

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2021

**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: **001-38163**

**PetIQ, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**35-2554312**

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

230 E. Riverside Dr.

Eagle, Idaho

(Address of principal executive offices)

83616

(Zip Code)

208-939-8900

(Registrant's telephone number, including area code)

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

<u>Title of Each Class</u>	<u>Trading Symbol</u>	<u>Name of Each Exchange on Which Registered</u>
<b>Class A Common Stock, \$0.001 par value</b>	<b>PETQ</b>	<b>The Nasdaq Global Select Market</b>

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

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 such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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

Non-accelerated filer

Smaller reporting company

Emerging growth 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 of 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

As of November 4, 2021, we had 29,135,120 shares of Class A common stock and 272,496 shares of Class B common stock outstanding.

## PetIQ, Inc.

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**PetIQ, Inc.**  
**Condensed Consolidated Balance Sheets**  
**(Unaudited, in 000's except for per share amounts)**

	September 30, 2021	As adjusted (Note1) December 31, 2020
<b>Current assets</b>		
Cash and cash equivalents	\$ 63,174	\$ 33,456
Accounts receivable, net	124,270	102,755
Inventories	108,144	97,773
Other current assets	7,157	8,312
<b>Total current assets</b>	<b>302,745</b>	<b>242,296</b>
Property, plant and equipment, net	74,346	63,146
Operating lease right of use assets	20,940	20,122
Other non-current assets	2,134	1,870
Intangible assets, net	195,310	213,000
Goodwill	231,083	231,158
<b>Total assets</b>	<b>\$ 826,558</b>	<b>\$ 771,592</b>
<b>Liabilities and equity</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 62,510	\$ 68,131
Accrued wages payable	13,179	10,540
Accrued interest payable	5,108	903
Other accrued expenses	10,829	8,815
Current portion of operating leases	5,891	4,915
Current portion of long-term debt and finance leases	7,497	7,763
<b>Total current liabilities</b>	<b>105,014</b>	<b>101,067</b>
Operating leases, less current installments	15,857	15,789
Long-term debt, less current installments	438,406	403,591
Finance leases, less current installments	2,378	3,338
Other non-current liabilities	1,712	1,397
<b>Total non-current liabilities</b>	<b>458,353</b>	<b>424,115</b>
<b>Equity</b>		
Additional paid-in capital	361,836	319,642
Class A common stock, par value \$0.001 per share, 125,000 shares authorized; 29,065 and 25,711 shares issued and outstanding, respectively	29	26
Class B common stock, par value \$0.001 per share, 100,000 shares authorized; 292 and 3,040 shares issued and outstanding, respectively	—	3
Accumulated deficit	(100,401)	(98,558)
Accumulated other comprehensive loss	(825)	(686)
<b>Total stockholders' equity</b>	<b>260,639</b>	<b>220,427</b>
Non-controlling interest	2,552	25,983
<b>Total equity</b>	<b>263,191</b>	<b>246,410</b>
<b>Total liabilities and equity</b>	<b>\$ 826,558</b>	<b>\$ 771,592</b>

See accompanying notes to the condensed consolidated financial statements.

**PetIQ, Inc.**  
**Condensed Consolidated Statements of Operations**  
**(Unaudited, in 000's except for per share amounts)**

	As adjusted (Note1)		As adjusted (Note1)	
	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Product sales	\$ 181,557	\$ 150,063	\$ 654,448	\$ 580,650
Services revenue	28,977	12,020	81,444	35,193
Total net sales	210,534	162,083	735,892	615,843
Cost of products sold	142,009	116,847	510,673	469,095
Cost of services	26,453	12,968	75,720	40,142
Total cost of sales	168,462	129,815	586,393	509,237
Gross profit	42,072	32,268	149,499	106,606
Operating expenses				
General and administrative expenses	45,252	35,562	129,066	105,744
Operating income (loss)	(3,180)	(3,294)	20,433	862
Interest expense, net	(6,168)	(6,427)	(18,693)	(16,460)
Foreign currency (loss) income, net	6	(251)	(98)	(126)
Loss on debt extinguishment	—	—	(5,453)	—
Other income, net	1,331	13	2,090	702
Total other expense, net	(4,831)	(6,665)	(22,154)	(15,884)
Pretax net loss	(8,011)	(9,959)	(1,721)	(15,022)
Income tax expense	(317)	(61,563)	(187)	(60,582)
Net loss	(8,328)	(71,522)	(1,908)	(75,604)
Net loss attributable to non-controlling interest	(426)	(1,272)	(65)	(1,775)
Net loss attributable to PetIQ, Inc.	\$ (7,902)	\$ (70,250)	\$ (1,843)	\$ (73,829)
<b>Net loss per share attributable to PetIQ, Inc. Class A common stock</b>				
Basic	\$ (0.27)	\$ (2.82)	\$ (0.07)	\$ (3.03)
Diluted	\$ (0.27)	\$ (2.82)	\$ (0.07)	\$ (3.03)
<b>Weighted Average shares of Class A common stock outstanding</b>				
Basic	28,940	24,935	27,949	24,365
Diluted	28,940	24,935	27,949	24,365

See accompanying notes to the condensed consolidated financial statements.

**PetIQ, Inc.**  
**Condensed Consolidated Statements of Comprehensive Loss**  
**(Unaudited, in 000's)**

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	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Net loss	\$ (8,328)	\$ (71,522)	\$ (1,908)	\$ (75,604)
Foreign currency translation adjustment	(711)	451	(207)	(227)
Comprehensive loss	(9,039)	(71,071)	(2,115)	(75,831)
Comprehensive loss attributable to non-controlling interest	(436)	(1,206)	(68)	(1,804)
Comprehensive loss attributable to PetIQ	<u>\$ (8,603)</u>	<u>\$ (69,865)</u>	<u>\$ (2,047)</u>	<u>\$ (74,027)</u>

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See accompanying notes to the condensed consolidated financial statements.

**PetIQ, Inc.**  
**Condensed Consolidated Statements of Cash Flows**  
(Unaudited, in 000's)

	For the Nine Months Ended September 30,	
	2021	As adjusted (Note1) 2020
Cash flows from operating activities		
Net loss	\$ (1,908)	\$ (75,604)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization of intangible assets and loan fees	28,936	18,902
Loss on debt extinguishment	5,453	—
Gain on disposition of property, plant, and equipment	(1,185)	(363)
Stock based compensation expense	7,188	6,549
Deferred tax adjustment	—	60,582
Termination of supply agreement	—	7,801
Other non-cash activity	133	143
Changes in assets and liabilities		
Accounts receivable	(21,910)	(29,777)
Inventories	(10,040)	(3,993)
Other assets	(883)	3,449
Accounts payable	(4,498)	15,824
Accrued wages payable	2,664	3,443
Other accrued expenses	6,515	6,863
Net cash provided by operating activities	10,465	13,819
Cash flows from investing activities		
Proceeds from disposition of property, plant, and equipment	5,055	429
Purchase of property, plant, and equipment	(24,577)	(16,811)
Purchase of Capstar and related intangibles	—	(96,072)
Net cash used in investing activities	(19,522)	(112,454)
Cash flows from financing activities		
Proceeds from issuance of convertible notes	—	143,750
Payment for Capped Call options	—	(14,821)
Proceeds from issuance of long-term debt	630,568	668,675
Principal payments on long-term debt	(595,321)	(668,511)
Payment of financing fees on Convertible Notes	—	(5,884)
Tax distributions to LLC Owners	(70)	(46)
Principal payments on finance lease obligations	(1,573)	(1,252)
Payment of deferred financing fees and debt discount	(6,454)	(550)
Tax withholding payments on Restricted Stock Units	(901)	(313)
Exercise of options to purchase class A common stock	12,617	8,188
Net cash provided by financing activities	38,866	129,236
Net change in cash and cash equivalents	29,809	30,601
Effect of exchange rate changes on cash and cash equivalents	(91)	(120)
Cash and cash equivalents, beginning of period	33,456	27,272
Cash and cash equivalents, end of period	\$ 63,174	\$ 57,753

See accompanying notes to the condensed consolidated financial statements.

**PetIQ, Inc.**  
**Condensed Consolidated Statements of Cash Flows, Continued**  
**(Unaudited, in 000's)**

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Supplemental cash flow information	For the Nine Months Ended September 30,	
	2021	2020
Interest paid	\$ 12,151	\$ 12,311
Net change in property, plant, and equipment acquired through accounts payable	889	874
Finance lease additions	544	993
Net change of deferred tax asset from step-up in basis	—	(8,134)
Income taxes paid, net of refunds	282	63
Accrued tax distribution	7	(443)

See accompanying notes to the consolidated financial statements.

**PetIQ, Inc.**  
**Condensed Consolidated Statements of Equity**  
**(Unaudited, in 000's)**

	Three months ended September 30, 2021								
	Accumulated Deficit	Accumulated Other Comprehensive Loss	Class A Common		Class B Common		Additional Paid-in Capital	Non-controlling Interest	Total Equity
			Shares	Dollars	Shares	Dollars			
Balance - July 1, 2021	\$ (92,499)	\$ (126)	28,909	\$ 29	425	\$ —	\$ 358,506	\$ 3,714	\$ 269,624
Exchange of LLC Interests held by LLC Owners	—	3	133	—	(133)	—	769	(772)	—
Accrued tax distributions	—	—	—	—	—	—	—	1	1
Other comprehensive income	—	(702)	—	—	—	—	—	(10)	(712)
Stock based compensation expense	—	—	—	—	—	—	2,581	46	2,627
Exercise of Options to purchase common stock	—	—	2	—	—	—	29	—	29
Issuance of stock vesting of RSU's, net of tax withholdings	—	—	21	—	—	—	(49)	—	(49)
Net loss	(7,902)	—	—	—	—	—	—	(426)	(8,328)
<b>Balance - September 30, 2021</b>	<b>\$ (100,401)</b>	<b>\$ (825)</b>	<b>29,065</b>	<b>\$ 29</b>	<b>292</b>	<b>\$ —</b>	<b>\$ 361,836</b>	<b>\$ 2,552</b>	<b>\$ 263,191</b>

	Nine months ended September 30, 2021								
	Accumulated Deficit	Accumulated Other Comprehensive Loss	Class A Common		Class B Common		Additional Paid-in Capital	Non-controlling Interest	Total Equity
			Shares	Dollars	Shares	Dollars			
Balance - January 1, 2021 As adjusted (Note 1)	\$ (98,558)	\$ (686)	25,711	\$ 26	3,040	\$ 3	\$ 319,642	\$ 25,983	\$ 246,410
Exchange of LLC Interests held by LLC Owners	—	66	2,748	3	(2,748)	(3)	23,593	(23,659)	—
Accrued tax distributions	—	—	—	—	—	—	—	(7)	(7)
Other comprehensive income	—	(205)	—	—	—	—	—	(3)	(208)
Stock based compensation expense	—	—	—	—	—	—	6,885	303	7,188
Exercise of Options to purchase common stock	—	—	533	—	—	—	12,617	—	12,617
Issuance of stock vesting of RSU's, net of tax withholdings	—	—	73	—	—	—	(901)	—	(901)
Net loss	(1,843)	—	—	—	—	—	—	(65)	(1,908)
<b>Balance - September 30, 2021</b>	<b>\$ (100,401)</b>	<b>\$ (825)</b>	<b>29,065</b>	<b>\$ 29</b>	<b>292</b>	<b>\$ —</b>	<b>\$ 361,836</b>	<b>\$ 2,552</b>	<b>\$ 263,191</b>



Three months ended September 30, 2020												
	Accumulated		Other				Additional		Non-controlling	Total		
	Accumulated	Comprehensive	Class A Common		Class B Common		Paid-in	Capital			Interest	Equity
			Deficit	Loss	Shares	Dollars						
Adjusted Balance - July 1, 2020	\$ (19,482)	\$ (1,774)	24,658	\$ 24	3,770	\$ 4	\$ 307,672	\$ 34,041	\$ 320,484			
Exchange of LLC Interests held by Continuing LLC Owners	—	142	350	1	(350)	(1)	3,074	(3,216)	—			
Payment for capped call share options	—	—	—	—	—	—	(116)	116	—			
Net increase in deferred tax asset from LLC	—	—	—	—	—	—	—	—	—			
Interest transactions	—	—	—	—	—	—	(5,786)	—	(5,786)			
Accrued tax distributions	—	—	—	—	—	—	—	752	752			
Other comprehensive loss	—	385	—	—	—	—	—	66	451			
Stock based compensation expense	—	—	—	—	—	—	1,874	273	2,147			
Exercise of Options to purchase common stock	—	—	245	—	—	—	6,017	—	6,017			
Issuance of stock for vesting of RSU's	—	—	3	—	—	—	(21)	—	(21)			
Net loss	(70,250)	—	—	—	—	—	—	(1,272)	(71,522)			
Adjusted Balance - September 30, 2020	\$ (89,732)	\$ (1,247)	25,256	\$ 25	3,420	\$ 3	\$ 312,714	\$ 30,761	\$ 252,523			

Nine months ended September 30, 2020												
	Retained	Accumulated	Other				Additional		Non-controlling	Total		
	Earnings/	Other	Class A Common		Class B Common		Paid-in	Capital			Interest	Equity
	(Accumulated	Comprehensive	Shares	Dollars	Shares	Dollars						
Balance - January 1, 2020	\$ (15,903)	\$ (1,131)	23,554	\$ 23	4,752	\$ 5	\$ 300,120	\$ 45,196	\$ 328,310			
Exchange of LLC Interests held by Continuing LLC Owners	—	82	1,332	2	(1,332)	(2)	11,806	(11,888)	—			
Payment for capped call share options	—	—	—	—	—	—	(12,696)	(2,125)	(14,821)			
Net increase in deferred tax asset from LLC	—	—	—	—	—	—	—	—	—			
Interest transactions	—	—	—	—	—	—	—	—	—			
Accrued tax distributions	—	—	—	—	—	—	—	443	443			
Other comprehensive loss	—	(198)	—	—	—	—	—	(29)	(227)			
Stock based compensation expense	—	—	—	—	—	—	5,610	939	6,549			
Exercise of Options to purchase common stock	—	—	345	—	—	—	8,188	—	8,188			
Issuance of stock for vesting of RSU's	—	—	25	—	—	—	(313)	—	(313)			
Net loss	(73,829)	—	—	—	—	—	—	(1,775)	(75,604)			
Adjusted Balance - September 30, 2020	\$ (89,732)	\$ (1,247)	25,256	\$ 25	3,420	\$ 3	\$ 312,714	\$ 30,761	\$ 252,523			

Note that certain figures shown in the tables above may not recalculate due to rounding.

See accompanying notes to the condensed consolidated financial statements.

