

Initiating Coverage:

# Chewy, Inc: NYSE: CHWY

Don't Miss out on CHWY: Fetch It Now!

**Key Take-away:** Chewy, with a market cap of 13.39 billion dollars and a current price of \$32.54, is a compelling investment due to its innovative approach in the pet care industry, emphasizing convenience, comprehensive services, and high customer satisfaction. As a one-stop shop for pet owners, Chewy provides pet food, supplies, telehealth, and pharmacy services, supported by its popular auto-ship feature, which accounts for 80% of net sales and grew 9% year-over-year, securing recurring revenue from loyal customers. With a growing pet population and increasing emphasis on pet wellness, Chewy is positioned to capture significant market share within the expanding pet care sector, especially due to the pet-boom during the pandemic. With rising pet ownership and increasing focus on pet wellness, Chewy is poised for sustained growth.

**Breaking into the Pet Health and Wellness Market:** By strategically investing in niche veterinary telehealth and pet pharmacy services, Chewy caters to the increasing market demand for convenient pet healthcare. Recently, Chewy opened six veterinary clinics and plans to continue rolling these out. Additionally, Chewy consistently enhances its product offerings, introducing new, high-quality items like pet tech, premium food, and supplements, many exclusive to Chewy.com. They also offer a paid membership program, Chewy+, that showed promising early results in Q3 2024, with members placing more orders and engaging more on the mobile app as compared to non-members. The company's investment in these sectors aligns with broader health and wellness trends, increasing customer retention and attracting new pet owners seeking reliable, convenient care solutions.

**Increased Pet Ownership Post-Pandemic:** During the COVID-19 pandemic, many people cured their boredom by getting new dogs, deemed "COVID pets." This surge in pet ownership during recent years has created a larger consumer base for Chewy's products and services. In fact, Chewy reported 160,000 new active customers in their most recent quarter, adding to their total of 20.2 million active customers. As life returns to normalcy and people return to in-person work, convenience is of utmost importance when it comes to pet care. As these "COVID pets" continue to age over the next ten to fifteen years, their owners are expected to spend consistently on health, wellness, and everyday pet care needs, directly benefiting Chewy's long-term revenue.

**Valuation:** We initiate coverage with a \$50.00 PT



Consortium Equity Research  
Consumer | Specialty Retail  
January 23rd, 2025

Stock Rating: Overweight

Price Target: \$50.00

Price: \$37.88

Potential Upside: 24.24%

Ticker: \$CHWY

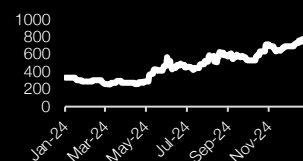
Market Cap: \$13.7b

Shares Outstanding: 414mm

Free Float (%): 38.2%

Dividend Yield: 0.00%

1 Year History



Consumer Coverage Team

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## Peer Comparisons

Comparable Companies						
\$mm						
Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM (mm)	
PETCO HEALTH AND WELLNESS COMPANY, INC.	\$ 2,500	\$ 4,000	N/A	\$ 6,300	\$ 401	
BARK, INC. (XNYS:BARK)	\$ 340	\$ 320	N/A	\$ 490	\$ (27)	
PETMED EXPRESS, INC. (XNAS:PETS)	\$ 400	\$ 300	18.0x	\$ 300	\$ 30	
FRESHPET, INC. (XNAS:FRPT)	\$ 7,600	\$ 7,500	N/A	\$ 975	\$ 155	
<b>CHEWY</b>	<b>\$ 15,000</b>	<b>\$ 14,500</b>	<b>80.0x</b>	<b>\$ 10,000</b>	<b>\$ 500</b>	

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	1 Yr Rev Growth Rate LF
PETCO HEALTH AND WELLNESS COMPANY, INC.	10.0x	41.0%	4.5%	2.5%	4.0%
BARK, INC. (XNYS:BARK)	-11.9x	62.0%	(5.5%)	(7.1%)	(8.4%)
PETMED EXPRESS, INC. (XNAS:PETS)	10.0x	35.0%	8.0%	6.0%	2.0%
FRESHPET, INC. (XNAS:FRPT)	48.4x	50.0%	N/A	N/A	28.3%
<b>CHEWY</b>	<b>29.0x</b>	<b>25.5%</b>	<b>3.0%</b>	<b>1.5%</b>	<b>13.4%</b>

