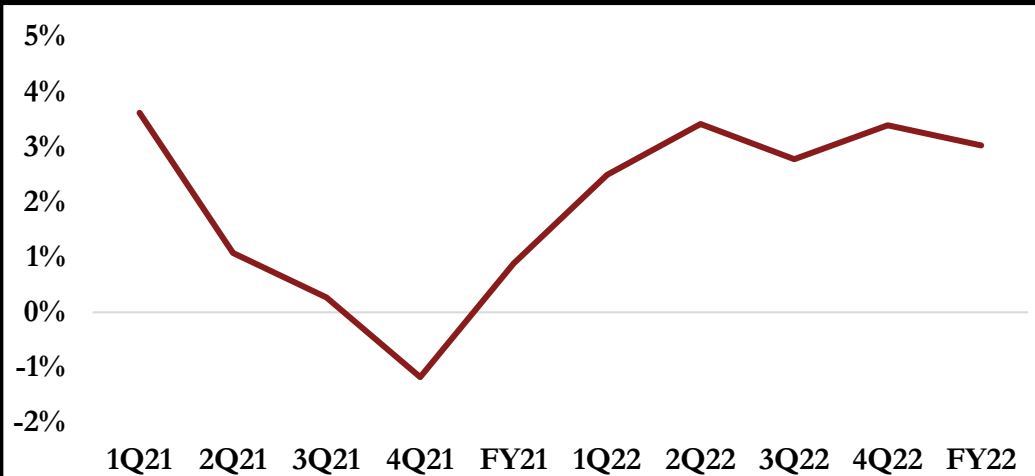
Margin Mayhem



Gross Margins



EBITDA Margins









“Discretionary continues to be **suppressed and pressured** [...] we're not expecting a material reacceleration in '23 [...] specifically as it considers categories such as hardgoods, we believe that this is **cyclical and tied to the inputs of the macro environment.**”
 — CEO Sumit Singh, Q4 22 Earnings Call

Discretionary Hardgoods

Non-Discretionary Consumables



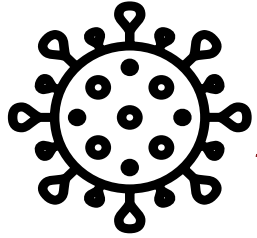
-  Higher Margin
-  Weaker During Recession
-  ~12% of Chewy Net Sales

