

Chewy

The Top Dog in E-Commerce

Chewy’s Q2 earnings have shown an increase in sales of 8.6% YOY, with a gross margin expansion of 30.4%. With the recent acquisition of SmartPak Equine, CHWY has dedication for expansion, leaving much room for the company to continue to grow. **We initiate \$CHWY with a BUY and a PT of \$46.**

Thesis Point 1 A major factor of the expansion of Chewy is their Chewy Health platform. This has transformed CHWY from being a sole retailer, into a comprehensive pet healthcare hub. This segment makes up about 25% of Chewy’s total sales and is expected to achieve gross margins around 10 percentage points higher than its retail operations. Chewy Health has an array of services such as Tele-Vet (a strategic value add that enhances the customer experience and keeps consumers in the Chewy Health ecosystem) and insurance services that cover 100% of new prescription costs, as well as coverage for any licensed vet in the U.S. These services alone show a 10x higher retention among autoship customers. Although Amazon controls around 59% of the market share for online pet product sales in the U.S. compared to Chewy’s 41%, Amazon has no program comparable to Chewy Health, positioning CHWY for better long-term growth.

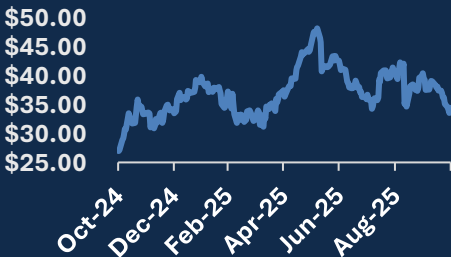
Thesis Point 2 The bread and butter of Chewy’s sales is their autoship program. This subscription allows consumers to schedule recurring deliveries of pet supplies in the frequency that they choose, creating a predictable revenue source for the company. Q2 net sales grew nearly 9% YOY with autoship net sales growing by 15% and representing 83% of total net sales for the quarter, serving as Chewy’s revenue backbone. This creates a stable cash flow for Chewy and minimizes risk during a weaker period since food and medicines are necessities when owning pets. The conveniency of Chewy’s platform creates high retention rates that are estimated to be around 70-80% among autoship customers and a sense of assurance for consumers, making them unlikely to cancel this service. Pet ownership remains historically high with around 66% of U.S. households owning at least one pet, sustaining long-term demand for essential products.

Company Overview Founded in 2011, Chewy is a leading online pet supplier in the United States offering supplies for animals spanning from pets to livestock. The e-commerce company sells a wide range of products from over 3,500 brands including healthcare products. They have the edge over competitors by offering these products and more all in one online platform. With around 83% of their net sales coming from their autoship subscription, Chewy in an expanding market with a highly loyal consumer base of over 20 million customers. Generating over \$11B dollars in revenue over their FY2024, CHWY has a strong and leading foundation in the \$150B+ U.S. pet care industry. With a confident plan on expansion and growth, Chewy is in a great position to stay as the leading provider in their growing industry.

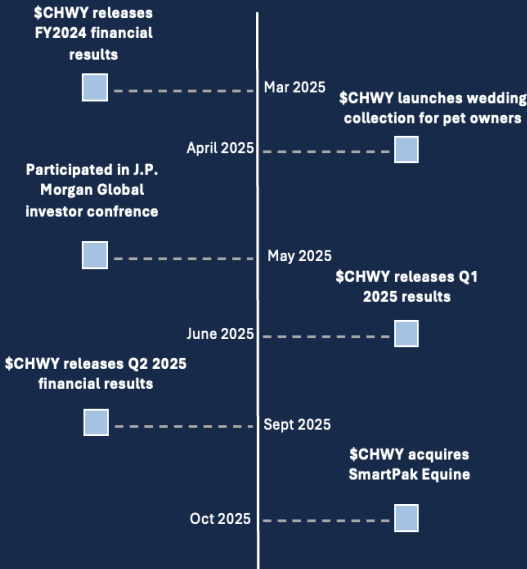


TICKER:	\$CHWY
RATING:	BUY
PRICE:	\$33.72
PRICE TARGET:	\$45.98
MARKET CAP:	\$19.6bn
52-W RANGE:	\$26.33 - \$48.62
P/E:	45.0x
IMPLIED UPSIDE:	35.0%

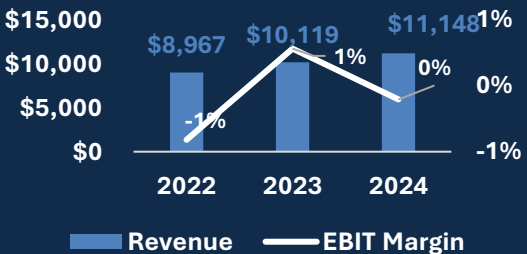
1 Year Price History



Recent Events Timeline



EBIT Margin with Annual Revenue



Risk 1 Chewy’s autoship program is the cornerstone of the company. With 83% of their total net sales coming from this subscription, this creates a concentration risk for Chewy. If any delays or delivery errors were to occur, customers might question the reliability of Chewy and cancel their subscription. Although Chewy operates 14 fulfillment centers across the U.S. that ensure productivity and quality in operations, factors such as carrier reliability, supply chain issues, and product delays could prove to lower retention for the autoship program, therefore decreasing company revenue.