High	48.39x	62.0%	8.0%	6.0%	28.3%
75th Percentile	29.00x	50.0%	5.4%	3.4%	13.4%
Average	17.08x	42.7%	2.5%	0.7%	7.9%
Median	10.00x	41.0%	3.8%	2.0%	4.0%
25th Percentile	9.97x	35.0%	0.9%	-0.6%	2.0%
Low	-11.94x	25.5%	-5.5%	-7.1%	-8.4%

CHEWY Valuation	
Implied Enterprise Value (25th Percentile)	\$ 4,986
<b>Implied Enterprise Value (Mean)</b>	<b>\$ 8,542</b>
Implied Enterprise Value (75th Percentile)	\$ 14,500
Implied Share Price (25th Percentile)	\$ 12.39
<b>Implied Share Price (Mean)</b>	<b>\$ 21.12</b>
Implied Share Price (75th Percentile)	\$ 35.75

Source: Company filings, FactSet

## Company Overview

Established in 2011, Chewy has established its reputation as the leading e-commerce pet care provider in America through its expansive premium product line. Chewy's main products include pet food, treats, supplements, over-the-counter medications, prescription medications through their veterinary services, and other pet essentials such as crates. The company stands out by providing unparalleled customer service to retain a loyal customer base. In 2017, PetSmart acquired Chewy, who later went public in 2019.

Chewy aims to offer premium goods and services to its customers. They excel in customer service and push out creative marketing materials to support their expansive product line. Through their auto-ship service, they are delivering these products even faster.

Lastly, Chewy has begun to integrate AI into their app and website to cultivate a more individualized shopping experience for their loyal customers. Their e-commerce platform, Chewy.com, stands out by making each customer, and their furry friend, feel valued and taken care of. Their commitment to customer service, supported by their strong financial metrics, positions them as a strong competitor in the pet space.

## Industry Overview

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**From Cart to Crate:** Online shopping has eliminated the desire for in-person pet stores. The once desirable immersive shopping experience, strolling down aisles of animals, has been replaced by e-commerce. Chewy recognizes this need for online options and prioritizes providing a seamless experience on their website and mobile app. They deliver with speed that competes with Amazon Prime's two-day shipping to support their unique offerings. In addition, their auto-ship service brings another level of convenience to the table through its automated, recurring deliveries of pet essentials.

**Convenience for Canines:** As many pet owners who once worked from home return to the office, they are willing to pay convenience in their shopping habits and appreciate platforms that simplify their lives. Chewy boasts user-friendly online platforms and speedy deliveries that cater to this need. Specifically, the company is enhancing logistics and developing more regional fulfillment centers to promise fast, reliable delivery. Their other services, like pet telehealth and online pharmacies save time and attract time sensitive consumers.

**Pandemic Pets, Lifelong Customers:** During the COVID-19 crisis, 23 million American households got a new pet, offering a large consumer base for Chewy's offerings. As these "COVID Pets" age, their owners are expected to consistently spend on food, goods, and healthcare for their pets. This tees up Chewy for recurring, sustained revenue from their veterinary services, food and supplement offerings, and extra items like leashes. This newfound market ensures a long-term tailwind for Chewy.

## Investment Theses

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**Bringing Convenience to the Pet Health Market:** Chewy's ongoing product innovation is backed by strong investment in developing their pet healthcare, telehealth, and pharmacy services. Chewy carries 3,500 carefully selected brands and approximately 115,000 products from the best brands, so they have something for every pet. They also work to stay ahead of market trends and needs by regularly adding new items to their product lines. In addition, Chewy offers free educational media on their website to help pet owners identify the exact product their pet needs. This year, Chewy also launched their six veterinary clinics and plan to build more. With veterinary health services projected to grow at a CAGR of 8% through 2027, the company is positioned to capture this high-margin market through their innovative, convenient, and accessible offerings.