-  Lower Margin
-  Durable During Recession
-  ~71% of Chewy Net Sales

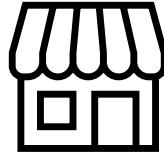
The Double-Edged Leash



Covid Surge



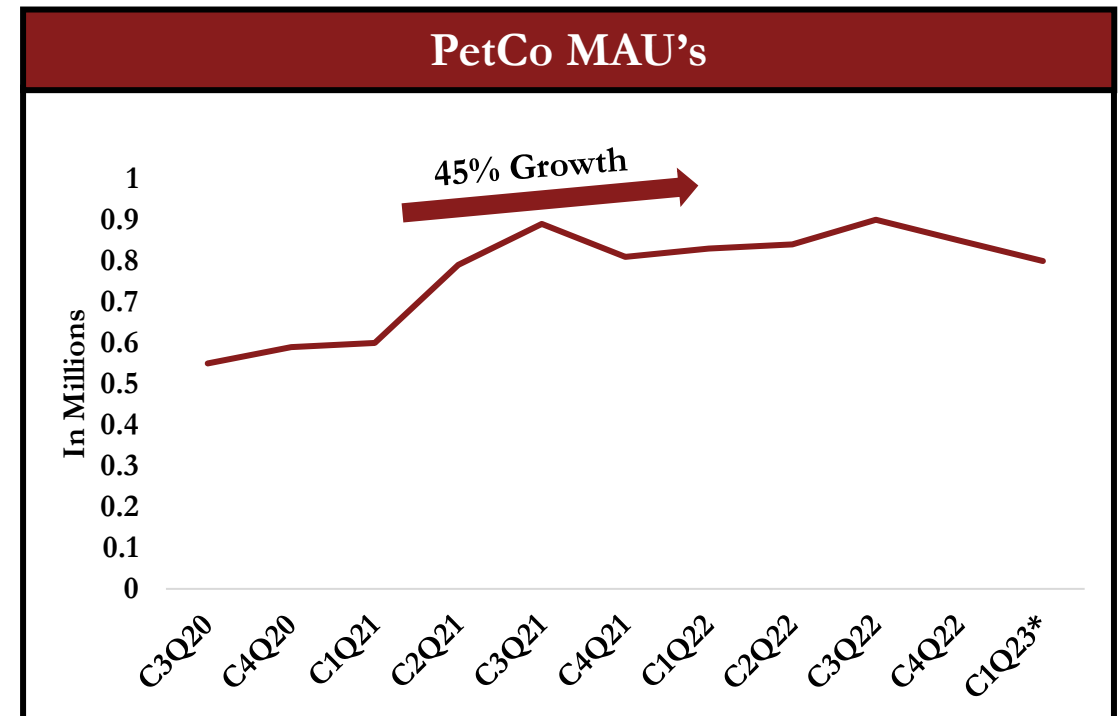
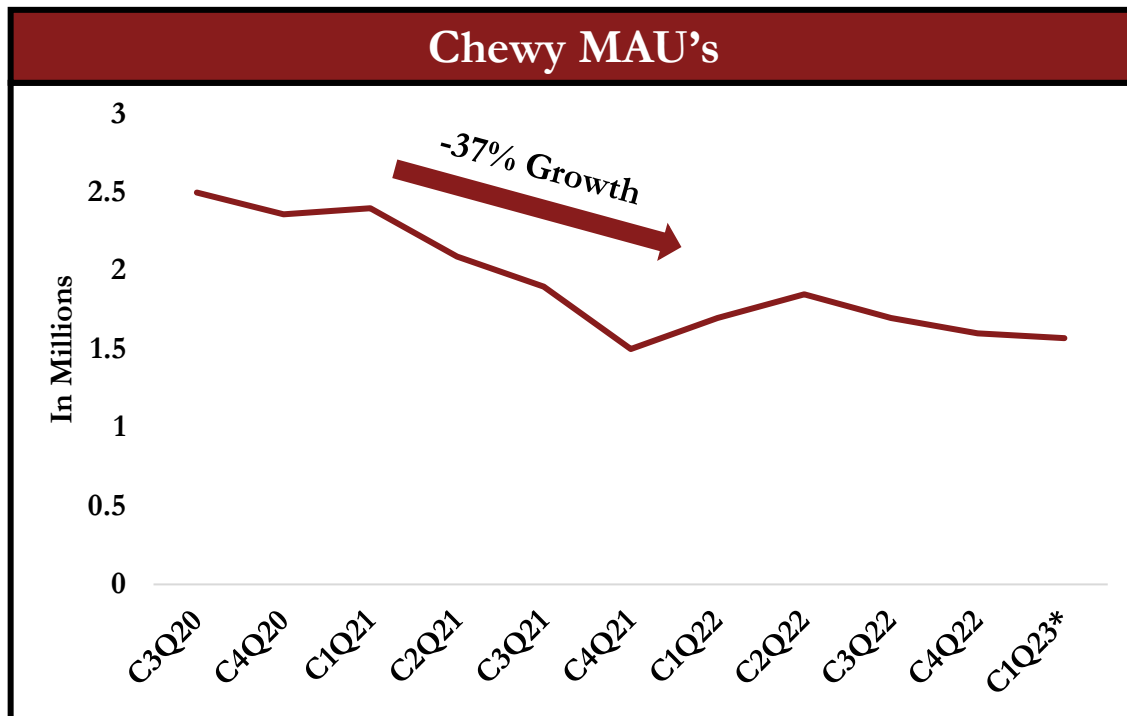
Economy Reopens