Risk 2 Mass-market retailers such as Amazon and Walmart have proven to be key competitors for Chewy. Amazon offers a broader range of products, allowing them to undercut prices. Walmart has the conveniency factor of having over 4,500 brick-and-mortar locations across the country. While Chewy has the edge with a more pet-focused platform that provides many other services, customers could be drawn to the lower prices and conveniency of other options, chipping away at Chewy’s portion of the \$130B U.S. pet market.

Catalysts The expansion of the Chewy Health platform shows as a catalyst for CHWY. The recent acquisition of SmartPak Equine expands into the horse care market that carries gross margins of around 30-40%, higher than the general pet retail margins of 25-28%. This shows not only a vertical expansion but also a horizontal expansion as Chewy widens its catalog of products. Since SmartPak Equine also has a recurring subscription service already in place, this strengthens the vital autoship sector, showing dedication to expansion and future growth.

Valuation

DCF Analysis (\$mm)							
	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030
	12/31/24	12/31/2025	12/31/26	12/31/27	12/30/28	12/30/29	12/31/30
Revenue	11,861	12,750	13,770	14,803	15,839	16,868	17,881
Revenue Growth	6%	7%	8%	8%	7%	7%	6%
Sale of Pet Products and	11,861	12,750	13,770	14,803	15,839	16,868	17,881
EBIT	113	180	207	248	293	342	393
EBIT Margin	1%	1%	2%	2%	2%	2%	2%
Tax Expense	(241)	30	35	42	50	58	67
Effective Tax Rate	-214%	17%	17%	17%	17%	17%	17%
NOPAT	353.60	150.00	171.44	205.80	243.21	283.52	326.50
D&A	77	79	83	96	111	127	143
Capex	144	160	172	202	234	268	304
Changes in NWC	4	3	3	4	6	7	9
UFCF	283	66	79	96	115	135	157
PV of FCF		65	74	80	86	91	95

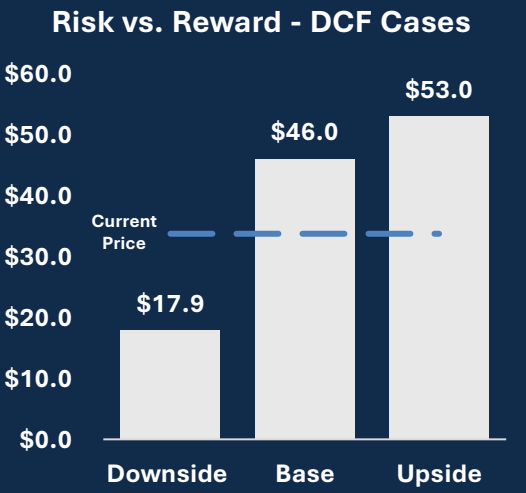
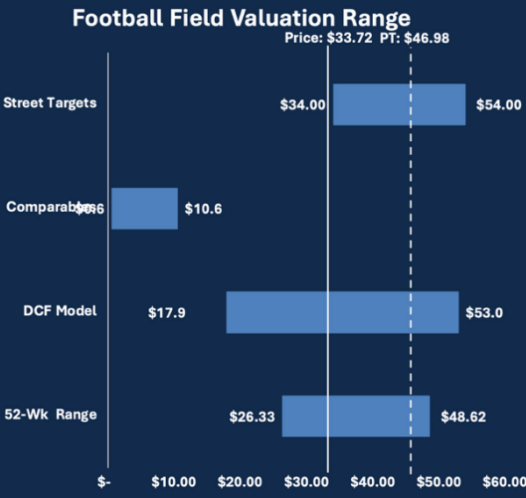
Our base DCF projects a moderate revenue CAGR of 8.0%, growing Chewy’s top line from around \$11.9B to \$18.9B. This projection assumes the continued growth of Chewy’s autoship and Chewy Health platforms. Given Chewy’s shift towards health, subscription-based offerings and the potential for structural re-rating, we assume an EV/EBITDA exit multiple of 57.0x.