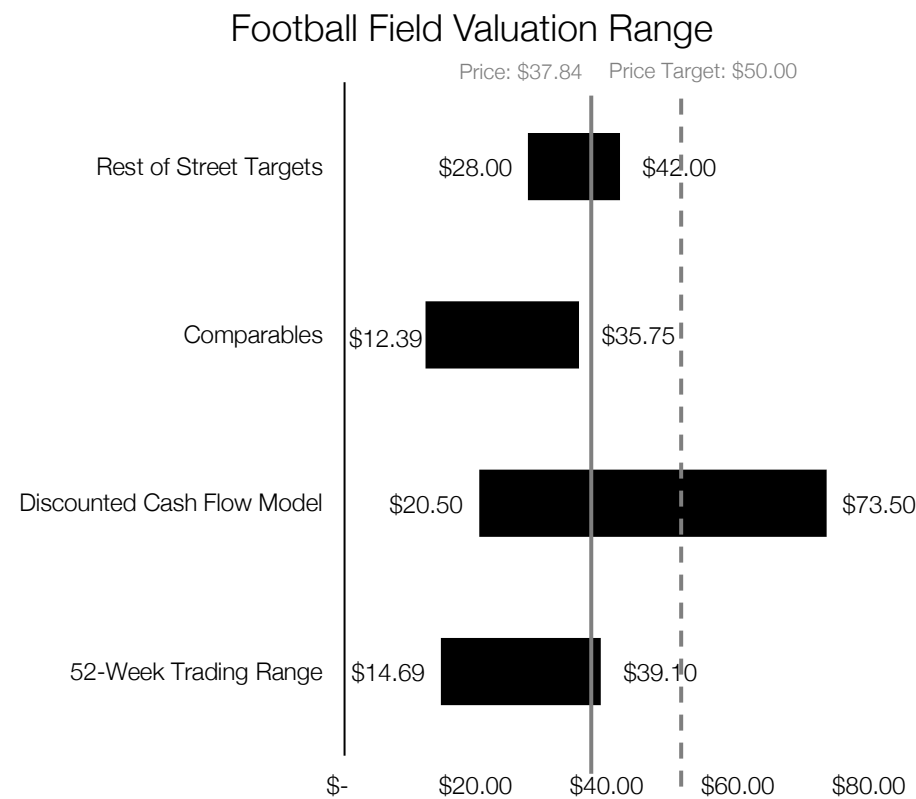
**Recurring Revenue and Loyal Customer Base:** Chewy's main revenue stream comes from product sales through its website and mobile app. It also gets recurring revenue via its auto-ship subscription service. Chewy's growing service offerings, including veterinary telemedicine, pet insurance, and pharmacy services, bring in additional revenue. Chewy's diverse offerings cover all the bases of pet care needs. They have consistently expanded and strengthened their customer base through interactive, reliable customer service. Their new auto-ship service contributed to 80% of net sales and grew 9% year-over-year, reflecting Chewy's ability to ensure predictable revenue streams. The company's 20.2

million active customers in Q3 2024 represent a loyal and expanding base, with strong retention rates driven by customer satisfaction and personalized marketing strategies.

**Strengthened Subscription Service:** According to a February 2023 survey by Packaged Facts, 39% of pet product shoppers utilize subscriptions for items like food, treats, litter, and grooming products, with Millennials and Gen Z leading adoption at 53%, compared to Gen X (24%) and Boomers (14%). This societal shift toward subscription-based purchasing aligns with the secular trend of online shopping and supports Chewy's increasingly online business model. Furthermore, the company has strategically developed regional fulfillment centers across the country to ship to over 80% of the U.S. population overnight and almost 100% in two days, proving their delivery excellence. This delivery infrastructure supports their auto-ship subscription program, and their relatively low seasonality brings in steady revenue. Moreover, automation and investment in integrated artificial intelligence into their fulfillment centers will lower costs and enhance operational efficiency. Lastly, Chewy's scalable subscription service is prepared to expand into Canada in 2025.

Price Target & Valuation

Our analysis gives \$CHWY a price target of \$50.00 and an overweight rating.



Potential Downsides to Our Rating

**Competition from Traditional Pet Stores and Amazon:** Chewy faces fierce competition from established traditional pet retailers and large corporations like Amazon. Currently, Chewy stands out with their personalized and hands-on customer service approach. Additionally, their online veterinary service is one of a kind. However, Amazon One Medical now offers telehealth appointments. Amazon certainly has the resources to expand this to vet telehealth services, which could take away from Chewy’s unique appeal. However, Chewy continues to stand out by leveraging its specialized focus on customer and pet care, and by offering unmatched convenience through their auto-ship subscription.