In-Person Reigns



Chewy's Decline

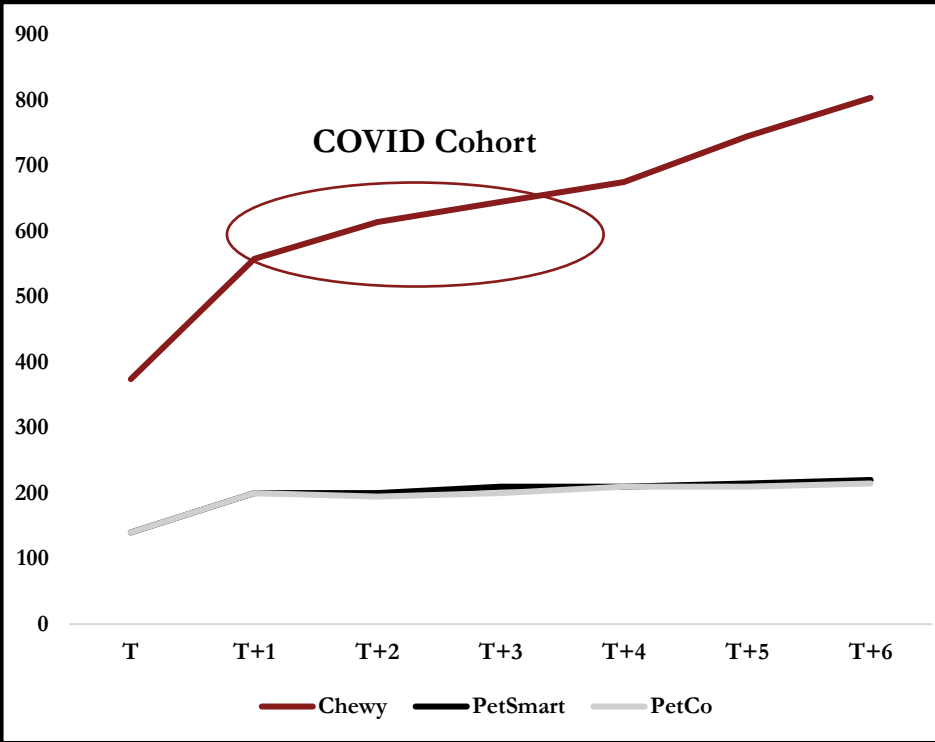


*Monetizable Active Users

NSPAC Growth Risk/Retention



NSPAC* Per Year



*Net Sales Per Active Customer

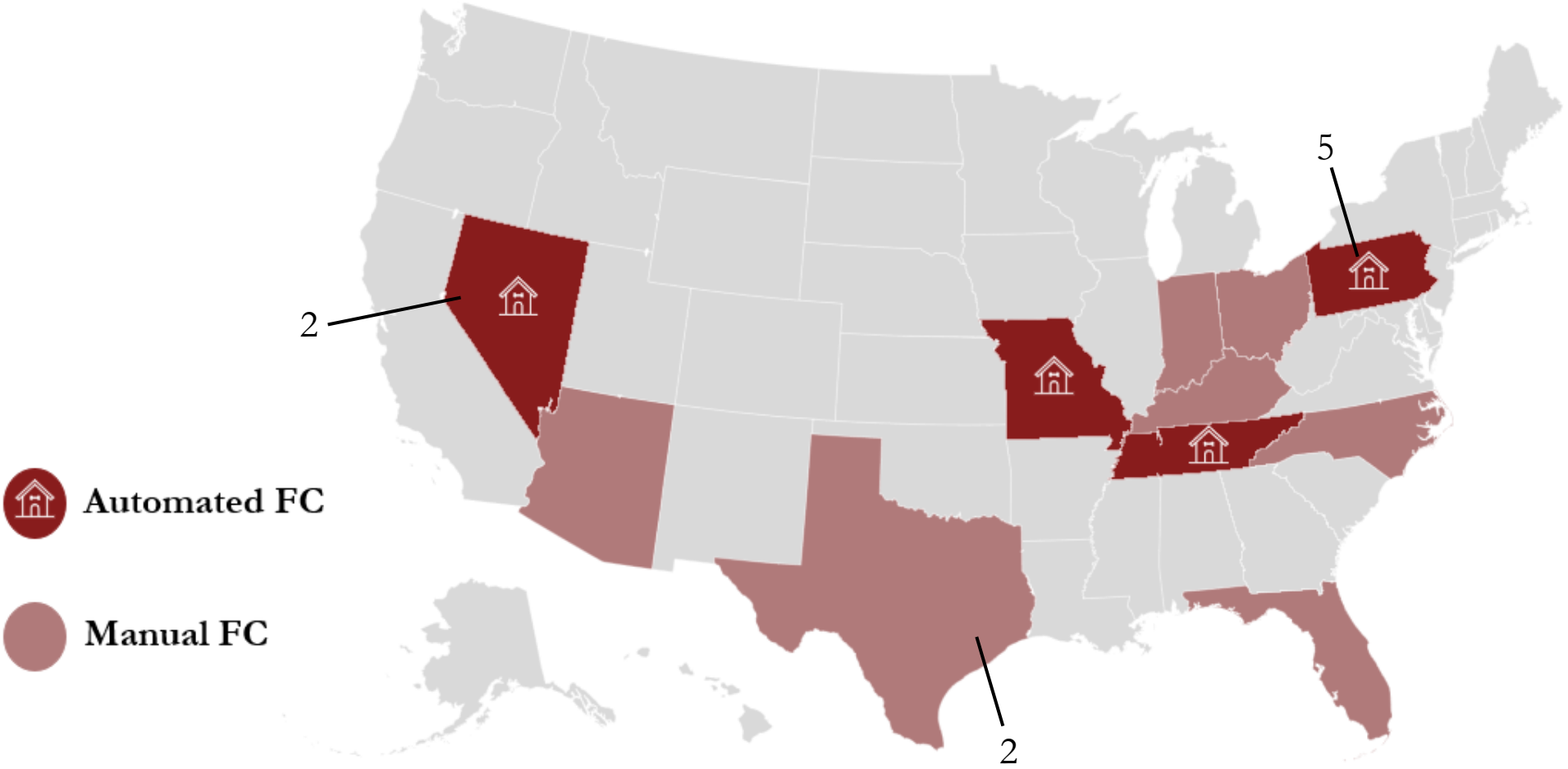
“Nearly 60% of our customers having joined our platform **within the last three years.**”
 – Sumit Singh, CEO, Q4 22 Earnings Call

No Competitive Advantage



	Walmart	chewy	amazon	petco
Auto-Ship & Save	✓	✓	✓	✓
Commoditized Products/Prices	✓	✓	✓	✓
High Number of Private Label				✓
In-Person Services	✓			✓
Wide Variety From Long Tail	✓		✓	