Conclusion

Chewy’s evolution from an online retailer to a comprehensive pet health ecosystem has positioned them for sustained long-term growth. While competitor risks remain, Chewy is in great standing to deliver meaningful shareholder value. **We initiate \$CHWY with a BUY rating and a PT of \$46.**



Terminal Value	
Exit Multiple Method	
2034 EBITDA	\$536
EV/EBITDA Exit Multiple	57.0x
Terminal Value	\$30,576
PV of Terminal Value	\$18,408
PV of Projection Period	\$492
PV of Terminal Value	\$18,408
Implied TEV	\$18,900
(-) Debt	\$536
(+) Cash	\$596
Implied Equity Value	\$18,960
Diluted Shares Outstanding	415
Implied Share Price	\$45.71
Upside/Downside	35.0%



Income Statement (\$mm)	2024A	2025E	2026E	2027E	2028E	CAGR%
Revenue	11,861	12,750	13,770	14,803	15,839	7.5%
EBITDA	190	259	289	344	404	20.8%
EBIT	113	180	207	248	293	27.0%
NOPAT	354	150	171	206	243	-8.9%

Margin & Growth Data	2024A	2025E	2026E	2027E	2028E	AVG%
EBITDA Margin	1.6%	2.0%	2.1%	2.3%	2.6%	2.1%
EBIT Margin	0.9%	1.4%	1.5%	1.7%	1.9%	1.5%
Revenue Growth	6.4%	7.5%	8.0%	7.5%	7.0%	7.3%
EBIT Growth	-577.1%	59.9%	14.8%	20.0%	18.2%	-92.9%

Valuation Metrics	2024A	2025E	2026E	2027E	2028E	AVG%
P/FCF	49.5x	211.9x	176.6x	145.3x	121.7x	141.0x
EV/Sales	1.2x	1.1x	1.0x	0.9x	0.9x	1.0x
EV/EBITDA	73.4x	53.8x	48.2x	40.5x	34.5x	50.1x
FCF Yield	2.0%	0.5%	0.6%	0.7%	0.8%	0.9%

Comparable Companies

Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM
Tractor Supply Company (NasdaqGS:TSCO)	\$29,301	\$34,633	27.2x	\$15,149	\$1,946
PetMed Express, Inc. (NasdaqGS:PETS)	\$53	-\$1	-8.4x	\$227	-\$1
BARK, Inc. (NYSE:BARK)	\$150	\$149	-5.2x	\$471	-\$27
Petco Health and Wellness Company, Inc. (N	\$1,031	\$3,785	-36.8x	\$6,046	\$289
Chewy, Inc. (NYSE:CHWY)	\$15,539	\$15,476	107.0x	\$12,345	\$243

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	Yr Rev Growth	Rate L1
Tractor Supply Company (NasdaqGS:TSCO)	17.8x	36.4%	12.8%	9.7%		3.0%
PetMed Express, Inc. (NasdaqGS:PETS)	0.8x	30.5%	(0.6%)	(3.7%)		(17.2%)
BARK, Inc. (NYSE:BARK)	-5.6x	62.2%	(5.6%)	(7.0%)		(3.1%)
Petco Health and Wellness Company, Inc. (N	13.1x	38.4%	4.8%	1.5%		(2.8%)
Chewy, Inc. (NYSE:CHWY)	63.7x	29.5%	2.0%	1.3%		9.2%

High	63.74x	62.2%	12.8%	9.7%	9.2%
75th Percentile	17.80x	38.4%	4.8%	1.5%	3.0%
Average	17.96x	39.4%	2.7%	0.4%	-2.2%
Median	13.11x	36.4%	0.0%	1.3%	-2.8%
25th Percentile	0.77x	30.5%	-0.6%	-3.7%	-3.1%
Low	-5.61x	29.5%	-5.6%	-7.0%	-17.2%

Chewy

Implied Enterprise Value (25th Percentile)	\$	187
Implied Enterprise Value (Median)	\$	3,184
Implied Enterprise Value (75th Percentile)	\$	4,322

Implied Share Price (25th Percentile)	\$	0.59
Implied Share Price (Median)	\$	7.82
Implied Share Price (75th Percentile)	\$	10.56

Weighted Average Cost of Capital (\$mm)	
Market Risk Premium	4.33%
Beta	1.68
Risk Free Rate	4.39%
Cost of Equity	11.23%
Weighted Average Cost of Debt	8.30%
Tax Rate	17.00%
Cost of Debt	0.25%
Total Equity	\$13,986
Net Debt	\$60
Equity/Total Capitalization	96.31%
Debt/Total Capitalization	3.69%
WACC	11.48%

Downside Case: Our downside case assumes possible retention with the autoship subscription and a slow expansion of Chewy Health, limiting earnings growth. The multiple used was 50.0x EV/EBITDA, making our valuation \$18.

Upside Case: Our upside case assumes a quicker-than-expected re-rating of CHWY as a premium health provider and a broader expansion of the Chewy Health platform. This case also assumes continued growth of the autoship subscription, leading to a upside valuation of \$53.