**PetIQ Inc.**  
**Notes to the Condensed Consolidated Financial Statements (unaudited)**

**Note 1 – Principal Business Activity and Significant Accounting Policies**

**Principal Business Activity and Principles of Consolidation**

PetIQ, Inc. (“PetIQ,” the “Company,” “we” or “us”) is a leading pet medication and wellness company delivering a smarter way for pet parents to help their pets live their best lives through convenient access to affordable veterinary products and services. We engage with customers through more than 60,000 points of distribution across retail, including veterinary, channels with our branded distributed medications, which is further supported by our own world-class medication manufacturing facility in Omaha, Nebraska. Our national service platform, VIP Petcare (“VIP”), operates in over 2,900 retail partner locations in 41 states, providing cost effective and convenient veterinary wellness services. PetIQ believes that pets are an important part of the family and deserve the best products and care we can give them.

We have two reporting segments: (i) Products; and (ii) Services. The Products segment consists of our manufacturing and distribution business. The Services segment consists of veterinary services and related product sales provided by the Company directly to consumers.

We are the sole managing member of PetIQ Holdings, LLC (“HoldCo”), a Delaware limited liability company, which is the sole member of PetIQ, LLC (“Opco”) and, through HoldCo, operate and control all of the business and affairs of Opco.

The condensed consolidated financial statements as of September 30, 2021 and December 31, 2020 and for the three and nine months ended September 30, 2021 and 2020 are unaudited. The condensed consolidated balance sheet as of December 31, 2020 has been derived from the audited financial statements at that date but does not include all of the disclosures required by U.S. GAAP. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements as of and for the year ended December 31, 2020 and related notes thereto included in the most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on March 1, 2021. Operating results for the interim periods are not necessarily indicative of the results that may be expected for the full year.

**Use of Estimates**

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the 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 sales and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of property, plant, and equipment and intangible assets; the valuation of property, plant, and equipment, intangible assets and goodwill, the valuation of assets and liabilities in connection with acquisitions, the valuation of deferred tax assets, the valuation of inventories, and reserves for legal contingencies.

**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 (an exit price) in an orderly transaction between market participants at the reporting date. The accounting guidance establishes a three-tiered hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The categorization of a financial instrument within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The carrying amounts of the Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, are at cost, which approximates fair value due to their relatively short maturities. Our term loan and revolving credit facility bear interest at a variable interest rate plus an applicable margin and, therefore, carrying amounts approximate fair value.

### Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments with an original maturity of three months or less at the date of acquisition. All credit card, debit card and electronic transfer transactions that process in less than seven days are classified as cash and cash equivalents. The Company maintains its cash accounts in various deposit accounts, the balances of which at times exceeded federal deposit insurance limits during the periods presented.

### Receivables and Credit Policy

Trade receivables due from customers are uncollateralized customer obligations due under normal trade terms requiring payment within 45 days from the invoice date. Accounts receivable are stated at the amount billed to the customer, net of discounts and estimated deductions. The Company does not have a policy for charging interest on overdue customer account balances. The Company provides an allowance for credit losses equal to expected losses. The Company's estimate is based on historical collection experience, a review of the current status of trade accounts receivable and known current economic conditions including the current and expected impact of COVID-19. Payments of trade receivables are allocated to the specific invoices identified on the customer's remittance advice.

Other receivables consists of various receivables due from vendors, banking partners, and other receivable from business partners.

Accounts receivable, net consists of the following as of:

<i>\$'s in 000's</i>	<u>September 30, 2021</u>	<u>December 31, 2020</u>
Trade receivables	\$ 116,187	\$ 96,381
Other receivables	8,416	7,094
	<u>124,603</u>	<u>103,475</u>
Less: Allowance for doubtful accounts	(333)	(720)
Total accounts receivable, net	<u>\$ 124,270</u>	<u>\$ 102,755</u>

### Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined on the first-in first-out ("FIFO") method and includes estimated rebate amounts. The Company maintains reserves for estimated obsolete or unmarketable inventory based on the difference between the cost of inventory and its estimated net realizable value. In estimating the reserves, management considers factors such as excess or slow-moving inventories, product expiration dating, and market conditions. Changes in these conditions may result in additional reserves. Major components of inventories consist of the following as of:

<i>\$'s in 000's</i>	<u>September 30, 2021</u>	<u>December 31, 2020</u>
Raw materials	\$ 21,830	\$ 15,761
Work in progress	1,854	2,273
Finished goods	84,460	79,739
Total inventories	<u>\$ 108,144</u>	<u>\$ 97,773</u>

## Property, Plant, and Equipment

Property, plant, and equipment are recorded at cost. Expenditures for improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. 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.

Depreciation and amortization is provided using the straight-line method, based on estimated useful lives of the assets, except for leasehold improvements and finance leased assets which are depreciated over the shorter of the expected useful life or the lease term. Depreciation and amortization expense is recorded in cost of sales and general and administrative expenses in the condensed consolidated statements of operations, depending on the use of the asset. The estimated useful lives of property, plant, and equipment are as follows:

Computer equipment and software	3 years
Vehicle and vehicle accessories	3-5 years
Buildings	33 years
Equipment	2-15 years
Leasehold improvements	2-15 years
Furniture and fixtures	5-10 years

## Convertible Debt

On May 19, 2020, we issued \$143.8 million aggregate principal amount of Convertible Notes due 2026 (the “Notes”). See Note 5 – “Debt.” Simultaneously, with the issuance of the Notes, we bought capped call options from certain financial institutions to minimize the impact of potential dilution of our Class A common stock upon conversion of the Notes. The premium for the capped call options was recorded as additional paid-in capital in our condensed consolidated balance sheets as the options are settleable in our Class A common stock.

Effective January 1, 2021, we adopted ASU 2020-06 using the full retrospective approach. As a result of this adoption, we have de-recognized the debt discount on the Notes and therefore no longer recognize any amortization of debt discount on the Notes as interest expense (see below, *Adopted Accounting Standard Update*).

## Revenue Recognition

### *When Performance Obligations Are Satisfied*

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account for revenue recognition. A contract’s transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The Company’s performance obligations are product sales and the delivery of veterinary services.

Revenue is generally recognized for product sales on a point in time basis when product control is transferred to the customer. In general, control transfers to the customer when the product is shipped or delivered to the customer based upon applicable shipping terms, as the customer can direct the use and obtain substantially all of the remaining benefits from the asset at this point in time.

The Company determined that certain products manufactured to a customer’s specifications do not have an alternative future use at a reasonable profit margin due to costs associated with reworking, transporting and repackaging these products. These products are produced subject to purchase orders that include an enforceable right to payment. Therefore, the Company determined that revenue on these products would be recognized over time, as the products are produced. This represents a minor subset of the products the Company manufactures.

Revenue for services is recognized over time as the service is delivered, typically over a single day. Payment is typically rendered at the time of service. Customer contracts generally do not include more than one performance obligation. When a contract does contain more than one performance obligation, we allocate the contract's transaction price to each performance obligation based on its relative standalone selling price. The standalone selling price for each distinct good is generally determined by directly observable data.

The performance obligations in our contracts are satisfied within one year. As such, we have not disclosed the transaction price allocated to remaining performance obligations as of September 30, 2021.

#### *Variable Consideration*

In addition to fixed contract consideration, most contracts include some form of variable consideration. The most common forms of variable consideration include discounts, rebates, and sales returns and allowances. Variable consideration is treated as a reduction in revenue when product revenue is recognized. Depending on the specific type of variable consideration, we use either the expected value or most likely amount method to determine the variable consideration. We believe there will not be significant changes to our estimates of variable consideration when any related uncertainties are resolved with our customers. The Company reviews and updates its estimates and related accruals of variable consideration each period based on the terms of the agreements, historical experience, and any recent changes in the market. Any uncertainties in the ultimate resolution of variable consideration due to factors outside of the Company's influence are typically resolved within a short timeframe therefore not requiring any additional constraint on the variable consideration.

Trade marketing expense, consisting primarily of customer pricing allowances and merchandising funds are offered through various programs to customers and are designed to promote our products. They include the cost of in-store product displays, feature pricing in retailers' advertisements and other temporary price reductions. These programs are offered to our customers both in fixed and variable (rate per case) amounts. The ultimate cost of these programs depends on retailer performance and is subject to management estimates.

Certain retailers require the payment of product introductory fees in order to obtain space for the Company's products on the retailer's store shelves. This cost is typically a lump sum and is determined using the expected value based on the contract between the two parties.

Both trade marketing expense and product introductory fees are recognized as reductions of revenue at the time the transfer of control of the associated products occurs. Accruals for expected payouts, or amounts paid in advance, under these programs are included as accounts payable or other current assets in the condensed consolidated balance sheets.

#### *Significant Payment Terms*

Our customer contracts identify the product, quantity, price, payment and final delivery terms. Payment terms usually include early pay discounts. We grant payment terms consistent with industry standards. Although some payment terms may be more extended, no terms beyond one year are granted at contract inception. As a result, we do not adjust the promised amount of consideration for the effects of a significant financing component because the period between our transfer of a promised good or service to a customer and the customer's payment for that good or service will be one year or less.

#### *Shipping*

All shipping and handling costs associated with outbound freight are accounted for as fulfillment costs and are included in the cost of sales. This includes shipping and handling costs after control over a product has transferred to a customer.

#### *Warranties & Returns*

PetIQ provides all customers with a standard or assurance type warranty. Either stated or implied, the Company provides assurance the related products will comply with all agreed-upon specifications and other warranties provided under the law. No significant services beyond an assurance warranty are provided to customers.

The Company does not grant a general right of return. However, customers may return defective or non-conforming products. Customer remedies may include either a cash refund or an exchange of the product. As a result, the right of return and related refund liability is estimated and recorded as a reduction in revenue. This return estimate is reviewed and updated each period and is based on historical sales and return experience.

#### *Contract balances*

Contract asset and liability balances as of September 30, 2021 and 2020 are immaterial. The Company does not have significant deferred revenue or unbilled receivable balances.

#### **Cost of Services**

Cost of Services are comprised of all service and product costs related to the delivery of veterinary services, including but not limited to, salaries and contract costs of veterinarians, technicians and other clinic based personnel, transportation and delivery costs, rent, occupancy costs, supply costs, depreciation and amortization of clinic assets, certain marketing and promotional expenses and costs of goods sold.

#### **Research and Development and Advertising Costs**

Research and development and advertising costs are expensed as incurred and are included in general and administrative expenses. Research and development costs amounted to \$3.2 million and \$0.6 million for the three months ended September 30, 2021 and 2020, respectively, and \$5.2 million and \$2.5 million for the nine months ended September 30, 2021 and 2020, respectively. Advertising costs were \$5.4 million and \$5.8 million for the three months ended September 30, 2021 and 2020, respectively, and \$12.9 million and \$8.3 million for the nine months ended September 30, 2021 and 2020, respectively.

#### **Collaboration Agreements**

Through our acquisition of Perrigo Animal Health, we entered into a product development and asset purchase agreement with a third party for certain product formulations in development by the third party. During the nine months ended September 30, 2021, the Company opted out of the arrangement for two of the product formulations, which reduced the amount of any potential payments under the agreement. The Company may make up to \$5.8 million of payments over the course of the next several years contingent on achievement of certain development and regulatory approval milestones on the remaining product formulation in development. Product development costs are expensed as incurred or as milestone payments become probable. There can be no assurance that these products will be approved by the U.S. Food and Drug Administration ("FDA") on the anticipated schedule or at all. Consideration paid after FDA approval will be capitalized and amortized to cost of goods sold over the economic life of each product. The expenses paid prior to FDA approval will be included in general and administrative expenses on the condensed consolidated statements of operations. The Company accrued \$2.0 million in research and development expense within accounts payable in the condensed consolidated balance sheets related to the agreement as a milestone was determined to be probable during the three and nine months ended September 30, 2021. There were no expenses incurred under the agreement for the nine months ended September 30, 2020.

#### **Accounting for Income Taxes**

The Company uses the asset and liability approach for financial accounting and reporting of income taxes. Deferred income taxes reflect the net tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred taxes are measured using rates expected to apply to taxable income in years in which those temporary differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

We recognize deferred tax assets to the extent that we believe that these assets are more likely than not to be realized. In making such a determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. We have recorded a valuation allowance against our deferred tax assets. If we determine that we would be able to realize our deferred tax assets in the future in excess of their net recorded amount, we would release the valuation, which would be recorded as a reduction to income tax expense in the consolidated statements of operations.

The Company uses a two-step process for the measurement of uncertain tax positions that have been taken or are expected to be taken in a tax return. The first step is a determination of whether the tax position should be recognized in the consolidated financial statements. The second step determines the measurement of the tax position. The Company records potential interest and penalties on uncertain tax positions as a component of income tax expense.

#### **Non-controlling interest**

The non-controlling interests on the condensed consolidated statements of operations represents the portion of earnings or loss attributable to the economic interest in the Company's subsidiary, Holdco, held by the non-controlling holders of Class B common stock and limited liability company interests in Holdco. Non-controlling interests on the condensed consolidated balance sheet represents the portion of net assets of the Company attributable to the non-controlling holders of Class B common stock and Limited Liability Company interests in Holdco. As of September 30, 2021 and December 31, 2020 the non-controlling interest was approximately 1.0% and 10.6%, respectively of ownership of LLC Interests.

#### **Litigation**

The Company is subject to various legal proceedings, claims, litigation, investigations and contingencies arising out of the ordinary course of business. If the likelihood of an adverse legal outcome is determined to be probable and the amount of loss is estimable, then a liability is accrued in accordance with accounting guidance for Contingencies. If the assessment indicates a potentially material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed. The Company consults with both internal and external legal counsel related to litigation.

#### **Adopted Accounting Standard Updates**

In August 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity. Under ASU 2020-06, embedded conversion features are no longer separated from the host contract for convertible instruments with conversion features that are not required to be accounted for as derivatives under Topic 815, or that do not result in substantial premiums accounted for as paid-in capital. Consequently, a convertible debt instrument will be accounted for as a single liability measured at its amortized cost, as long as no other features require bifurcation and recognition as derivatives. The ASU made amendments to the EPS guidance in Topic 260 for convertible debt instruments, the most significant of which is requiring the use of the if-converted method for diluted EPS calculation. ASU 2020-06 is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. Adoption of the ASU can either be on a modified retrospective or full retrospective basis.

On January 1, 2021, we adopted the ASU using the full retrospective method. Under the full retrospective method, the prior period condensed consolidated financial statements have been retrospectively adjusted to reflect the adoption of the accounting standard in those periods. The following tables show the impact of the adoption on our condensed consolidated balance sheet and condensed consolidated statement of operations.