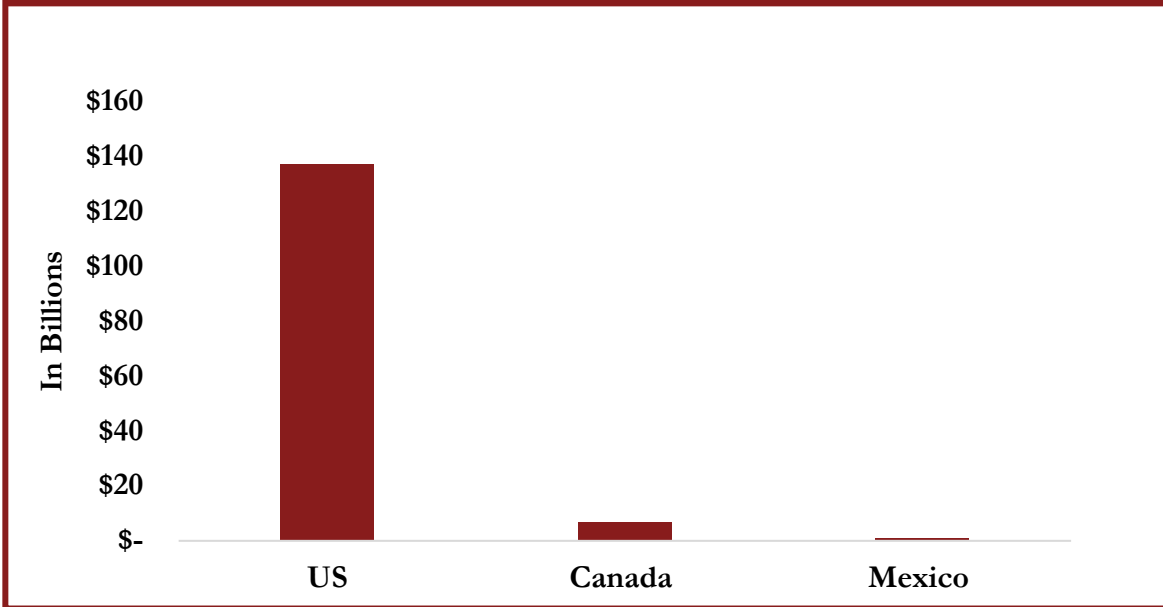
Fulfillment Locations



Expansion Concerns

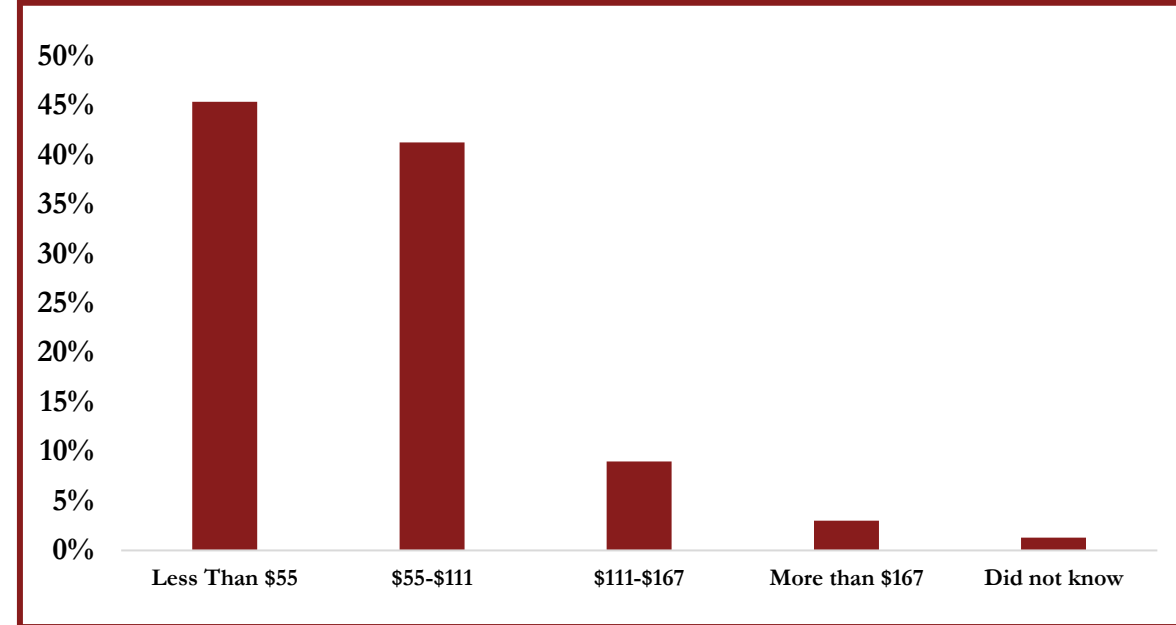


North America Annual Pet Spend In 2022



The U.S. is Chewy's most lucrative market, yet it has **ambitions to expand to weaker markets** that will not offer similar margin enhancement opportunities.