Our Price Target: \$50.00

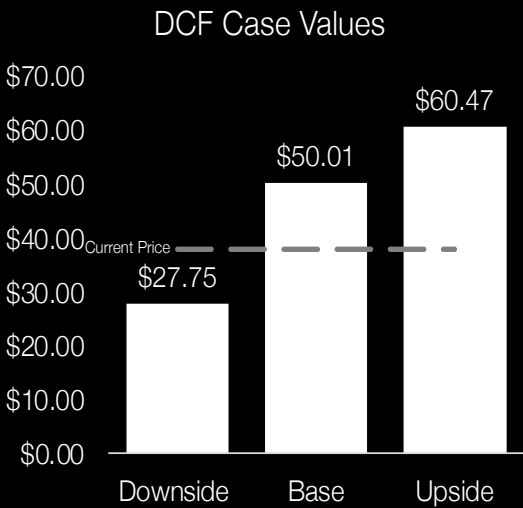
Our PT assumes that revenue will continue to steadily grow, and that Chewy will be able to successfully scale their auto-ship subscription services while managing logistical costs. We also assume that demand for Chewy within the pet health and wellness space remains strong.

Our Upside Case: \$60.00

Our upside case assumes that Chewy exceeds expectations in terms of revenue from the auto-ship services and opens several more veterinary pet care clinics across the United States. Additionally, artificial intelligence driven logistics may significantly enhance margins. Lastly, international expansion into Canada may contribute to top-line growth.

Our Downside Case: \$27.50

Our downside case is that Chewy faces supply chain challenges in scaling their auto-ship services and excess fuel and shopping costs eat away at their profits. If competitor Amazon comes out with veterinary telehealth services, Chewy’s market share and pricing power may diminish.



**Decrease in Disposable Income:** The risk of an economic downturn, rising taxes, and inflation always exists, and this can reduce consumer spending. However, with the Trump administration coming in the New Year, these seem unlikely. Trump has promised to cut taxes, and the Federal Reserve plans to make a 3rd consecutive rate cut during their December meeting. To remain proactive, Chewy can promote more cost-saving options, like loyalty programs or subscription plans, to retain budget-conscious customers.

**Logistical Costs Due to High Fuel and Shipping Prices:** As Chewy scales its auto-ship service, supply chain challenges such as high fuel and shipping costs could increase logistical costs for the company. However, Chewy has been investing in regional fulfillment centers to maintain efficiency. The company could further optimize their delivery routes to cut down on fuel costs.

## Projections

Income Statement (\$mm)	2023A	2024E	2025E	2026E	2027E	CAGR%
Revenue	11,148	13,377	12,526	13,277	14,074	6.0%
EBITDA	120	125	476	744	1,041	71.8%
EBIT	10	11	351	611	901	211.6%
EBIAT	(253)	(90)	(63)	57	1	0.0%
Margin & Growth Data	2023A	2024E	2025E	2026E	2027E	AVG%
EBITDA Margin	1.1%	0.9%	3.8%	5.6%	7.4%	3.8%
EBIT Margin	0.1%	0.1%	2.8%	4.6%	6.4%	2.8%
Revenue Growth	10.2%	20.0%	-6.4%	6.0%	6.0%	7.2%
EBIT Growth	-84.0%	10.0%	3235.1%	74.1%	47.5%	656.5%
Valuation Metrics	2023A	2024E	2025E	2026E	2027E	AVG%
P/FCF	41.7x	2834.2x	90.2x	41.8x	26.1x	606.8x
EV/Sales	1.4x	1.1x	1.2x	1.1x	1.1x	1.2x
EV/EBITDA	137.2x	131.9x	120.4x	113.6x	107.2x	122.1x
FCF Yield	2.4%	0.0%	1.1%	2.4%	3.8%	2.0%

## About \$CHWY

Chewy, Inc. (\$CHWY) is an e-commerce leader in the pet products industry, founded in 2011 and headquartered in Dania Beach, Florida. The company operates primarily in the United States, offering a wide range of pet food, supplies, medications, and services through its online platform. Chewy's key business segments include Consumables, Hard Goods, and Pharmacy, with a focus on delivering exceptional customer service through its auto-ship subscription model and personalized pet healthcare solutions. The company's mission is to provide pet owners with convenience, value, and trusted expertise while capitalizing on the growing trend of online shopping within the resilient pet care market.

## Disclosures & Ratings

Consortium Equity Research does not hold any professional relationships with any reported equities.

**Overweight** means the analyst team believes the stock price will outperform the coverage industry (TMT, Healthcare, Industrial, Consumer, FIG) in the next 6-12 months. **Equal Weight** means the team expects performance in line with the industry. **Underweight** means the team expects underperformance relative to the industry.