	<b>December 31, 2020</b>	<b>ASU 2020-06</b>	<b>December 31, 2020</b>
	<b>As reported</b>	<b>Adjustment</b>	<b>As adjusted</b>
<b>Liabilities</b>			
Long-term debt, less current installments	\$ 355,979	\$ 47,612	\$ 403,591
<b>Stockholders' Equity</b>			
Additional Paid-in Capital	356,442	(36,800)	319,642
Non-controlling Interest	31,614	(5,631)	25,983
Accumulated Deficit	(93,377)	(5,181)	(98,558)

	<b>For the Three Months Ended</b>		
	<b>September 30, 2020</b>	<b>ASU 2020-06</b>	<b>September 30, 2020</b>
	<b>As reported</b>	<b>Adjustment</b>	<b>As adjusted</b>
Interest expense, net	\$ (7,829)	\$ 1,402	\$ (6,427)
Tax expense	(53,168)	(8,395)	(61,563)
Net loss	(64,529)	(6,993)	(71,522)

	<b>For the Nine Months Ended</b>		
	<b>September 30, 2020</b>	<b>ASU 2020-06</b>	<b>September 30, 2020</b>
	<b>As reported</b>	<b>Adjustment</b>	<b>As adjusted</b>
Interest expense, net	\$ (18,500)	\$ 2,040	\$ (16,460)
Tax expense	(52,060)	(8,522)	(60,582)
Net loss	(69,122)	(6,482)	(75,604)

**Note 2 –Asset Acquisitions**

Capstar Acquisition

On July 31, 2020 the Company completed the acquisition of Capstar® and CapAction® and related assets (the “Capstar Acquisition”) from Elanco US Inc. for \$95 million, plus the cost of certain outstanding finished goods inventory in saleable condition, using cash on hand as a result of the issuance of the Notes in May 2020.

The Capstar Acquisition was accounted for as an asset acquisition and certain transaction related costs of approximately \$1.1 million were included in the cost of the acquired assets. The fair value assigned to trade names was based on the income approach using a relief from royalty methodology that assumes that the fair value of a trade name can be measured by estimating the cost of licensing and paying a royalty fee for the trade name that the owner of the trade name avoids. The estimated fair value of customer relationships was determined using an income approach, specifically a discounted cash flow analysis. The rate utilized to discount net cash flows to their present values was approximately 15% and was determined after consideration of the overall enterprise rate of return and the relative risk and importance of the assets to



the generation of future cash flows. The fair value assigned to patents and processes was determined based on the income approach. The purchased assets are identified below:

<i>\$'s in 000's</i>	<b>Fair Value</b>
<b>Amortizable intangibles</b>	
Customer relationships	\$ 70,901
Patents and processes	9,895
Total amortizable intangibles	80,796
<b>Non-amortizable intangibles</b>	
Trademarks and other	15,276
<b>Total purchased intangible assets</b>	<b>\$ 96,072</b>

The weighted average amortization period of the amortizable intangible assets is approximately 11.8 years.

Supplier Termination, Settlement and Asset Purchase Agreement:

During July 2020, the Company entered into a Termination, Settlement and Asset Purchase Agreement (the “Agreement”) with a supplier who alleged PetIQ had breached its supply agreement due to the acquisition of Perrigo Animal Health. The Agreement called for PetIQ to pay \$20.6 million, \$2.6 million at signing and \$1.0 million per quarter thereafter. The Agreement terminated the supply agreement that was previously in place, settled all outstanding claims and operations, and allowed PetIQ to purchase certain intellectual property related assets. The Company estimated the fair value of the payment obligation as \$17.5 million, and determined the fair value of the acquired assets to be \$9.7 million. The assets acquired are included within the patents and processes intangible assets category and are amortized over 10 years. The assets were valued using the relief from royalty method. The remainder of the obligation was considered to be a payment to settle the alleged breach of the supply agreement, the termination expense is included in general and administrative expenses on the condensed consolidated statement of operations for the three months ended September 30, 2020. The obligation is considered debt and is included in debt on the condensed consolidated balance sheet. See Note 5 – “Debt” for additional information.

**Note 3 – Property, Plant, and Equipment**

Property, plant, and equipment consists of the following at:

<i>\$'s in 000's</i>	<b>September 30, 2021</b>	<b>December 31, 2020</b>
Leasehold improvements	\$ 24,903	\$ 19,709
Equipment	26,043	25,664
Vehicles and accessories	7,097	7,110
Computer equipment and software	12,311	10,858
Buildings	23,328	10,168
Furniture and fixtures	3,785	2,347
Land	6,407	7,067
Construction in progress	7,525	11,331
	111,399	94,254
Less accumulated depreciation	(37,053)	(31,108)
<b>Total property, plant, and equipment</b>	<b>\$ 74,346</b>	<b>\$ 63,146</b>

Depreciation expense related to these assets was \$3.1 million and \$9.4 million for the three and nine months ended September 30, 2021 and \$3.0 million and \$8.9 million for the three and nine months ended September 30, 2020, respectively.

On August 2, 2021, the Company closed on the sale of its previous headquarters in Eagle, Idaho. As part of the closing the Company received approximately \$4.5 million, net of selling expenses, repaid the mortgage related to the building, and recorded a gain of approximately \$1.3 million in the three months ended September 30, 2021.

**Note 4 – Intangible Assets and Goodwill**

Intangible assets consist of the following at:

<i>\$'s in 000's</i>	<b>Useful Lives</b>	<b>September 30, 2021</b>	<b>December 31, 2020</b>
<b>Amortizable intangibles</b>			
Certification	7 years	\$ 350	\$ 350
Customer relationships	12-20 years	160,160	160,178
Patents and processes	5-10 years	14,879	14,905
Brand names	5-15 years	24,727	24,740
Total amortizable intangibles		200,116	200,173
Less accumulated amortization		(39,815)	(25,984)
Total net amortizable intangibles		160,301	174,189
<b>Non-amortizable intangibles</b>			
Trademarks and other		33,341	33,341
In-process research and development		1,668	5,470
Intangible assets, net of accumulated amortization		<u>\$ 195,310</u>	<u>\$ 213,000</u>

Certain intangible assets are denominated in currencies other than the U.S. Dollar; therefore, their gross and net carrying values are subject to foreign currency movements. Amortization expense for the three months ended September 30, 2021 and 2020 was \$4.6 million and \$3.8 million, respectively, and \$17.7 million and \$8.3 million for the nine months ended September 30, 2021 and 2020, respectively.

The in-process research and development (“IPRD”), intangible assets represent the value assigned to three acquired R&D projects that principally represent rights to develop and sell products that the Company has acquired which has not yet been completed or approved. The IPRD acquired as part of the Perrigo Animal Health Acquisition is accounted for as an indefinite-lived asset until the product is available for sale and regulatory approval is obtained, or abandonment of the associated research and development efforts. If the research and development efforts are successfully completed, the IPRD would be amortized over its then estimated useful life. The fair value of the IPRD was estimated using the multi-period excess earnings income method. The projected cash flows estimates for the future products were based on certain key assumptions including estimates of future revenues and expenses, taking into account the stage of development at the acquisition date and the resources needed to complete development. In the event that the efforts are not successful, the Company will write off the relevant IPRD in the period in which it is no longer considered feasible. During the nine months ended September 30, 2021, the Company opted out of two of the acquired projects, effectively abandoning the associated research and development efforts. Accordingly, the Company wrote off the associated IPRD assets of \$3.8 million, the expense for which is included as amortization expense in general and administrative expenses on the condensed consolidated statement of operations for the nine months ended September 30, 2021.

Estimated future amortization expense for each of the following years is as follows:

<b>Years ending December 31, (\$'s in 000's)</b>	
Remainder of 2021	\$ 4,627
2022	17,965
2023	16,919
2024	14,553
2025	13,893
Thereafter	92,344

The following is a summary of the changes in the carrying value of goodwill for the period from January 1, 2020 to September 30, 2021:

(\$'s in 000's)	Reporting Unit		Total
	Products	Services	
Goodwill as of January 1, 2020	183,781	47,264	231,045
Foreign currency translation	113	—	113
Goodwill as of December 31, 2020	183,894	47,264	231,158
Foreign currency translation	(75)	—	(75)
Goodwill as of September 30, 2021	\$ 183,819	\$ 47,264	\$ 231,083

#### Note 5 – Debt

On April 13, 2021, the Company entered into a new \$300 million term loan (“Term Loan B”) and a \$125 million new asset-based revolving line of credit (“ABL”), collectively referred to as the (“credit facilities”).

The credit facilities replace both the Amended Revolving Credit Agreement and A&R Term Loan Agreement as well as fully repay \$27.5 million of the unsecured VIP Seller Notes.

As part of the termination of the Amended Revolving Credit Agreement, the A&R Term Loan Credit agreement, and the VIP Notes, the Company wrote off \$5.5 million in deferred financing fees to loss on debt extinguishment and incurred an additional \$0.9 million in costs related to the transaction which are included in general and administrative expenses

### ***Senior Secured Asset-Based Revolving Credit Facility***

On April 13, 2021, Opco entered into an asset-based credit agreement with KeyBank National Association, as administrative agent and collateral agent, and the lenders' party thereto, that provides senior secured financing of \$125.0 million (which may be increased by up to \$50.0 million in certain circumstances), subject to a borrowing base limitation. The borrowing base for the ABL Facility at any time equals the sum of: (i) 90% of eligible investment-grade accounts; plus (ii) 85% of eligible other accounts; plus, (iii) 85% of the net orderly liquidation value of the cost of certain eligible on-hand and in-transit inventory; plus, (iv) at the option of Opco, 100% of qualified cash; minus (v) reserves. The ABL Facility bears interest at a variable rate plus a margin, with the variable rate being based on a base rate or LIBOR at the option of the Company. The rate at September 30, 2021 was 2.37%. The Company also pays a commitment fee on unused borrowings at a rate of 0.35%.

The ABL is secured by the assets of the Company including a first-priority security interest in personal property consisting of accounts receivable, inventory, cash, and deposit accounts. The ABL contains certain negative covenants that restrict the Company's ability to incur additional indebtedness, pay dividends, make investments, loans, and acquisitions, among other restrictions.

### ***Senior Secured Term Loan Facility***

On April 13, 2021, Opco entered into a term credit and guaranty agreement with Jefferies Finance LLC, as administrative agent and collateral agent, and the lenders' party thereto, that provides senior secured term loans of \$300.0 million (which may be increased in certain circumstances). The Term Loan B bears interest at a variable rate of either prime, federal funds effective rate or LIBOR, plus an applicable margin of between 3.25% and 4.25% depending on the underlying base rate. LIBOR rates are subject to a 0.50% floor. The interest rate at September 30, 2021 was 4.75%. The Term Loan B requires quarterly payments of 0.25% of the original principal amount, with the balance due on the seventh anniversary of the closing date.

The credit agreement governing the Term Loan B does not require Opco to comply with any financial maintenance covenants but additionally contains certain customary representations and warranties, affirmative covenants and provisions relating to events of default.

### ***Convertible Notes***

On May 19, 2020, the Company issued \$143.8 million in aggregate principal amount of 4.00% Convertible Senior Notes due 2026 (the "Notes") pursuant to the indenture (the "Indenture"), dated as of May 19, 2020. The total net proceeds from the Notes offering, after deducting debt issuance costs paid or payable by us, was \$137.9 million. The Notes accrue interest at a rate of 4.00% per annum, payable semi-annually in arrears on June 1 and December 1 of each year, beginning on December 1, 2020. The Notes will mature on June 1, 2026, unless earlier repurchased, redeemed or converted. Before January 15, 2026, holders will have the right to convert their Notes only upon the occurrence of certain events. From and after January 15, 2026, holders may convert their Notes at any time at their election until the close of business on the scheduled trading day immediately before the maturity date. The Company will settle conversions by paying or delivering, as applicable, cash, shares of its Class A common stock, or a combination of cash and shares of its Class A common stock, at its election. The initial conversion rate is 33.7268 shares of Class A common stock per \$1,000 principal amount of Notes. The conversion rate and conversion price will be subject to customary adjustments upon the occurrence of certain events. In addition, if certain corporate events that constitute a "Make-Whole Fundamental Change" (as defined in the Indenture) occur, then the conversion rate will, in certain circumstances, be increased for a specified period of time.

The Notes are redeemable, in whole or in part, at the Company's option at any time, and from time to time, on or after June 1, 2023 and on or before the 40th scheduled trading day immediately before the maturity date, at a cash redemption price equal to the principal amount of the Notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding, the redemption date, but only if the last reported sale price per share of the Company's Class A common stock exceeds 130% of the conversion price on (i) each of at least 20 trading days, whether or not consecutive, during the 30 consecutive trading days ending on, and including, the trading day immediately before the date the Company sends the related redemption notice; and (ii) the trading day immediately before the date the Company sends such notice. In addition, calling

any Notes will constitute a Make-Whole Fundamental Change with respect to such Notes, which will result in an increase to the conversion rate if such Notes are converted after they are called for redemption.

If certain corporate events that constitute a “Fundamental Change” (as defined in the Indenture) occur, then noteholders may require the Company to repurchase their Notes at a cash repurchase price equal to the principal amount of the Notes to be repurchased, plus accrued and unpaid interest, if any, to, but excluding, the fundamental change repurchase date. The definition of Fundamental Change includes certain business combination transactions involving the Company and certain de-listing events with respect to the Company’s Class A common stock.

The Notes are the Company’s senior, unsecured obligations and are (i) equal in right of payment with the Company’s existing and future senior, unsecured indebtedness; (ii) senior in right of payment to the Company’s existing and future indebtedness that is expressly subordinated to the Notes; (iii) effectively subordinated to the Company’s existing and future secured indebtedness, to the extent of the value of the collateral securing that indebtedness; and (iv) structurally subordinated to all existing and future indebtedness and other liabilities, including trade payables, and (to the extent the Company is not a holder thereof) preferred equity, if any, of the Company’s subsidiaries. The Notes contain customary events of default.

The fair value of the Notes was \$171.8 million as of September 30, 2021. The estimated fair value of the Notes is based on market rates and the closing trading price of the Convertible Notes as of September 30, 2021 and is classified as Level 2 in the fair value hierarchy.

#### ***Amended & Restated Credit Agreement***

The Amended Revolving Credit Agreement provides for a secured revolving credit facility of \$125 million that matures on July 8, 2024. The borrowers under the Amended Revolving Credit Facility incur fees between 0.375% and 0.50% as unused facility fees, dependent on the aggregate amount borrowed. On May 14, 2020, the Company amended the Amended Revolving Credit Agreement to allow for the Notes described above. Additionally the amendment instituted a Eurodollar floor of 1% to the agreement.

All obligations under the Amended Revolving Credit Agreement are unconditionally guaranteed by HoldCo and, subject to certain exceptions, each of its material current and future domestic wholly-owned subsidiaries. All obligations under the Amended Revolving Credit Agreement, and the guarantees of those obligations, are secured by substantially all of the assets of each borrower and guarantor under the Amended Revolving Credit Agreement, subject to certain exceptions.

As of September 30, 2021 Amended Revolving Credit Agreement was fully repaid and terminated.

#### ***Amended & Restated Term Loan Credit Agreement***

OpCo entered into an Amended and Restated Term Loan Credit Agreement on July 8, 2019 (the “A&R Term Loan Credit Agreement”). The \$220.0 million A&R Term Loan Credit Agreement has an interest rate equal to the Eurodollar rate plus 5.00%. The A&R Term Loan Credit Agreement calls for 1% of the original loan balance to be paid annually via equal quarterly payments, with the balance of the loan due on the sixth anniversary of the agreement.