Mexico Monthly Pet Spend In 2022

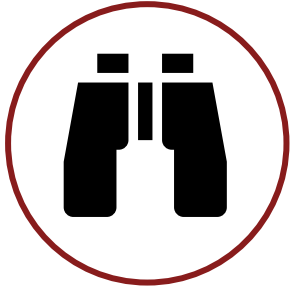


Despite 70% of the Mexican population owning a pet, **45% spend \$55 or less per month**, showing that the culture of humanizing pets is unique to the U.S.

Breaking into Pharma



petabyte



Establishing their Pharmacy sector in 2018, Chewy was already at a disadvantage, as they face **significant barriers** to entry and operates within an already **highly saturated market**.



Chewy not only loses to established horizontal marketplaces like **Amazon and Walmart**, but also to more specialized, niche businesses like **1-800-PETMEDS**.



Unlike PetCo and Walmart, **Chewy doesn't offer high-margin, in-person services such as examinations or vaccines**, which are expected to sustain stronger revenue growth than drugs & meds.

Petabyte Acquisition

- Chewy acquired Petabyte Technology Inc. for \$43.4M in cash on December 8th, 2022
- Petabyte is cloud-based technology provider that provides veterinary management solutions
- **First acquisition in the pet healthcare space**, aiming to improve their healthcare product and service offering

Higher Prices, Lower Brand Quality



\$38.40
\$36.48 with
Autoship

VS.



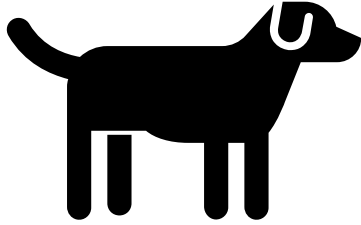
\$29.99
\$28.49 with
Autoship

Chewy's biggest competitor, PetCo, grew their veterinary business from 15 to 105 clinics in 2021, and about **70% of their pet products are private-label brands compared to Chewy, which is less than 1%**. Chewy's private labels consist of 5-10% of their net sales and want to get it to 15-30% of net sales.

Prescription Life Cycle

chewy

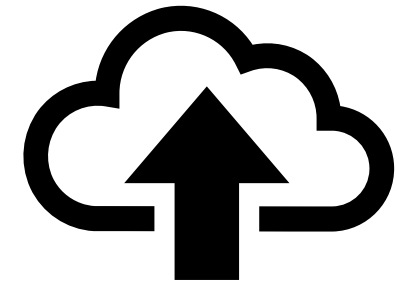
chewy



Customer takes pet to
Veterinarian

Veterinarian prescribes a
prescription

Customer finds
medication on chewy.com



Prescription delivered to
the customer

Chewy contacts your
Veterinarian

Upload Veterinarian's
contact information



Dec 7, 2022

Completely inept

As a veterinary employee, working with Chewy is like torture. Their customer service and prescription **authorization reps are absolutely braindead**. They email our clients messages that say their vet won't approve things even though they've contacted the vet several times.....in reality they haven't even contacted the vet once. We wish we could stop our clients from using them. It is amazing how much time in the day that our staff wastes on dealing with Chewy. I'm pretty sure their support staff is based in Florida, so that explains a lot.

Date of experience: December 06, 2022



Mar 8, 2023

AWFUL

AWFUL! They are WAY over priced, go to petsmart.com to shop for the same things free shipping half the price! Chewy also makes you call in after you place an order to make sure it's you, they Also randomly cancel orders when they feel like it with ZERO explanation, honestly this company has been the most awful. **When I finally started to shop around I realized how over charged I was! They are DOUBLING prices!**

Date of experience: March 08, 2023



Mar 17, 2023

Miserable disappointment

I was a loyal customer of chewy for years; in fact, so loyal that I actually bought their stock. **Lately their delivery times have been unreliable**, sometimes upward of a week. Since they tout 1-3 delivery, and since this as happened to me multiple times, I must say that this is nothing short of false advertising. Moreover, their prices have become the highest of every supplier. I changed vendors. No more orders for Chewy from me. Oh, and I **sold the stock**.

Date of experience: March 17, 2023



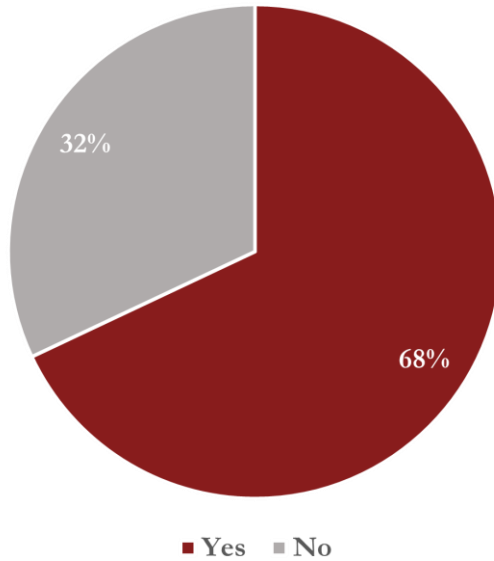
Nov 30, 2022

Not honest about shipping

No matter what you order they email you and say your order will arrive in 1 day. It never does. Can't they just be honest and say when it really arrive? They are also no longer have the attractive pricing they used to. It's now the same as what Petsmart charges. **If it wasn't this stupid time of year with holiday shopping traffic I would have just gone to Petsmart**. Sad that Chewy is not what they used to be.