All obligations under the A&R Term Loan Credit Agreement are unconditionally guaranteed by PetIQ Holdings, LLC and each of its domestic wholly-owned subsidiaries and, subject to certain exceptions, each of its material current and future domestic wholly-owned subsidiaries. All obligations under the A&R Term Loan Credit Agreement, and the guarantees of those obligations, are secured by substantially all of the assets of PetIQ, LLC and each guarantor under the A&R Term Loan Credit Agreement, subject to certain exceptions.

As of September 30, 2021 the A&R Term Loan Credit Agreement was fully repaid and terminated.

**General Other Debt**

The Company entered into a mortgage with a local bank to finance a commercial building in Eagle, Idaho, in July 2017. The mortgage bears interest at a fixed rate of 4.35% and utilizes a 25 year amortization schedule with a 10 year balloon payment of the balance due at that time. As described in Note 3, the Company entered into an agreement to sell the commercial building in Eagle, Idaho, which closed in the third quarter of 2021. The Company used the proceeds from the sale to repay the mortgage on August 2, 2021.

In July 2020, the Company entered into the Agreement. See Note 2 – “Asset Acquisitions”. The Agreement called for PetIQ to pay \$20.6 million, \$2.6 million at signing and \$1.0 million per quarter thereafter with no interest. The Company discounted the payment stream using a market interest rate of 8.3%, resulting in an obligation of \$17.5 million at the time it was entered into.

In connection with the acquisition of Community Veterinary Clinics, LLC d/b/a, VIP Petcare (the “VIP Acquisition”), the Company entered into a guarantee note of \$10.0 million and contingent Notes that were subsequently earned. As of December 31, 2020 \$7.5 million was payable pursuant to the 2018 Contingent Note and \$10.0 million was payable pursuant to the 2019 Contingent Note. The guarantee note and the Contingent Notes, collectively, “Notes Payable – VIP Acquisition” of \$27.5 million required quarterly interest payments of 6.75% with the balance payable July 17, 2023. These Notes Payable – VIP Acquisition were fully repaid in April 2021.

The following represents the Company’s long-term debt as of:

<i>\$'s in 000's</i>	<b>September 30, 2021</b>	<b>December 31, 2020</b>
Convertible Notes	\$ 143,750	\$ 143,750
Term loans	299,250	217,250
Revolving credit facility	—	15,000
Notes Payable - VIP Acquisition	—	27,500
Other Debt	12,284	16,257
Net discount on debt and deferred financing fees <sup>(1)</sup>	(10,720)	(9,947)
	<u>\$ 444,564</u>	<u>\$ 409,810</u>
Less current maturities of long-term debt	(6,158)	(6,219)
Total long-term debt	<u>\$ 438,406</u>	<u>\$ 403,591</u>

- (1) – The net discount on debt and deferred financing fees were adjusted retrospectively for the adoption of ASU 2020-06 as discussed further in Note 1.

Future maturities of long-term debt, excluding the discount on debt and deferred financing fees, as of September 30, 2021, are as follows:

<i>(\$'s in 000's)</i>	
Remainder of 2021	\$ 2,437
2022	6,246
2023	6,524
2024	6,827
2025	3,000
Thereafter	430,250

**Note 6 – Leases**

The Company leases certain real estate for commercial, production, and retail purposes, as well as equipment from third parties. Lease expiration dates are between 2021 and 2027. A portion of leases are denominated in foreign currencies.

For both operating and finance leases, the Company recognizes a right-of-use (“ROU”) asset, which represents the right to use the underlying asset for the lease term, and a lease liability, which represents the present value of our obligation to make payments arising over the lease term.

We elected the short-term lease exemption for all leases that qualify. This means leases having an initial term of twelve months or less are not recorded on the balance sheet and the related lease expense is recognized on a straight-line basis over the term of the lease.

The Company’s leases may include options to extend or terminate the lease. Renewal options generally range from one to ten years and the options to extend are included in the lease term when it is reasonably certain that we will exercise that option. Some leases have variable payments, however, because they are not based on an index or rate, they are not included in the ROU assets and liabilities. Variable payments for real estate leases primarily relate to common area maintenance, insurance, taxes and utilities. Variable payments for equipment and vehicles primarily relate to usage, repairs, and maintenance. As the implicit rate is not readily determinable for most of the Company’s leases, the Company applies a portfolio approach using an estimated incremental borrowing rate, giving consideration to company specific information and publicly available interest rates for instruments with similar characteristics, to determine the initial present value of lease payments over the lease terms.

The components of lease expense consists of the following:

\$'s in 000's	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
<b>Finance lease cost</b>				
Amortization of right-of-use assets	\$ 412	\$ 409	\$ 1,781	\$ 1,191
Interest on lease liabilities	63	11	277	170
Operating lease cost	1,435	1,316	4,059	4,426
Variable lease cost <sup>(1)</sup>	363	530	978	783
Short-term lease cost	4	12	10	31
Sublease income	(65)	(226)	(173)	(679)
Total lease cost	<u>\$ 2,212</u>	<u>\$ 2,052</u>	<u>\$ 6,932</u>	<u>\$ 5,922</u>

- (1) Variable lease cost primarily relates to percentage rent, common area maintenance, property taxes and insurance on leased real estate.

Other information related to leases was as follows as of:

	September 30, 2021	September 30, 2020
Weighted-average remaining lease term (years)		
Operating leases	4.01	4.52
Finance leases	2.50	2.45
Weighted-average discount rate		
Operating leases	5.0%	5.3%
Finance leases	4.7%	5.8%

Annual future commitments under non-cancelable leases as of September 30, 2021, consist of the following:

<i>\$'s in 000's</i>	Lease Obligations	
	Operating Leases	Finance Leases
Remainder of 2021	\$ 1,679	\$ 371
2022	6,684	1,487
2023	5,897	1,548
2024	4,341	463
2025	3,391	78
Thereafter	1,983	—
Total minimum future obligations	\$ 23,975	\$ 3,947
Less interest	(2,227)	(230)
Present value of net future minimum obligations	21,748	3,717
Less current lease obligations	(5,891)	(1,339)
Long-term lease obligations	\$ 15,857	\$ 2,378

Supplemental cash flow information:

<i>\$'s in 000's</i>	Nine Months Ended	Nine Months Ended
	September 30, 2021	September 30, 2020
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from finance leases	\$ 277	\$ 170
Operating cash flows from operating leases	3,928	4,334
Financing cash flows from finance leases	1,573	1,252
(Noncash) right-of-use assets obtained in exchange for lease obligations		
Operating leases	4,828	3,153
Finance leases	141	993

#### Note 7 – Income Tax

As a result of the Company's initial public offering and related reorganization transactions completed in July 2017, the Company held a majority of the economic interest in Holdco and consolidates the financial position and results of Holdco. The remaining ownership of Holdco not held by the Company is considered a non-controlling interest. Holdco is treated as a partnership for income tax reporting. Holdco's members, including the Company, are liable for federal, state, and local income taxes based on their share of Holdco's taxable income.

Our effective tax rate (ETR) from continuing operations was (4.0)% and (10.8)% for the three and nine months ended September 30, 2021, respectively, and (618.2)% and (403.3)% for the three and nine months ended September 30, 2020, respectively, including discrete items. Income tax expense for the three and nine months ended September 30, 2021 and 2020 was different than the U.S federal statutory income tax rate of 21% primarily due to the effects of a change in valuation allowance, state taxes, foreign rate changes and foreign GILTI income inclusion.

The Company has assessed the realizability of the net deferred tax assets as of September 30, 2021 and in that analysis has considered the relevant positive and negative evidence available to determine whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The realization of the gross deferred tax assets is dependent on several factors, including the generation of sufficient taxable income to realize its deferred tax assets. The Company believes it is more likely than not that the benefit from recorded deferred tax assets will not be realized. The Company has recorded a valuation allowance for deferred tax assets of \$90.6 million and \$71.2 million as of September 30, 2021 and December 31, 2020, respectively. In future periods, if we conclude we have future taxable income sufficient to recognize the deferred tax assets, we may reduce or eliminate the valuation allowance.



HoldCo makes cash distributions to members to pay taxes attributable to their allocable share of income earned. Additionally, HoldCo accrues for distributions required to be made related to estimated income taxes. Tax distributions and accruals were immaterial for the periods presented.

## Note 8 – Earnings per Share

### Basic and Diluted Loss per Share

Basic loss per share of Class A common stock is computed by dividing net loss available to PetIQ, Inc. by the weighted-average number of shares of Class A common stock outstanding during the period. Diluted earnings per share of Class A common stock is computed by dividing net loss available to PetIQ, Inc. by the weighted-average number of shares of Class A common stock outstanding adjusted to give effect to potentially dilutive securities.

On January 1, 2021, we adopted ASU 2020-06 using the full retrospective method. Following this adoption, we utilize the if-converted method for the diluted net loss per share calculation of our convertible Notes (see Note 1 for more information on the adoption of ASU 2020-06).

The following table sets forth reconciliations of the numerators and denominators used to compute basic and diluted loss per share of Class A common stock:

<i>(in 000's, except for per share amounts)</i>	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
<b>Numerator:</b>				
Net loss	\$ (8,328)	\$ (71,522)	\$ (1,908)	\$ (75,604)
Less: net loss attributable to non-controlling interests	(426)	(1,272)	(65)	(1,775)
Net loss attributable to PetIQ, Inc. — basic and diluted	(7,902)	(70,250)	(1,843)	(73,829)
<b>Denominator:</b>				
Weighted-average shares of Class A common stock outstanding				
— basic	28,940	24,935	27,949	24,365
Dilutive effects of stock options that are convertible into Class A common stock	—	—	—	—
Dilutive effect of RSUs	—	—	—	—
Dilutive effect for conversion of Notes	—	—	—	—
Weighted-average shares of Class A common stock outstanding — diluted	28,940	24,935	27,949	24,365
Loss per share of Class A common stock — basic	\$ (0.27)	\$ (2.82)	\$ (0.07)	\$ (3.03)
Loss per share of Class A common stock — diluted	\$ (0.27)	\$ (2.82)	\$ (0.07)	\$ (3.03)

Shares of the Company’s Class B common stock do not share in the earnings or losses of the Company and are therefore not participating securities. As such, separate presentation of basic and diluted earnings per share of Class B common stock under the two-class method has not been presented.

The computation of dilutive effect of other potential common shares excludes all stock options and restricted stock units for the three and nine months ended September 30, 2021 and 2020, as the inclusion under the treasury stock method would have been antidilutive. The dilutive impact of the Notes have not been included in the dilutive earnings per share calculation for the three and nine months ended September 30, 2021 and 2020 as they would be antidilutive.

## Note 9 – Stock Based Compensation

### *PetIQ, Inc. Omnibus Incentive Plan*

The PetIQ, Inc. Omnibus Incentive Plan, as amended (the “Plan”), provides for the grant of various equity-based incentive awards to directors of the Company, employees, and consultants. The types of equity-based awards that may be granted under the Plan include: stock options, stock appreciation rights (SARs), restricted stock, restricted stock units (RSUs), and other stock-based awards. The Company has 3,914 thousand authorized shares under the Plan. As of September 30, 2021

and 2020, 713 thousand and 1,280 thousand shares were available for issuance under the Plan, respectively. All awards issued under the Plan may only be settled in shares of Class A common stock. Shares issued pursuant to awards under the incentive plans are from our authorized but unissued shares.

*PetIQ, Inc. 2018 Inducement and Retention Stock Plan for CVC Employees*

The PetIQ, Inc. 2018 Inducement and Retention Stock Plan for CVC Employees (the “Inducement Plan”) provides for the grant of stock options to employees hired in connection with the VIP Acquisition as employment inducement awards pursuant to NASDAQ Listing Rule 5635(c)(4). The Inducement Plan reserved 800 thousand shares of Class A common stock of the Company. As of September 30, 2021, no shares were available for issuance under the Inducement Plan. All awards issued under the Plan may only be settled in shares of Class A common stock.

Stock Options

The Company awards stock options to certain employees and directors under the Plan and previously issued stock options under the Inducement Plan, which are subject to time-based vesting conditions, typically 25% on each anniversary of the grant date until fully vested. Upon a termination of service relationship by the Company, all unvested options will be forfeited and the shares of common stock underlying such awards will become available for issuance under the Plan. The maximum contractual term for stock options is 10 years.

The fair value of these equity awards is amortized to equity based compensation expense over the vesting period, which totaled \$1.7 million and \$4.5 million for the three and nine months ended September 30, 2021, respectively, and \$1.3 million and \$4.9 million for the three and nine months ended September 30, 2020, respectively. All stock based compensation expense is included in general and administrative expenses based on the role of recipients. The fair value of the stock option awards was determined on the grant dates using the Black-Scholes valuation model based on the following weighted-average assumptions for the periods ended September 30, 2021 and 2020:

	<u>September 30, 2021</u>	<u>September 30, 2020</u>
Expected term (years) <sup>(1)</sup>	6.17	6.25
Expected volatility <sup>(2)</sup>	33.45 %	33.91 %
Risk-free interest rate <sup>(3)</sup>	0.89 %	0.37 %
Dividend yield <sup>(4)</sup>	0.00 %	0.00 %

- (1) The Company utilized the simplified method to determine the expected term of the stock options since we do not have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term.
- (2) The expected volatility assumption was calculated based on a peer group analysis of stock price volatility with a look back period consistent with the expected option term.
- (3) The risk-free interest rate was based on the U.S. Treasury yield curve in effect at the time of grant, which corresponds to the expected term of the stock options.
- (4) The Company has not paid and does not anticipate paying a cash dividend on our common stock.

The weighted average grant date fair value of stock options granted during the period ended September 30, 2021 was \$12.39 per option. At September 30, 2021, total unrecognized compensation cost related to unvested stock options was \$8.4 million and is expected to be recognized over a weighted-average period of 2.4 years.

	Stock Options (in 000's)	Weighted Average Exercise Price	Aggregate Intrinsic Value (in 000's)	Weighted Average Remaining Contractual Life (years)
Outstanding at January 1, 2020	2,072	\$ 24.63	\$ 6,266	8.0
Granted	505	20.22		
Exercised	(395)	23.48	\$ 4,468	
Forfeited	(96)	21.42		
Outstanding at December 31, 2020	2,086	\$ 23.93	\$ 30,302	7.2
Granted	354	35.66		
Exercised	(533)	23.69	\$ 8,059	
Forfeited	(37)	23.88		
Cancelled	(1)	27.73		
Outstanding at September 30, 2021	1,869	\$ 26.21	\$ 4,957	7.3
Options exercisable at September 30, 2021	768			

#### Restricted Stock Units

The Company awards RSUs to certain employees and directors under the Plan, which are subject to time-based vesting conditions. Upon a termination of service relationship by the Company, all unvested RSUs will be forfeited and the shares of common stock underlying such awards will become available for issuance under the Plan. The fair value of RSUs are measured based on the closing fair market value of the Company's common stock on the date of grant. At September 30, 2021, total unrecognized compensation cost related to unvested RSUs was \$12.6 million and is expected to vest over a weighted average 2.9 years.

The fair value of these equity awards is amortized to equity based compensation expense over the vesting period, which totaled \$1.7 million and \$3.6 million for the three and nine months ended September 30, 2021, respectively, and \$0.5 million and \$1.7 million for the three and nine months ended September 30, 2020, respectively. All stock based compensation expense is included in general and administrative expenses based on the role of recipients.

The following table summarizes the activity of the Company's RSUs for the period ended September 30, 2021.

	Number of Shares (in 000's)	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2020	133	\$ 28.85
Granted	271	20.73
Settled	(70)	25.65
Forfeited	(17)	23.34
Outstanding at December 31, 2020	317	\$ 22.91
Granted	268	37.91
Settled	(98)	24.36
Forfeited	(11)	24.80
Nonvested RSUs at September 30, 2021	476	\$ 31.01

**Note 10 – Stockholders’ Equity**Exchanges

During the nine months ended September 30, 2021 holders of Class B common stock and LLC Interests exercised exchange rights and exchanged 2,748 thousand Class B common shares and corresponding LLC Interests for newly issued Class A common stock. The LLC Agreement generally allows for exchanges on the last day of each calendar month.

**Note 11 – Non-Controlling Interests**

The following table presents the outstanding LLC Interests and changes in LLC Interests for the periods presented.

<i>\$'s in 000's</i>	LLC Interests held			% of Total	
	LLC			LLC	
	Owners	PetIQ, Inc.	Total	Owners	PetIQ, Inc.
As of January 1, 2020	4,752	23,554	28,306	16.8%	83.2%
Stock based compensation transactions	—	445	445		
Exchange transactions	(1,712)	1,712	—		
As of December 31, 2020	3,040	25,711	28,751	10.6%	89.4%
Stock based compensation transactions		606	606		
Exchange transactions	(2,748)	2,748	—		
As of September 30, 2021	292	29,065	29,357	1.0%	99.0%

Note that certain figures shown in the table above may not recalculate due to rounding.

For the three and nine months ended September 30, 2021 the Company owned a weighted average of 98.6% and 95.8%, respectively, and 87.2% and 85.7% for the three and nine months ended September 30, 2020, respectively, of Holdco.

**Note 12 – Customer Concentration**

The Company has significant exposure to customer concentration. During the three and nine months ended September 30, 2021, two and one customers individually accounted for more than 10% of sales, comprising 41% and 26% of net sales, respectively for such periods. During the three and nine months ended September 30, 2020 two customers individually accounted for more than 10% of sales, comprising 42% and 42% of net sales in both such periods.

At September 30, 2021 two Products segment customer individually accounted for more than 10% of outstanding trade receivables, and accounted for 56% of outstanding trade receivables, net. At December 31, 2020 one Products segment customers individually accounted for more than 10% of outstanding trade receivables, and accounted for 52% of outstanding trade receivables, net.

**Note 13 – Commitments and Contingencies****Litigation Contingencies**

The Company records a liability when a particular contingency is probable and estimable and provides disclosure for contingencies that are at least reasonably possible of resulting in a loss including an estimate which we currently cannot make. The Company did not accrue for any contingency at December 31, 2020 as the Company did not consider any contingency to be probable or estimable. The Company expenses legal costs as incurred within general and administrative expenses on the condensed consolidated statements of operations.

During the three months ended September 30, 2021, the Company entered into mediation with a third party who had filed a class action lawsuit against the Company. As a result of that mediation, the Company accrued the expected settlement of \$1.4 million.

Additionally, during the three months ended September 30, 2021, the Company has continued to evaluate a lawsuit brought by a former supplier to the Company related to the redemption of ownership interest. The plaintiff has alleged actual damages of approximately \$3 million and has claimed additional punitive damages. The Company believes the range of outcomes is between \$0.8 million and the amount alleged by the plaintiff, and as no amount within the range is more likely than any other, the Company has accrued an obligation of \$0.8 million as of September 30, 2021. There is no assurance that the Company's defense will be successful, and as such the Company will continue to monitor the expected outcome of the matter.

#### Commitments

We have commitments for leases and long-term debt that are discussed further in Note 5, Debt, and Note 6, Leases. In addition, we have purchase obligations for goods and services, capital expenditures, and raw materials entered into in the normal course of business.

#### Note 14 – Segments

The Company has two operating segments: Products and Services. The Products segment consists of the Company's manufacturing and distribution business. The Services segment consists of the Company's veterinary services, and related product sales, provided by the Company directly to consumers.

The segments are based on the discrete financial information reviewed by the Chief Operating Decision Maker ("CODM") to make resource allocation decisions and to evaluate performance. We measure and evaluate our reportable segments based on net sales and segment Adjusted EBITDA. We exclude from our segments certain corporate costs and expenses, such as accounting, legal, human resources, information technology and corporate headquarters expenses as our corporate functions do not meet the definition of a segment as defined in the accounting guidance related to segment reporting.

Financial information relating to the Company's operating segments for the three months ended:

<i>\$'s in 000's</i> September 30, 2021	Products	Services	Unallocated Corporate	Consolidated
Net Sales	\$ 181,557	\$ 28,977	\$ —	\$ 210,534
Adjusted EBITDA	33,678	3,821	(21,135)	16,364
Depreciation expense	982	1,454	709	3,145
Capital expenditures	578	2,177	3,520	6,275

<i>\$'s in 000's</i> September 30, 2020	Products	Services	Unallocated Corporate	Consolidated
Net Sales	\$ 150,063	\$ 12,020	\$ —	\$ 162,083
Adjusted EBITDA	26,318	(223)	(14,088)	12,007
Depreciation expense	1,201	937	892	3,030
Capital expenditures	4,072	2,193	122	6,387

Financial information relating to the Company's operating segments for the nine months ended:

<i>\$'s in 000's</i> September 30, 2021	Products	Services	Unallocated Corporate	Consolidated
Net Sales	\$ 654,448	\$ 81,444	\$ —	\$ 735,892
Adjusted EBITDA	120,657	8,945	(52,018)	77,584
Depreciation expense	2,913	3,924	2,582	9,419
Capital expenditures	1,533	8,810	14,234	24,577

<i>\$'s in 000's</i>				
<b>September 30, 2020</b>	<b>Products</b>	<b>Services</b>	<b>Unallocated Corporate</b>	<b>Consolidated</b>
Net Sales	\$ 580,650	\$ 35,193	\$ —	\$ 615,843
Adjusted EBITDA	92,448	2,878	(40,555)	54,771
Depreciation expense	3,685	2,674	2,527	8,886
Capital expenditures	9,337	5,966	1,508	16,811

The following table reconciles Segment Adjusted EBITDA to Net loss for the periods presented.

<i>\$'s in 000's</i>	<b>For the three months ended</b>		<b>For the nine months ended</b>	
	<b>September 30, 2021</b>	<b>September 30, 2020</b>	<b>September 30, 2021</b>	<b>September 30, 2020</b>
<b>Adjusted EBITDA:</b>				
Product	\$ 33,678	\$ 26,318	\$ 120,657	\$ 92,448
Services	3,821	(223)	8,945	2,878
Unallocated Corporate	(21,135)	(14,088)	(52,018)	(40,555)
Total Consolidated	16,364	12,007	77,584	54,771
<b>Adjustments:</b>				
Depreciation	(3,145)	(3,030)	(9,419)	(8,886)
Amortization	(4,627)	(3,821)	(17,682)	(8,313)
Interest	(6,168)	(6,427)	(18,693)	(16,460)
Acquisition costs <sup>(1)</sup>	—	(1,083)	(92)	(1,815)
Loss on extinguishment and related costs <sup>(2)</sup>	—	—	(6,438)	—
Stock based compensation expense	(2,627)	(2,147)	(7,188)	(6,549)
Integration costs <sup>(3)</sup>	1,041	(307)	354	(9,611)
Non same-store revenue <sup>(4)</sup>	7,245	2,884	17,622	6,119
Non same-store costs <sup>(4)</sup>	(12,594)	(5,378)	(32,426)	(15,476)
Clinic launch expenses <sup>(5)</sup>	(846)	(767)	(2,126)	(2,046)
Litigation expenses	(2,323)	(290)	(2,886)	(723)
CFO Transition	(331)	—	(331)	—
COVID-19 related costs <sup>(6)</sup>	—	(1,600)	—	(6,033)
<b>Pretax net loss</b>	\$ (8,011)	\$ (9,959)	\$ (1,721)	\$ (15,022)
Income tax expense	(317)	(61,563)	(187)	(60,582)
<b>Net loss</b>	\$ (8,328)	\$ (71,522)	\$ (1,908)	\$ (75,604)

- (1) Acquisition costs include legal, accounting, banking, consulting, diligence, and other out-of-pocket costs related to completed and contemplated acquisitions.
- (2) Loss on debt extinguishment and related costs are related to our entering into two new credit facilities, including the write off of deferred financing costs and related out of pocket costs.
- (3) Integration costs and costs of discontinued clinics represent costs related to integrating the acquired businesses, such as personnel costs like severance and signing bonuses, consulting work, contract termination, and IT conversion costs. These costs are primarily in the Products segment and the corporate segment for personnel

costs, legal and consulting expenses, and IT costs. Additionally integration costs include the gain on the sale of our previous headquarters.

- (4) Non same-store revenue and costs relate to our Services segment and are from wellness centers, host partners, and regions with less than six full trailing quarters of operating results.
- (5) Clinic launch expenses relate to our Services segment and represent the nonrecurring costs to open new veterinary wellness centers, primarily employee costs, training, marketing, and rent prior to opening for business.
- (6) Costs related to maintaining service segment infrastructure, staffing, and overhead related clinics and wellness centers closed due to COVID-19 related health and safety initiatives. Product segment and unallocated corporate costs related to incremental wages paid to essential workers and sanitation costs due to COVID.

Supplemental geographic disclosures are below.

<i>\$'s in 000's</i>	Nine months ended September 30, 2021		
	U.S.	Foreign	Total
Product sales	\$ 649,232	\$ 5,216	\$ 654,448
Service revenue	81,444	—	81,444
Total net sales	\$ 730,676	\$ 5,216	\$ 735,892

<i>\$'s in 000's</i>	Nine months ended September 30, 2020		
	U.S.	Foreign	Total
Product sales	\$ 576,756	\$ 3,894	\$ 580,650
Service revenue	35,193	—	35,193
Total net sales	\$ 611,949	\$ 3,894	\$ 615,843

<i>\$'s in 000's</i>	Three months ended September 30, 2021		
	U.S.	Foreign	Total
Product sales	\$ 179,759	\$ 1,798	\$ 181,557
Service revenue	28,977	—	28,977
Total net sales	\$ 208,736	\$ 1,798	\$ 210,534

<i>\$'s in 000's</i>	Three months ended September 30, 2020		
	U.S.	Foreign	Total
Product sales	\$ 148,424	\$ 1,639	\$ 150,063
Service revenue	12,020	—	12,020
Total net sales	\$ 160,444	\$ 1,639	\$ 162,083

Property, plant, and equipment by geographic location is below.

	September 30, 2021	December 31, 2020
United States	\$ 73,004	\$ 61,807
Europe	1,342	1,339
Total	\$ 74,346	\$ 63,146

**Note 15 – Related Parties**

Chris Christensen, the brother of CEO, McCord Christensen, acts as the Company’s agent at Moreton Insurance (“Moreton”), which acts as a broker for a number of the Company’s insurance policies. The Company’s premium expense, which is paid at a variety of times throughout the year, is generally paid directly to the relevant insurance company, amounted to \$6.8 million and \$6.2 million for the fiscal years 2021 and 2020, respectively. Mr. Chris Christensen earns various forms of compensation based on the specifics of each policy.

Mike Christensen, the brother of CEO, McCord Christensen, is a Partner in the real estate brokerage firm, Colliers International Idaho, (“Colliers”) which acted as the Company’s broker in the sale of the Company’s prior corporate office in Eagle, Idaho for \$4.8 million. Colliers was paid \$0.1 million in real estate commissions on the sale of the property for the three and nine months ended September 30, 2021. In April 2020, the Company purchased a parcel of land for \$2.5 million. Colliers was paid \$0 and \$0.08 million as the broker in this transaction for the three and nine months ended September 30, 2020.

Katie Turner, the spouse of CEO, McCord Christensen, is the owner of Acadia Investor Relations LLC, (“Acadia”) which acts as the Company’s investor relations consultant. Acadia has been paid \$0.06 million and \$0.2 million for the three and nine months ended September 30, 2021.

## **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.**

*The following is a discussion of our results of operations and current financial condition. This should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and our audited consolidated financial statements for the year ended December 31, 2020 and related notes included in the annual report for PetIQ, Inc., filed with the Securities and Exchange Commission (the “SEC”) on Form 10-K for the year ended December 31, 2020. This discussion contains forward-looking statements that reflect our plans, estimates, and beliefs and involve numerous risks and uncertainties. Actual results may differ materially from those contained in any forward-looking statements. See “Cautionary Note Regarding Forward-Looking Statements.”*

### **Business Overview –**

PetIQ is a leading pet medication and wellness company delivering a smarter way for pet parents to help their pets live their best lives through convenient access to affordable veterinary products and services. We engage with customers through more than 60,000 points of distribution across retail, including veterinary, channels with our branded distributed medications, which is further supported by our own world-class medication manufacturing facility in Omaha, Nebraska. Our national service platform, VIP Petcare (“VIP”), operates in over 2,900 retail partner locations in 41 states, providing cost effective and convenient veterinary wellness services. PetIQ believes that pets are an important part of the family and deserve the best products and care we can give them.

We have two reporting segments: (i) Products; and (ii) Services. The Products segment consists of our manufacturing and distribution business. The Services segments consists of veterinary services and related product sales provided by the Company directly to consumers.

We are the sole managing member of PetIQ Holdings, LLC (“HoldCo”), a Delaware limited liability company, which is the sole member of PetIQ, LLC (“Opco”) and, through Holdco, operate and control all of the business and affairs of Opco.

### **Coronavirus Disease (COVID-19) Considerations**

The global COVID-19 pandemic has created significant volatility, disruption and uncertainty. It has resulted in government restrictions, such as “stay-at-home” or “shelter-in-place” directives, quarantines, travel advisories and the implementation of social distancing measures, leading to the closure of businesses and causing weakened economic conditions and an economic slowdown and recession.

With the anticipated gradual receding of the pandemic, as well as COVID-19 vaccinations becoming more widespread and various restrictions continuing to ease, consumers have started to resume normal activities, including seeking in person veterinary care for their companion animals, and more businesses have commenced resuming operations. Nonetheless, the Company has continued to experience certain negative effects as a result of the pandemic, including, absenteeism in excess of historical average, a shortage of skilled veterinarians; and certain supply chain delays. There can be no assurance that



such positive trends will continue or that there will not be any increases of new infections or new variants that may impede or reverse recovery and such positive trends.

Since the beginning of the pandemic in the first quarter of 2020, the Company has implemented various policies and procedures designed to ensure the safety of our customers and team members. With COVID-19 hospitalizations and deaths declining through the United States, as well as expanded access to vaccines, we have begun to roll back certain policies that incurred additional costs, such as incremental team members at veterinary services clinics and wellness centers to ensure social distancing and enhanced sanitation.