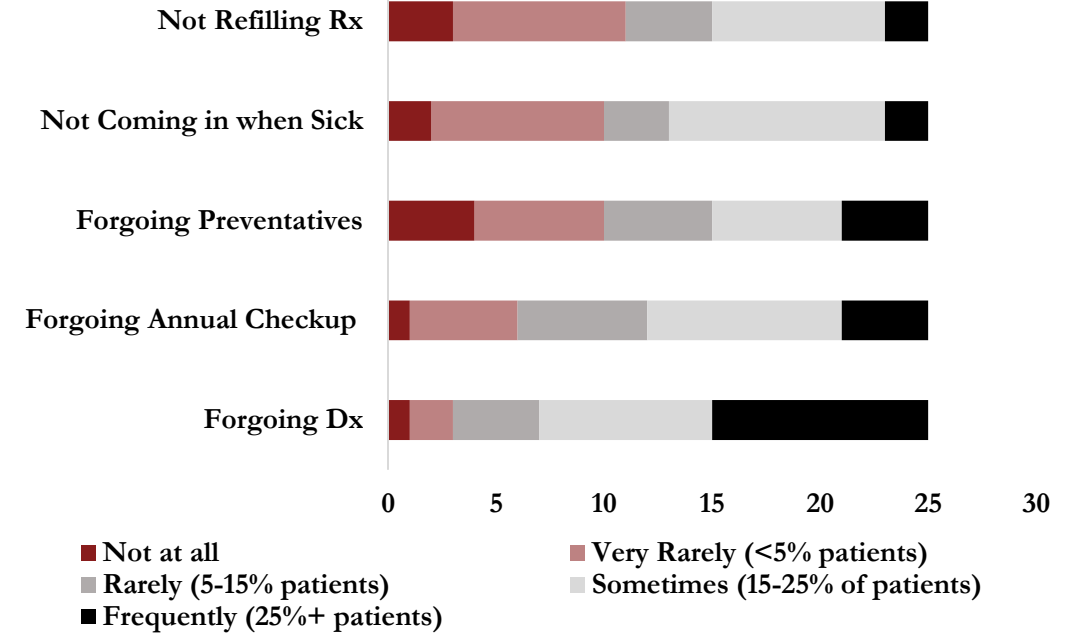
Date of experience: November 29, 2022

Impact on Demand From Price Increases



68% of Veterinarians see owners skipping visits, forgoing certain tests or procedures, or choosing not to refill prescriptions due to price increases.

Impact on Testing from Consumer Cutback



With pet owners cutting back on spending, Veterinarians are seeing the **greatest pushback in pet owners going without diagnostics testing** on their pets.

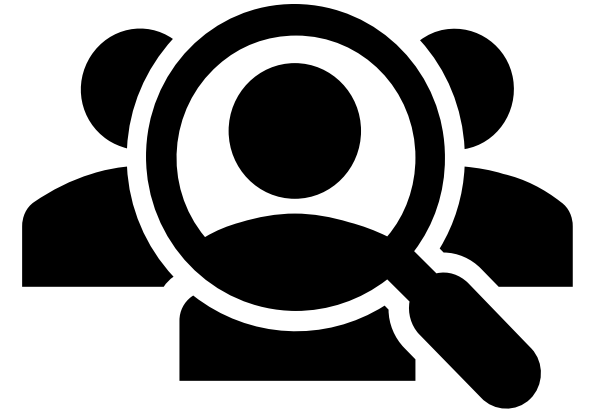
Outclassed in Pet-Pharma



Premature Expansion



Stagnant Customer Growth



Valuation



Discounted Cash Flow	Entry	2023	2024	2025	2026	2027	Exit
<i>Date</i>	5/12/2023	1/29/2024	1/29/2025	1/29/2026	1/29/2027	1/29/2028	1/29/2028
<i>Year Fraction</i>		0.71	1.00	1.00	1.00	1.00	
EBIT	\$	111.64	\$ 259.76	\$ 498.31	\$ 737.56	\$ 1,079.23	
Less: Cash Taxes	\$	-	\$ -	\$ -	\$ -	\$ -	
Plus: SBC	\$	251.69	\$ 274.86	\$ 267.62	\$ 320.94	\$ 353.13	
Plus: D&A	\$	90.45	\$ 101.72	\$ 77.65	\$ 89.29	\$ 99.55	
Less: Capex	\$	250.03	\$ 281.20	\$ 214.65	\$ 246.82	\$ 275.21	
Less: NWC Investment	\$	(35.99)	\$ 3.63	\$ (33.16)	\$ (60.08)	\$ (71.13)	
Adjusted Free Cash Flow	\$	239.74	\$ 351.52	\$ 662.09	\$ 961.04	\$ 1,327.83	\$ 16,406.70
<i>Transaction Cash Flow</i>	0	\$ 171.15	\$ 351.52	\$ 662.09	\$ 961.04	\$ 1,327.83	