## Results of Operations

The following tables set forth our consolidated statements of operations in dollars and as a percentage of net sales for the periods presented:

<i>\$'s in 000's</i>	For the Three Months Ended		% of Net Sales	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Product sales	\$ 181,557	\$ 150,063	86.2 %	92.6 %
Services revenue	28,977	12,020	13.8 %	7.4 %
Total net sales	210,534	162,083	100.0 %	100.0 %
Cost of products sold	142,009	116,847	67.5 %	72.1 %
Cost of services	26,453	12,968	12.6 %	8.0 %
Total cost of sales	168,462	129,815	80.0 %	80.1 %
Gross profit	42,072	32,268	20.0 %	19.9 %
General and administrative expenses	45,252	35,562	21.5 %	21.9 %
Operating loss	(3,180)	(3,294)	(1.5)%	(2.0)%
Interest expense, net	(6,168)	(6,427)	(2.9)%	(4.0)%
Foreign currency (loss) income, net	6	(251)	0.0 %	(0.2)%
Other income, net	1,331	13	0.6 %	0.0 %
Total other expense, net	4,831	6,665	2.3 %	4.1 %
Pretax net loss	(8,011)	(9,959)	(3.8)%	(6.1)%
Income tax expense	(317)	(61,563)	(0.2)%	(38.0)%
Net loss	\$ (8,328)	\$ (71,522)	(4.0)%	(44.1)%

<i>\$'s in 000's</i>	For the Nine Months Ended		% of Net Sales	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Product sales	\$ 654,448	\$ 580,650	88.9 %	94.3 %
Services revenue	81,444	35,193	11.1 %	5.7 %
Total net sales	735,892	615,843	100.0 %	100.0 %
Cost of products sold	510,673	469,095	69.4 %	76.2 %
Cost of services	75,720	40,142	10.3 %	6.5 %
Total cost of sales	586,393	509,237	79.7 %	82.7 %
Gross profit	149,499	106,606	20.3 %	17.3 %
General and administrative expenses	129,066	105,744	17.5 %	17.2 %
Operating income	20,433	862	2.8 %	0.1 %
Interest expense, net	(18,693)	(16,460)	(2.5)%	(2.7)%
Foreign currency (loss) income, net	(98)	(126)	(0.0)%	(0.0)%
Loss on debt extinguishment	(5,453)	—	(0.7)%	— %
Other income, net	2,090	702	0.3 %	0.1 %
Total other expense, net	22,154	15,884	3.0 %	2.6 %
Pretax net loss	(1,721)	(15,022)	(0.2)%	(2.4)%
Income tax expense	(187)	(60,582)	(0.0)%	(9.8)%
Net loss	\$ (1,908)	\$ (75,604)	(0.3)%	(12.3)%

The following tables set forth financial information relating to the Company's operating segments for the periods presented:

<i>\$'s in 000's</i>	For the three months ended		For the nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
<b>Services segment sales:</b>				
Same-store sales	\$ 21,732	\$ 9,136	\$ 63,822	\$ 29,074
Non same-store sales	7,245	2,884	17,622	6,119
Net services segment sales	28,977	12,020	81,444	35,193
<b>Products segment sales</b>				
Total net sales	210,534	162,083	735,892	615,843
<b>Adjusted EBITDA</b>				
Products	33,678	26,318	120,657	92,448
Services	3,821	(223)	8,945	2,878
Unallocated Corporate	(21,135)	(14,088)	(52,018)	(40,555)
Total Adjusted EBITDA	\$ 16,364	\$ 12,007	\$ 77,584	\$ 54,771

### Three Months Ended September 30, 2021 Compared With Three Months Ended September 30, 2020

#### *Net sales*

##### *Consolidated Net Sales*

Consolidated net sales increased \$48.5 million, or 29.9%, to \$210.5 for the three months ended September 30, 2021, compared to \$162.1 million for the three months ended September 30, 2020. This increase was driven by reopening and expansion in the Services Segment as well continued growth in the Products Segment. Growth in the Services segment is related to more days open and newly opened wellness centers, compared to the closures related to COVID-19 that heavily impacted the comparable periods.

##### Products Segment

Product sales increased \$31.5 million, or 21.0%, to \$181.6 million for the three months ended September 30, 2021, compared to \$150.1 million for the three months ended September 30, 2020. This increase was driven by timing of orders with a number of customers ordering less in the comparable period as they adjusted inventory due to COVID-19 disruptions to consumer behavior. Additionally the Company continues to see velocity growth through current customers, offset slightly by the loss of distribution from one manufacturer to one key customer.

##### Services Segment

Services revenues increased \$17.0 million, or 141%, from \$12.0 million to \$29.0 million for the three months ended September 30, 2021, compared to the three months ended September 30, 2020. Same-store sales increased \$12.6 million, or 138%, to \$21.7 million for the three months ended September 30, 2021, compared to \$9.1 million for the three months ended September 30, 2020. The increase in same-store sales was driven by relaxation of COVID-19 related closures. Non same-store sales increased \$4.4 million or 151%, to \$7.3 million for the three months ended September 30, 2021, compared to \$2.9 million for the three months ended September 30, 2020. The increase in non same-store sales was a result of opening approximately 72 additional wellness centers in 2021, as well as the rollback of COVID protocols.

#### *Gross profit*

Gross profit increased by \$9.8 million, or 30.5%, to \$42.1 million for the three months ended September 30, 2021, compared to \$32.3 million for the three months ended September 30, 2020. This increase is due to margin improvements in the Services segment related to relaxation of COVID-19 related restrictions and policies and procedures, offset slightly by the mix of products sold being more weighted to lower margin items.

Gross margin increased to 20.0% for the three months ended September 30, 2021, compared to 19.9% for the three months ended September 30, 2020. This increase was driven improvements in services margin due to reopening operations.

***General and administrative expenses***

Consolidated general and administrative expenses (“G&A”) increased by \$9.7 million, or 27.4%, to \$45.3 million for the three months ended September 30, 2021, compared to \$35.6 million for the three months ended September 30, 2020. As a percentage of net sales, G&A decreased from 21.9% for the three months ended September 30, 2020 to 21.5% for the third quarter of 2021. The Company had higher selling and marketing costs for both Products and Services segment to support the growth in sales, the increase in R&D due to a \$2 million accrual, as well as inflationary increases throughout the business, however the increase in sales offset the growth in G&A (thus the reduction in G&A as a percentage of sales).

Products Segment

Products segment G&A increased \$0.7 million or approximately 8.4% to \$9.0 million for the three months ended September 30, 2021, compared to \$8.3 million for the three months ended September 30, 2020. This increase was due to higher marketing and selling costs related to the Capstar brand, offset slightly by efficiencies gained through centralizing our OTC distribution to our Omaha, Nebraska distribution facility.

Services Segment

Services segment G&A increased \$1.6 million, or 31.4%, to \$6.7 million for the three months ended September 30, 2021, compared to \$5.1 million for the three months ended September 30, 2020. This increase was driven by increased wages and marketing related to new clinic rollouts, as well as increased variable costs on higher sales driven by reopening.

Unallocated Corporate

Unallocated corporate G&A increased \$7.6 million, or 34.4%, to \$29.7 million for the three months ended September 30, 2021, from \$22.1 million for the three months ended September 30, 2020. The increase was related to the following:

- Additional corporate compensation (wages/bonus/stock compensation) of approximately \$0.5 million, driven by corporate growth in headcount and wage rates;
- Increased amortization of \$0.8 million resulting from the new acquisitions; and
- Increase in R&D, driven by \$2.0 million milestone becoming probable due to work by partner; and
- Two legal contingency accruals totalling approximately \$2.1 million.

***Interest expense, net***

Interest expense, net, decreased \$0.3 million to \$6.2 million for the three months ended September 30, 2021, compared to \$6.4 million for the three months ended September 30, 2020. This increase was driven by the lower rates on the new debt, as the Company refinanced a majority of its debt in the second quarter of 2021.

***Provision for income taxes***

Our effective tax rate was (4.0)% and (618.2)% for the three months ended September 30, 2021 and 2020, respectively, with a tax expense of \$0.3 million and \$61.6 million, respectively. The tax rate is different than the U.S federal statutory income tax rate of 21% primarily due to the effects of a change in valuation allowance, state taxes, and foreign Global Intangible Low-Taxed Income (“GILTI”) income inclusion. The Company’s tax rate is also impacted by the ownership structure of Holdco, which changes over time.

***Segment Adjusted EBITDA***

Products Segment

Products segment Adjusted EBITDA increased \$7.4 million, or 28.0% to \$33.7 million for the three months ended September 30, 2021, compared to \$26.3 million for the three months ended September 30, 2020. Products segment Adjusted EBITDA fluctuates based on the quantity and mix of products sold, specifically whether the products are produced by PetIQ, or are distributed for other manufacturers. The significant growth in Products segment Adjusted EBITDA relates primarily to expanded total sales, driven by velocity growth and timing of retailer re-orders.

Services Segment

Services segment Adjusted EBITDA increased \$4.0 million, to \$3.8 million for the three months ended September 30, 2021, compared to (\$0.2) million for the three months ended September 30, 2020. Services segment Adjusted EBITDA can fluctuate considerably for the Services segment based on the volume of pets seen in clinics, due to the relatively fixed cost nature of a clinic. Additionally, Services segment earnings are impacted by the Company's growth strategy of opening new wellness centers and the impact of the Company's same store portfolio. Services segment Adjusted EBITDA was significantly impacted by the COVID-19, with the impact lessening throughout the three months ended September 30, 2021.

Unallocated Corporate

Unallocated corporate expenses consist of expenses incurred by centrally-managed departments, including accounting, legal, human resources information technology and headquarters expenses, as well as executive and incentive compensation expenses, and other miscellaneous costs. Unallocated corporate costs have primarily grown due to the growth in the size of the Company, including adding to administrative headcount through acquisitions, as well as headquarters growth to support the larger Company. Adjustments to unallocated corporate include expenses related to specific events, such as the acquisition expenses and integration costs. Adjustments also include non-cash expenses, such as depreciation, amortization, and stock based compensation.

The following tables reconcile Segment pre-tax net income to Adjusted EBITDA for the periods presented.

<i>\$'s in 000's</i>	<b>Three months ended September 30, 2021</b>			
	<b>Products</b>	<b>Services</b>	<b>Unallocated Corporate</b>	<b>Consolidated</b>
Pretax net income (loss)	\$ 32,696	\$ (3,828)	\$ (36,879)	\$ (8,011)
<b>Adjustments:</b>				
Depreciation	982	1,454	709	3,145
Interest	—	—	6,168	6,168
Amortization	—	—	4,627	4,627
Stock based compensation expense	—	—	2,627	2,627
Non same-store revenue <sup>(2)</sup>	—	(7,245)	—	(7,245)
Non same-store costs <sup>(2)</sup>	—	12,594	—	12,594
Integration costs and costs of discontinued clinics <sup>(3)</sup>	—	—	(1,041)	(1,041)
Clinic launch expense <sup>(4)</sup>	—	846	—	846
Litigation expenses	—	—	2,323	2,323
CFO Transition	—	—	331	331
<b>Adjusted EBITDA</b>	<b>\$ 33,678</b>	<b>\$ 3,821</b>	<b>\$ (21,135)</b>	<b>\$ 16,364</b>

<i>\$'s in 000's</i>	<b>Three months ended September 30, 2020</b>			
	<b>Products</b>	<b>Services</b>	<b>Unallocated Corporate</b>	<b>Consolidated</b>
Pretax net income (loss)	\$ 25,117	\$ (6,021)	\$ (31,095)	\$ (11,999)
<b>Adjustments:</b>				
Depreciation	1,201	937	892	3,030
Interest, net	—	—	8,467	8,467
Amortization	—	—	3,821	3,821
Acquisition costs <sup>(1)</sup>	—	—	1,083	1,083
Stock based compensation expense	—	—	2,147	2,147
Non same-store revenue <sup>(2)</sup>	—	(2,884)	—	(2,884)
Non same-store costs <sup>(2)</sup>	—	5,378	—	5,378
Integration costs and costs of discontinued clinics <sup>(3)</sup>	—	—	307	307
Clinic launch expense <sup>(4)</sup>	—	767	—	767
Litigation expenses	—	—	290	290
COVID-19 related costs <sup>(5)</sup>	—	1,600	—	1,600
<b>Adjusted EBITDA</b>	<b>\$ 26,318</b>	<b>\$ (223)</b>	<b>\$ (14,088)</b>	<b>\$ 12,007</b>

- (1) Acquisition costs include legal, accounting, banking, consulting, diligence, and other out-of-pocket costs related to completed and contemplated acquisitions.
- (2) Non same-store revenue and costs relate to our Services segment and are from wellness centers, host partners, and regions with less than six full trailing quarters of operating results.
- (3) Integration costs and costs of discontinued clinics represent costs related to integrating the acquired businesses, such as personnel costs like severance and signing bonuses, consulting work, contract termination, and IT conversion costs. These costs are primarily in the Products segment and the corporate segment for personnel costs, legal and consulting expenses, and IT costs.
- (4) Clinic launch expenses relate to our Services segment and represent the nonrecurring costs to open new veterinary wellness centers, primarily employee costs, training, marketing, and rent prior to opening for business.
- (5) Costs related to maintaining service segment infrastructure, staffing, and overhead related clinics and wellness centers closed due to COVID-19 related health and safety initiatives. Product segment and unallocated corporate costs related to incremental wages paid to essential workers and sanitation costs due to COVID.

### **Nine months ended September 30, 2021 Compared With Nine months ended September 30, 2020**

#### **Net sales**

##### *Consolidated Net Sales*

Consolidated net sales increased \$120.1 million, or 19.5%, to \$735.9 million for the nine months ended September 30, 2021, compared to \$615.8 million for the nine months ended September 30, 2020. This increase was driven by the growth in the Services segment related to more days open and newly opened wellness centers, compared to the closures related to COVID-19 that started during the nine months ended September 30, 2020. Additionally the Company has seen continued growth in product sales.

##### Products Segment

Product sales increased \$73.8 million, or 12.7%, to \$654.5 million for the nine months ended September 30, 2021, compared to \$580.7 million for the nine months ended September 30, 2020. This increase was driven by velocity growth within current customers of distributed products, as well as modest sales growth as a result of the Capstar acquisition. This includes a program change at a major partner who moved from a manufactured offering to a distributed offering which increased net sales.

### Services Segment

Services revenues increased \$46.3 million, or 131.4%, from \$35.2 million to \$81.4 million for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020. Same-store sales increased \$34.8 million, or 119.5%, to \$63.8 million for the nine months ended September 30, 2021, compared to \$29.1 million for the nine months ended September 30, 2020. The increase in same-store sales was driven by relaxation of COVID-19 related closures. Non same-store sales increased \$11.5 million or 188.0%, to \$17.6 million for the nine months ended September 30, 2021, compared to \$6.1 million for the nine months ended September 30, 2020. The increase in non same-store sales was a result of opening approximately 72 additional wellness centers in 2021, as well as the maturation of clinics opened in the past six trailing quarters and operational improvements with the relaxation of COVID-19 restrictions.

### **Gross profit**

Gross profit increased by \$42.9 million, or 40.3%, to \$149.5 million for the nine months ended September 30, 2021, compared to \$106.6 million for the nine months ended September 30, 2020. This increase is due to margin improvements in the Services Segment due to resuming nearly normal operations.

Gross margin increased to 20.3% for the nine months ended September 30, 2021, compared to 17.3% for the nine months ended September 30, 2020. This increase was driven by product sales growth in higher margin items such as Capstar and the improvements in the Services segment.

### **General and administrative expenses**

Consolidated general and administrative expenses (“G&A”) increased by \$23.4 million, or 22.1%, to \$129.1 million for the nine months ended September 30, 2021, compared to \$105.7 million for the nine months ended September 30, 2020. As a percentage of net sales, G&A increased from 17.2% for the nine months ended September 30, 2020 to 17.5% for the third quarter of 2021, primarily on the increase in amortization expense related to acquisitions, increased R&D expenses, and costs to support larger operations.

### Products Segment

Products segment G&A increased \$4.9 million or approximately 20.3% to \$29.1 million for the nine months ended September 30, 2021, compared to \$24.2 million for the nine months ended September 30, 2020. This increase was driven due to higher sales resulting in higher selling costs, as well as marketing and selling costs related to the Capstar products.

### Services Segment

Services segment G&A increased \$6.1 million, or 51.7%, to \$17.9 million for the nine months ended September 30, 2021, compared to \$11.8 million for the nine months ended September 30, 2020. This increase was driven by increased wages and marketing related to new clinic rollouts, as well as increased variable costs on higher sales.

### Unallocated Corporate

Unallocated corporate G&A increased \$12.4 million, or 17.8%, to \$82.2 million for the nine months ended September 30, 2021, from \$69.8 million for the nine months ended September 30, 2020. The increase was related to the following:

- Additional corporate compensation (wages/bonus) of approximately \$3.3 million, driven by corporate growth in headcount and wage rates;
- Increase in R&D, driven by \$2.0 million milestone becoming probable due to work by partner; and
- Two legal contingency accruals totalling approximately \$2.1 million.
- Increased amortization of \$9.6 million resulting from the new acquisitions and the acceleration of in-process research and development assets with a shortened life; offset by
- The lack of the contract termination costs that occurred in the three months ended September 30, 2020 of \$7.8 million.

### ***Interest expense, net***

Interest expense, net, increased \$2.2 million to \$18.7 million for the nine months ended September 30, 2021, compared to \$16.5 million for the nine months ended September 30, 2020. This increase was driven by the Notes issued in May 2020 to finance the Capstar Acquisition and the increase in total debt outstanding, offset somewhat by lower rates in 2021 due to the refinance the Company completed.

### ***Provision for income taxes***

Our effective tax rate was (10.8)% and (403.3)% for the nine months ended September 30, 2021 and 2020, respectively, with a tax expense of \$0.2 million and \$60.6 million, respectively. The tax rate is different than the U.S federal statutory income tax rate of 21% primarily due to the effects of a change in valuation allowance, state taxes, and foreign GILTI income inclusion. The Company's tax rate is also impacted by the ownership structure of Holdco, which changes over time.

### ***Segment Adjusted EBITDA***

#### Products Segment

Products segment Adjusted EBITDA increased \$28.2 million, or 30.5% to \$120.7 million for the nine months ended September 30, 2021, compared to \$92.4 million for the nine months ended September 30, 2020. Products segment Adjusted EBITDA fluctuates based on the quantity and mix of products sold, specifically whether the products are produced by PetIQ, or are distributed for other manufacturers. The significant growth in Products segment Adjusted EBITDA relates to significant sales growth as well as expanded margins related to the purchase of the Capstar branded products.

#### Services Segment

Services segment Adjusted EBITDA increased \$6.1 million, or 210.8% to \$9.0 million for the nine months ended September 30, 2021, compared to \$2.9 million for the nine months ended September 30, 2020. Services segment Adjusted EBITDA can fluctuate considerably for the Services segment based on the volume of pets seen in clinics, due to the relatively fixed cost nature of a clinic. Additionally, Services segment earnings are impacted by the Company's growth strategy of opening new wellness centers and the impact of the Company's same store portfolio, discussed further below. Services segment Adjusted EBITDA was significantly impacted by the COVID-19, with the impact lessening throughout the nine months ended September 30, 2021.

### Unallocated Corporate

Unallocated corporate expenses consist of expenses incurred by centrally-managed departments, including accounting, legal, human resources information technology and headquarters expenses, as well as executive and incentive

compensation expenses, and other miscellaneous costs. Unallocated corporate costs have primarily grown due to the growth in the size of the Company, including adding to administrative headcount through acquisitions, as well as headquarters growth to support the larger Company. Adjustments to unallocated corporate include expenses related to specific events, such as the acquisition expenses and integration costs. Adjustments also include non-cash expenses, such as depreciation, amortization, and stock based compensation.

The following tables reconcile Segment pre-tax net income to Adjusted EBITDA for the periods presented.

<i>\$'s in 000's</i>	<b>Nine months ended September 30, 2021</b>			
	<b>Products</b>	<b>Services</b>	<b>Unallocated Corporate</b>	<b>Consolidated</b>
Pretax net income (loss)	\$ 117,010	\$ (11,909)	\$ (106,822)	\$ (1,721)
<b>Adjustments:</b>				
Depreciation	2,913	3,924	2,582	9,419
Interest, net	—	—	18,693	18,693
Amortization	—	—	17,682	17,682
Acquisition costs <sup>(1)</sup>	—	—	92	92
Stock based compensation expense	—	—	7,188	7,188
Non same-store revenue <sup>(2)</sup>	—	(17,622)	—	(17,622)
Non same-store costs <sup>(2)</sup>	—	32,426	—	32,426
Integration costs and costs of discontinued clinics <sup>(3)</sup>	734	—	(1,088)	(354)
Clinic launch expense <sup>(4)</sup>	—	2,126	—	2,126
Litigation expenses	—	—	2,886	2,886
CFO Transition	—	—	331	331
Loss on extinguishment and related costs	—	—	6,438	6,438
<b>Adjusted EBITDA</b>	<b>\$ 120,657</b>	<b>\$ 8,945</b>	<b>\$ (52,018)</b>	<b>\$ 77,584</b>

<i>\$'s in 000's</i>	<b>Nine months ended September 30, 2020</b>			
	<b>Products</b>	<b>Services</b>	<b>Unallocated Corporate</b>	<b>Consolidated</b>
<b>September 30, 2020</b>				
Pretax net income (loss)	\$ 88,384	\$ (16,853)	\$ (86,553)	\$ (15,022)
<b>Adjustments:</b>				
Depreciation	3,685	2,674	2,527	8,886
Interest, net	—	—	16,460	16,460
Amortization	—	—	8,313	8,313
Acquisition costs <sup>(1)</sup>	—	—	1,815	1,815
Stock based compensation expense	—	—	6,549	6,549
Non same-store revenue <sup>(2)</sup>	—	(6,119)	—	(6,119)
Non same-store costs <sup>(2)</sup>	—	15,476	—	15,476
Integration costs and costs of discontinued clinics <sup>(3)</sup>	—	—	9,611	9,611
Clinic launch expense <sup>(4)</sup>	—	2,046	—	2,046
Litigation expenses	—	—	723	723
COVID-19 related costs <sup>(5)</sup>	379	5,654	—	6,033
<b>Adjusted EBITDA</b>	<b>\$ 92,448</b>	<b>\$ 2,878</b>	<b>\$ (40,555)</b>	<b>\$ 54,771</b>

(1) Acquisition costs include legal, accounting, banking, consulting, diligence, and other out-of-pocket costs related to completed and contemplated acquisitions.

(2) Non same-store revenue and costs relate to our Services segment and are from wellness centers, host partners, and regions with less than six full trailing quarters of operating results.



- (3) Integration costs and costs of discontinued clinics represent costs related to integrating the acquired businesses, such as personnel costs like severance and signing bonuses, consulting work, contract termination, and IT conversion costs. These costs are primarily in the Products segment and the corporate segment for personnel costs, legal and consulting expenses, and IT costs. Additionally integration costs include the gain on the sale of our previous headquarters.
- (4) Clinic launch expenses relate to our Services segment and represent the nonrecurring costs to open new veterinary wellness centers, primarily employee costs, training, marketing, and rent prior to opening for business.
- (5) Costs related to maintaining service segment infrastructure, staffing, and overhead related clinics and wellness centers closed due to COVID-19 related health and safety initiatives. Product segment and unallocated corporate costs related to incremental wages paid to essential workers and sanitation costs due to COVID.

### **Consolidated Non-GAAP Financial Measures**

EBITDA and Adjusted EBITDA are non-GAAP financial measures. EBITDA represents net income before interest, income taxes and depreciation and amortization. Adjusted EBITDA represents EBITDA plus adjustments for transactions that management does not believe are representative of our core ongoing business. Adjusted EBITDA is utilized by management: (i) as a factor in evaluating management's performance when determining incentive compensation and (ii) to evaluate the effectiveness of our business strategies. The Company presents EBITDA because it is a necessary component for computing Adjusted EBITDA.

We believe that the use of EBITDA and Adjusted EBITDA provides an additional tool for investors to use in evaluating ongoing operating results and trends. In addition, you should be aware when evaluating EBITDA and Adjusted EBITDA that in the future we may incur expenses similar to those excluded when calculating these measures. Our presentation of these measures should not be construed as an inference that our future results will be unaffected by these or other unusual or non-recurring items. Our computation of EBITDA and Adjusted EBITDA may not be comparable to other similarly titled measures computed by other companies, because all companies do not calculate EBITDA and Adjusted EBITDA in the same manner.

Our management does not, and you should not, consider EBITDA or Adjusted EBITDA in isolation or as an alternative to financial measures determined in accordance with GAAP. The principal limitation of EBITDA and Adjusted EBITDA is that they exclude significant expenses and income that are required by GAAP to be recorded in our financial statements. Some of these limitations are:

- EBITDA does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;
- EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- EBITDA does not reflect the interest expenses, or the cash requirements necessary to service interest or principal payments, on our debts;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements;
- Adjusted EBITDA does not reflect the impact of certain cash charges resulting from matters we consider not to be indicative of our ongoing core operations; and
- Other companies in our industry may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

Because of these limitations, EBITDA and Adjusted EBITDA should not be considered in isolation or as a substitute for performance measures calculated in accordance with GAAP. We compensate for these limitations by relying primarily on our GAAP results and using EBITDA and Adjusted EBITDA only supplementally. You should review the

reconciliations of net income (loss) to EBITDA and Adjusted EBITDA below and not rely on any single financial measure to evaluate our business.

The following table reconciles net loss to EBITDA and Adjusted EBITDA for the periods presented.

	For the three months ended		For the nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Net loss	\$ (8,328)	\$ (71,522)	\$ (1,908)	\$ (75,604)
Plus:				
Tax expense	317	61,563	187	60,582
Depreciation	3,145	3,030	9,419	8,886
Amortization	4,627	3,821	17,682	8,313
Interest	6,168	6,427	18,693	16,460
EBITDA	\$ 5,929	\$ 3,319	\$ 44,073	\$ 18,637
Acquisition costs <sup>(1)</sup>	—	1,083	92	1,815
Loss on extinguishment and related costs <sup>(2)</sup>	—	—	6,438	—
Stock based compensation expense	2,627	2,147	7,188	6,549
Non same-store revenue <sup>(3)</sup>	(7,245)	(2,884)	(17,622)	(6,119)
Non same-store costs <sup>(3)</sup>	12,594	5,378	32,426	15,476
Integration costs <sup>(4)</sup>	(1,041)	307	(354)	9,611
Clinic launch expenses <sup>(5)</sup>	846	767	2,126	2,046
Litigation expenses	2,323	290	2,886	723
CFO Transition	331	—	331	—
COVID-19 related costs <sup>(6)</sup>	—	1,600	—	6,033
Adjusted EBITDA	\$ 16,364	\$ 12,007	\$ 77,584	\$ 54,771

- (1) Acquisition costs include legal, accounting, banking, consulting, diligence, and other out-of-pocket costs related to completed and contemplated acquisitions.
- (2) Loss on debt extinguishment and related costs are related to our entering into two new credit facilities, including the write off of deferred financing costs and related out of pocket costs.
- (3) Non same-store revenue and costs relate to our Services segment and are from wellness centers, host partners, and regions with less than six full trailing quarters of operating results.
- (4) Integration costs represent costs related to integrating the acquired businesses, such as personnel costs like severance and signing bonuses, consulting work, contract termination, and IT conversion costs. These costs are primarily in the Products segment and the corporate segment for personnel costs, legal and consulting expenses, and IT costs. Additionally integration costs include the gain on the sale of our previous headquarters.
- (5) Clinic launch expenses relate to our Services segment and represent the nonrecurring costs to open new veterinary wellness centers, primarily employee costs, training, marketing, and rent prior to opening for business.
- (6) Costs related to maintaining service segment infrastructure, staffing, and overhead related clinics and wellness centers closed due to COVID-19 related health and safety initiatives. Product segment and unallocated corporate costs related to incremental wages paid to essential workers and sanitation costs due to COVID.

### Financial Condition, Liquidity, and Capital Resources

Historically, our primary sources of liquidity have been cash flows from operations, borrowings, and equity capital. As of September 30, 2021 and December 31, 2020, our cash and cash equivalents were \$63.2 million and \$33.5 million, respectively. As of September 30, 2021, we had no balance outstanding under a revolving credit facility, \$299.3 million under a term loan, \$143.8 million of outstanding Notes, and \$12.2 million in other debt. Our debt agreements bear interest at rates between 2.4% and 4.75%.

Our primary cash needs are for working capital. Our maintenance capital expenditures have typically been less than 1.0% of net sales, but we may make additional capital expenditures as necessary to support our growth, such as the investment in additional veterinary clinics. Our primary working capital requirements are to carry inventory and receivable levels necessary to support our increasing net sales. Fluctuations in working capital are primarily driven by

the timing of new product launches and seasonal retailer demand. As of September 30, 2021 and December 31, 2020, we had working capital (current assets less current liabilities) of \$197.7 million and \$141.2 million, respectively.

We believe that our operating cash flow, cash on hand, and debt proceeds from our borrowings under our credit facilities will be adequate to meet our operating, investing, and financing needs for the foreseeable future. To the extent additional funds are necessary to meet long-term liquidity needs as we continue to execute our business strategy, we anticipate that they will be obtained through the incurrence of additional indebtedness, additional equity financings or a combination of these potential sources of funds, although we can provide no assurance that these sources of funding will be available on reasonable terms.