Intrinsic Value	
Enterprise Value	\$ 12,608.16
Plus: Cash	\$ 330.44
Less: Debt	\$ 499.40
Less: Preferred Equity	\$ -
Equity Value	\$ 12,439.20
Equity Value per Share	\$ 29.27

Terminal Value	
Perpetual Growth	\$ 14,466.39
EV/Sales	\$ 18,347.01
Average	\$ 16,406.70

Upside (Downside)	
Current Share Price	\$ 35.06
Intrinsic Value	\$ 29.27
Upside %	-16.53%

Estimates Vs. Consensus



MAIF vs. Consensus (\$mm)	FY 23E	FY 24E	FY 25E	FY 26E	FY 27E
MAIF Consumables Revenue	8,145.77	9,123.26	9,761.89	9,664.27	9,905.88
<i>Consensus Consumables Revenue</i>	8,041.90	8,929.14	9,633.81	9,529.45	9,720.04
<i>Difference (%)</i>	1%	2%	1%	1%	2%
MAIF Hardgoods Revenue	1,203.53	1,299.81	1,481.79	1,578.11	1,664.90
<i>Consensus Hardgoods Revenue</i>	1,228.26	1,316.01	1,490.36	1,561.85	1,629.79
<i>Difference (%)</i>	-2%	-1%	-1%	1%	2%
MAIF Other Revenue	2,015.89	2,358.59	3,066.17	5,212.49	6,776.23
<i>Consensus Other Revenue</i>	2,009.86	2,354.51	3,157.32	5,765.31	7,682.08
<i>Difference (%)</i>	0%	0%	-3%	-11%	-13%

MAIF vs. Consensus (\$mm)	FY 23E	FY 24E	FY 25E	FY 26E	FY 27E
MAIF Gross Margins	30%	30%	30%	30%	31%
<i>Consensus Gross Margins</i>	28%	28%	29%	28%	29%
<i>Difference (%)</i>	5%	4%	6%	5%	7%

MAIF vs. Consensus (\$mm)	FY 23E	FY 24E	FY 25E	FY 26E	FY 27E
MAIF Adjusted EBITDA Margins	3.99%	4.98%	5.90%	6.98%	8.35%
<i>Consensus Adjusted EBITDA Margins</i>	2.84%	3.37%	4.31%	5.33%	6.80%
<i>Difference (%)</i>	29%	32%	27%	24%	19%

Consensus Estimates

- Modeling **82% YoY growth** for “Other” revenue from FY25 to FY26
- Modeling “Other” revenue as **42% of net revenue in FY27**

Management Estimates

- Guiding FY23 **net sales of \$11.1B-\$11.3B**
- Guiding FY23 adjusted EBITDA margin of **2.5%**
- **Guiding 50 to 75 bps** of SG&A and Marketing increase in FY23

MAIF Consensus Estimates

- **In-line or above street** on consumables revenue, given less discretionary nature
- **20%+ above street** on adjusted EBITDA margins, even while modeling SBC in-line with street
- Modeling “Other” revenue as **~37% of net revenue in FY27**
- Modeling **70% YoY growth** for “Other” revenue from FY25 to FY26
- Modeling **60 bps** SGA and Marketing increase in FY23