## **Cash Flows**

### ***Cash used in Operating Activities***

Net cash provided by operating activities was \$10.5 million for the nine months ended September 30, 2021, compared to \$6.0 million for the nine months ended September 30, 2020. The change in operating cash flows primarily reflects higher earnings offset by significant growth in working capital items. Working capital changes are driven primarily by accounts receivable growth on both overall sales growth and seasonality. Net changes in assets and liabilities accounted for \$28.1 million in cash used in operating activities for the nine months ended September 30, 2021 compared to \$4.2 million of cash used in operating activities for the nine months ended September 30, 2020.

### ***Cash used in Investing Activities***

Net cash used in investing activities was \$19.5 million for the nine months ended September 30, 2021, compared to \$112.5 million for the nine months ended September 30, 2020. The decrease in net cash used in investing activities is a result of continued investment in new wellness centers as well as construction of a new corporate headquarters, compared to the purchase of Capstar and related intangibles in the prior period.

### ***Cash provided by Financing Activities***

Net cash provided by financing activities was \$38.9 million for the nine months ended September 30, 2021, compared to \$129.2 million for the nine months ended September 30, 2020. The change in cash provided by financing activities is primarily driven improved profitability allowing for less use of debt financing and no significant asset acquisition related financing taking place.

### **Description of Indebtedness**

#### **Senior Secured Asset-Based Revolving Credit Facility**

On April 13, 2021, Opco entered into an asset-based credit agreement with KeyBank National Association, as administrative agent and collateral agent, and the lenders' party thereto, that provides senior secured financing of \$125.0 million (which may be increased by up to \$50.0 million in certain circumstances), subject to a borrowing base limitation. The borrowing base for the ABL Facility at any time equals the sum of: (i) 90% of eligible investment-grade accounts; plus (ii) 85% of eligible other accounts; plus, (iii) 85% of the net orderly liquidation value of the cost of certain eligible on-hand and in-transit inventory; plus, (iv) at the option of Opco, 100% of qualified cash; minus (v) reserves. The ABL Facility bears interest at a variable rate plus a margin, with the variable rate being based on a base rate or LIBOR at the option of the Company. The rate at September 30, 2021 was 1.59%. The Company also pays a commitment fee on unused borrowings at a rate of 0.35%.

The ABL is secured by the assets of the Company including a first-priority security interest in personal property consisting of accounts receivable, inventory, cash, and deposit accounts. The ABL contains certain negative covenants that restrict the Company's ability to incur additional indebtedness, pay dividends, make investments, loans, and acquisitions, among other restrictions.

#### **Senior Secured Term Loan Facility**

On April 13, 2021, Opco entered into a term credit and guaranty agreement with Jefferies Finance LLC, as administrative agent and collateral agent, and the lenders' party thereto, that provides senior secured term loans of \$300.0 million (which may be increased in certain circumstances). The Term Loan B bears interest at a variable rate of either prime, federal funds effective rate or LIBOR, plus an applicable margin of between 3.25% and 4.25% depending on the underlying base rate. LIBOR rates are subject to a 0.50% floor. The interest rate at September 30, 2021 was 4.75%. The Term Loan B requires quarterly payments of 0.25% of the original principal amount, with the balance due on the seventh anniversary of the closing date.

The credit agreement governing the Term Loan B does not require Opco to comply with any financial maintenance covenants but additionally contains certain customary representations and warranties, affirmative covenants and provisions relating to events of default.

#### **Convertible Notes**

On May 19, 2020, the Company issued \$143.8 million in aggregate principal amount of 4.00% Convertible Senior Notes due 2026 (the "Notes") pursuant to the indenture (the "Indenture"), dated as of May 19, 2020. The total net proceeds from the Notes offering, after deducting debt issuance costs paid or payable by us, was \$137.9 million. The Notes accrue interest at a rate of 4.00% per annum, payable semi-annually in arrears on June 1 and December 1 of each year, beginning on December 1, 2020. The Notes will mature on June 1, 2026, unless earlier repurchased, redeemed or converted. Before January 15, 2026, holders will have the right to convert their Notes only upon the occurrence of certain events. From and after January 15, 2026, holders may convert their Notes at any time at their election until the close of business on the scheduled trading day immediately before the maturity date. The Company will settle conversions by paying or delivering, as applicable, cash, shares of its Class A common stock, or a combination of cash and shares of its Class A common stock, at its election. The initial conversion rate is 33.7268 shares of Class A common stock per \$1,000 principal amount of Notes. The conversion rate and conversion price will be subject to customary adjustments upon the occurrence of certain events. In addition, if certain corporate events that constitute a "Make-Whole Fundamental Change" (as defined in the Indenture) occur, then the conversion rate will, in certain circumstances, be increased for a specified period of time.

The Notes are redeemable, in whole or in part, at the Company's option at any time, and from time to time, on or after June 1, 2023 and on or before the 40th scheduled trading day immediately before the maturity date, at a cash redemption price equal to the principal amount of the Notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding, the redemption date, but only if the last reported sale price per share of the Company's Class A common stock exceeds 130% of the conversion price on (i) each of at least 20 trading days, whether or not consecutive, during the 30 consecutive

trading days ending on, and including, the trading day immediately before the date the Company sends the related redemption notice; and (2) the trading day immediately before the date the Company sends such notice. In addition, calling any Notes will constitute a Make-Whole Fundamental Change with respect to such Notes, which will result in an increase to the conversion rate if such Notes are converted after they are called for redemption.

If certain corporate events that constitute a “Fundamental Change” (as defined in the Indenture) occur, then noteholders may require the Company to repurchase their Notes at a cash repurchase price equal to the principal amount of the Notes to be repurchased, plus accrued and unpaid interest, if any, to, but excluding, the fundamental change repurchase date. The definition of Fundamental Change includes certain business combination transactions involving the Company and certain de-listing events with respect to the Company’s Class A common stock.

The Notes are the Company’s senior, unsecured obligations and are (i) equal in right of payment with the Company’s existing and future senior, unsecured indebtedness; (ii) senior in right of payment to the Company’s existing and future indebtedness that is expressly subordinated to the Notes; (iii) effectively subordinated to the Company’s existing and future secured indebtedness, to the extent of the value of the collateral securing that indebtedness; and (iv) structurally subordinated to all existing and future indebtedness and other liabilities, including trade payables, and (to the extent the Company is not a holder thereof) preferred equity, if any, of the Company’s subsidiaries. The Notes contain customary events of default.

The fair value of the Notes was \$171.8 million as of September 30, 2021. The estimated fair value of the Notes is based on market rates and the closing trading price of the Convertible Notes as of September 30, 2021 and is classified as Level 2 in the fair value hierarchy.

#### ***Amended & Restated Credit Agreement***

The Amended Revolving Credit Agreement provides for a secured revolving credit facility of \$125 million that matures on July 8, 2024. The borrowers under the Amended Revolving Credit Facility incur fees between 0.375% and 0.50% as unused facility fees, dependent on the aggregate amount borrowed. On May 14, 2020, the Company amended the Amended Revolving Credit Agreement to allow for the Notes described above. Additionally the amendment instituted a Eurodollar floor of 1% to the agreement.

All obligations under the Amended Revolving Credit Agreement are unconditionally guaranteed by HoldCo and, subject to certain exceptions, each of its material current and future domestic wholly-owned subsidiaries. All obligations under the Amended Revolving Credit Agreement, and the guarantees of those obligations, are secured by substantially all of the assets of each borrower and guarantor under the Amended Revolving Credit Agreement, subject to certain exceptions.

As of September 30, 2021 Amended Revolving Credit Agreement was fully repaid and terminated.

#### ***Amended & Restated Term Loan Credit Agreement***

OpCo entered into an Amended and Restated Term Loan Credit Agreement on July 8, 2019 (the “A&R Term Loan Credit Agreement”). The \$220.0 million A&R Term Loan Credit Agreement has an interest rate equal to the Eurodollar rate plus 5.00%. The A&R Term Loan Credit Agreement calls for 1% of the original loan balance to be paid annually via equal quarterly payments, with the balance of the loan due on the sixth anniversary of the agreement.

All obligations under the A&R Term Loan Credit Agreement are unconditionally guaranteed by PetIQ Holdings, LLC and each of its domestic wholly-owned subsidiaries and, subject to certain exceptions, each of its material current and future domestic wholly-owned subsidiaries. All obligations under the A&R Term Loan Credit Agreement, and the guarantees of those obligations, are secured by substantially all of the assets of PetIQ, LLC and each guarantor under the A&R Term Loan Credit Agreement, subject to certain exceptions.

As of September 30, 2021 the A&R Term Loan Credit Agreement was fully repaid and terminated.

### **General Other Debt**

The Company entered into a mortgage with a local bank to finance a commercial building in Eagle, Idaho, in July 2017. The mortgage bears interest at a fixed rate of 4.35% and utilizes a 25 year amortization schedule with a 10 year balloon payment of the balance due at that time. As described in Note 3, the Company entered into an agreement to sell the commercial building in Eagle, Idaho, which closed in the third quarter of 2021. The Company used the proceeds from the sale to repay the mortgage on August 2, 2021, and has reclassified the mortgage to current maturities of long-term debt as of September 30, 2021.

In July 2020, the Company entered into the Agreement. See Note 2 – “Asset Acquisitions”. The Agreement called for PetIQ to pay \$20.6 million, \$2.6 million at signing and \$1.0 million per quarter thereafter with no interest. The Company discounted the payment stream using a market interest rate of 8.3%, resulting in an obligation of \$17.5 million at the time it was entered into.

In connection with the acquisition of Community Veterinary Clinics, LLC d/b/a, VIP Petcare (the “VIP Acquisition”), the Company entered into a guarantee note of \$10.0 million and contingent Notes that were subsequently earned. As of December 31, 2020 \$7.5 million was payable pursuant to the 2018 Contingent Note and \$10.0 million was payable pursuant to the 2019 Contingent Note. The guarantee note and the Contingent Notes, collectively, “Notes Payable – VIP Acquisition” of \$27.5 million required quarterly interest payments of 6.75% with the balance payable July 17, 2023. These Notes Payable – VIP Acquisition were fully repaid in April 2021.

### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

We are exposed to certain market risks arising from transactions in the normal course of our business. Such risk is principally associated with interest rates. We currently do not enter into derivatives or other financial instruments for trading or speculative purposes.

#### **Interest Rate Risk**

We are exposed to changes in interest rates because the indebtedness incurred under our A&R Credit Agreement and A&R Term Loan Credit Agreement are variable rate debt. Interest rate changes generally do not affect the recorded value of our credit agreements but do affect the amount of our interest payments and, therefore, our future earnings and cash flows. As of September 30, 2021, we had variable rate debt of approximately \$299.3 million under our Revolver and Term Loan. An increase of 1% would have increased our interest expense for the three months ended September 30, 2021 by approximately \$0.8 million.

### **Item 4. Controls and Procedures.**

#### **Internal Control over Financing Reporting**

#### **Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) that are designed to ensure that information required to be disclosed in our reports under 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 Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that as of such date, our disclosure controls and procedures were effective.

### **Changes in Internal Control over Financial Reporting**

There was no change in our internal control over financial reporting that occurred during our fiscal quarter ended September 30, 2021, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. We have not experienced any material impact to our internal controls over financial reporting despite the fact that some of our corporate 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 to minimize the impact on their design and operating effectiveness.

### **Cautionary Note Regarding Forward-Looking Statements**

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties, such as statements about our plans, objectives, expectations, assumptions or future events. In some cases, you can identify forward-looking statements by terminology such as “anticipate,” “estimate,” “plan,” “project,” “continuing,” “ongoing,” “expect,” “believe,” “intend,” “may,” “will,” “should,” “could” and similar expressions. Examples of forward-looking statements include, without limitation:

- statements regarding our strategies, results of operations or liquidity;
- statements concerning projections, predictions, expectations, estimates or forecasts as to our business, financial and operational results and future economic performance;
- statements of management’s goals and objectives; and
- assumptions underlying statements regarding us or our business.

Forward-looking statements involve estimates, assumptions, known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from any future results, performances, or achievements expressed or implied by the forward-looking statements. Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the time those statements are made or management’s good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause such differences include, but are not limited to, factors discussed under the headings “Management’s Discussion and Analysis of Financial Condition and Results of Operations”; the impact of COVID-19 on our business and the global economy; our ability to successfully grow our business through acquisitions; our dependency on a limited number of customers; our ability to implement our growth strategy effectively; disruptions in our manufacturing and distribution chains; competition from veterinarians and others in our industry; reputational damage to our brands; economic trends and spending on pets; the effectiveness of our marketing and trade promotion programs; recalls or withdrawals of our products or product liability claims; our ability to manage our manufacturing and supply chain effectively; disruptions in our manufacturing and distribution chains; our ability to introduce new products and improve existing products; our failure to protect our intellectual property; costs associated with governmental regulation; our ability to keep and retain key employees; our ability to sustain profitability; and the risks set forth under the “Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2020, and other reports filed from time to time with the Securities and Exchange Commission.

Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or operating results. The forward-looking statements speak only as of the date on which they are made, and, except as required by law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. In addition, we cannot assess the impact of each factor on our business or the

extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Consequently, you should not place undue reliance on forward-looking statements.

## PART II—OTHER INFORMATION

### Item 1. Legal Proceedings.

We are from time to time subject to, and are presently involved in, litigation and other proceedings. We believe that there are no pending lawsuits or claims that, individually or in the aggregate, may have a material adverse effect on our business, financial condition or results of operations.

The Company records a liability when a particular contingency is probable and estimable and provides disclosure for contingencies that are at least reasonably possible of resulting in a loss including an estimate which we currently cannot make. The Company expenses legal costs as incurred within general and administrative expenses on the condensed consolidated statements of operations. For information on legal proceedings, please refer to Note 13, “Contingencies and Other Matters,” in the Notes to the Condensed Consolidated Financial statements included in Part I Item 1 of this quarterly report on Form 10-Q.

### Item 1A. Risk Factors.

There have been no material changes to the risk factors disclosed in our annual report on Form 10-K for the year ended December 31, 2020.

### Item 6. Exhibits. –

31.1*	<a href="#">Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
31.2*	<a href="#">Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
32.1*	<a href="#">Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
32.2*	<a href="#">Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document.
104	Cover Page Interactive Data File (formatted as inline XBRL with applicable taxonomy extension information contained in Exhibits 101.)

\* Filed herewith



**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**PETIQ, INC.**

November 4, 2021

/s/ John Newland  
John Newland  
Chief Financial Officer

**CERTIFICATION PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002**

I, McCord Christensen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PetIQ, 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 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: November 4, 2021

/s/ McCord Christensen

McCord Christensen  
Chief Executive Officer

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**CERTIFICATION PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002**

I, John Newland, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PetIQ, 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 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: November 4, 2021

/s/ John Newland  
John Newland  
Chief Financial Officer

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**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of PetIQ, Inc. (the "Company") for the period ended September 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, McCord Christensen, Chief Executive Officer of the Company, certify to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ McCord Christensen

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McCord Christensen  
*Chief Executive Officer*

Date: November 4, 2021

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**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of PetIQ, Inc. (the "Company") for the period ended September 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John Newland, Chief Financial Officer of the Company, certify to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ John Newland

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John Newland  
*Chief Financial Officer*

Date: November 4, 2021

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