Q&A

Appendix



Summit Singh

Chief Executive Officer and Director

CEO of Chewy since 2018 and serves on the company's Board of Director since 2019



Mario Marte

Chief Financial Officer

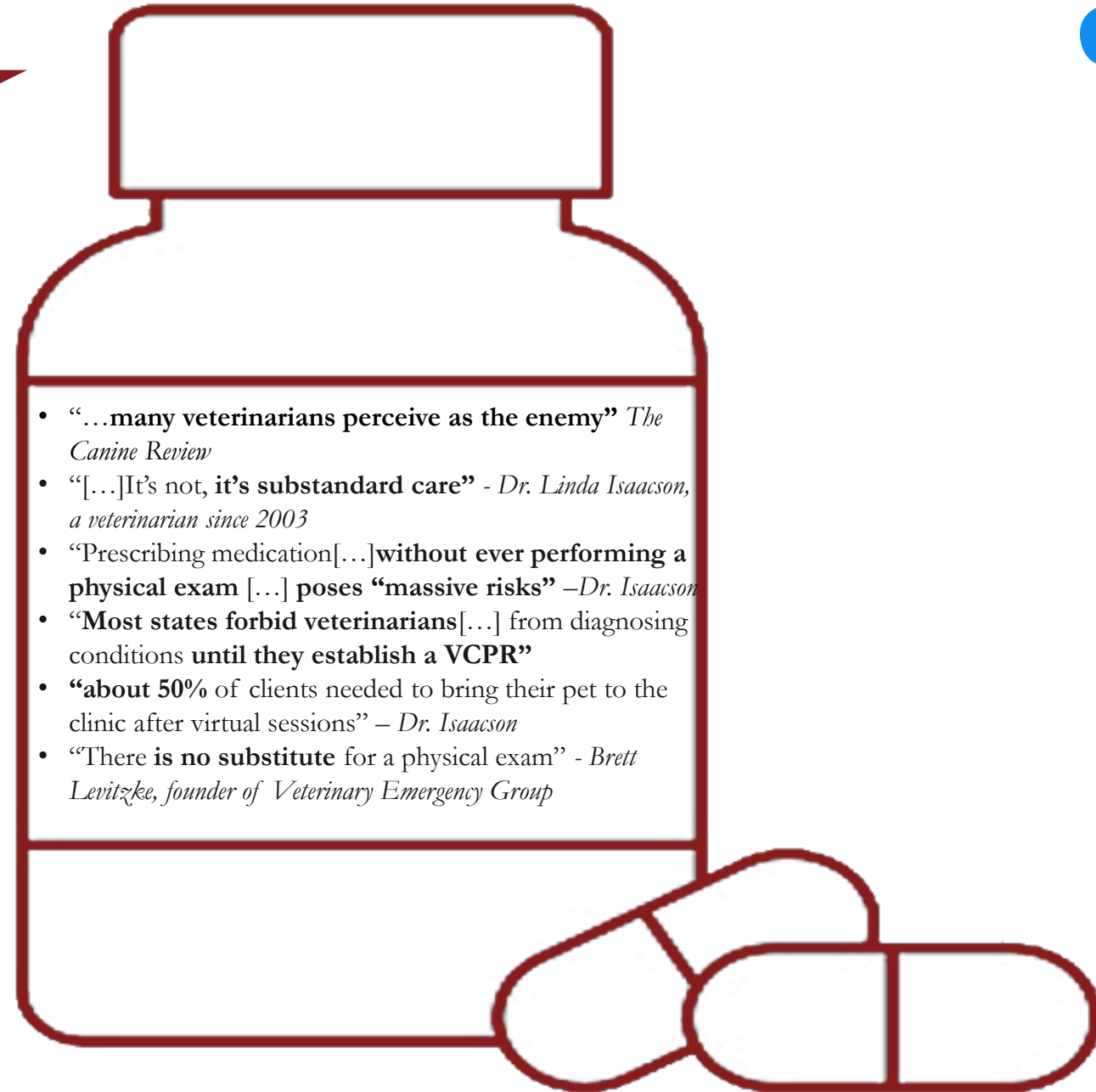
Joined Chewy in April 2015 serving as Vice President- Finance & Treasurer, and now serves as CFO since September 2018



Satish Mehta

Chief Technology Officer

Served as CTO since joining Chewy in June 2018, and is responsible for overseeing all infrastructure technologies across the company



Chewy's LTV/CAC Ratio



Chewy's LTV/CAC Ratio 2022	
Annual Recurring Revenue (ARR)	7370416
(/)Number of Customers	20405
Average Revenue Per Account (ARPA)	361.206371
(x) Gross Margin	28%
Gross Contribution Per Customer	101.1377839
(/)Annual Churn Rate	42%
Customer Lifetime Value (LTV)	240.8042473
Ads and Marketing Spend	649386
(/)Number of Customers Added	-258
Customer Acquisition Cost (CAC)	-2517
Implied LTV/CAC Ratio	-0.10x

Chewy's LTV/CAC Ratio 2021	
Annual Recurring Revenue (ARR)	6245011
(/) Number of Customers	20663
Average Revenue Per Account (ARPA)	302.2315733
(x) Gross Margin	27%
Gross Contribution Per Customer	81.6025248
(/)Annual Churn Rate	42%
Customer Lifetime Value (LTV)	194.2917257
Ads and Marketing Spend	618902
(/)Number of Customers Added	1457
Customer Acquisition Cost (CAC)	424.7783116
Implied LTV/CAC Ratio	0.46x

PetCo's LTV/CAC Ratio 2022	
Annual Recurring Revenue(ARR)	1000000
(/) Number of Customers	25100
Average Revuene Per Account ARPA	39.8406
(x) Gross Margin	40%
Gross Contribution Per Customer	15.9363
(/) Annual Churn Rate	61%
Customer Lifetime Value (LTV)	26.125
Ads and Marketing Spend	24200
(/) Number of Customers Added	1000
Customer Acquisition Cost (CAC)	24.2
Implied LTV/CAC Ratio	1.08x

**All numbers are represented in thousands except LTV and CAC*