

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2020

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.)

**923 S. Bridgeway Place**

**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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 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  (Do not check if a smaller reporting company)

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 to 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 June 30, 2020, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of common equity held by non-affiliates of the registrant was \$725.8 million. Shares of Class A common stock held by each executive officer, director and by certain persons that own 10 percent or more of the outstanding Class A common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 26, 2021, we had 26,048,033 shares of Class A common stock and 2,893,761 shares of Class B common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

We intend to file with the Securities and Exchange Commission, not later than 120 days after the close of our fiscal year ended December 31, 2020, a definitive proxy statement or an amendment to this report filed under cover of Form 10-K/A containing the information required to be disclosed under Part III of Form 10-K.

## **PetIQ, Inc.**

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## PART I

*The following discussion should be read in conjunction with our audited consolidated financial statements and accompanying notes thereto included elsewhere in this Annual Report. The following discussion includes certain forward-looking statements. For a discussion of important factors, including the continuing development of our business and other factors which could cause actual results to differ materially from the results referred to in the historical information and the forward-looking statements presented herein, see “Item 1A, Risk Factors” and “Cautionary Note Regarding Forward-Looking Statements” contained in this Annual Report.*

*Unless the context requires otherwise, references to “PetIQ, Inc.,” “PetIQ,” the “Company,” “we,” “our” or “us” refer collectively to PetIQ, Inc. and its consolidated subsidiaries, including PetIQ Holdings, LLC, a Delaware limited liability company, which we refer to as “HoldCo.”*

### Item 1 - Business

#### 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.

#### Our Industry

**Attractive Pet Industry Trends.** By year-end 2020, in the wake of a pet acquisition surge triggered by COVID-19, approximately 58% of total U.S. households owned a dog or a cat, compared to 50% of total U.S. households in 2010, according to Packaged Facts. Stay-at-home/work-from-home trends, demographic trends in pet ownership and changing attitudes toward pets support our continued growth, through the following:

- **Pet Humanization:** In the United States, according to Packaged Facts data for 2020, 95% of dog or cat owners strongly or somewhat agree that they view their pets as family members. In addition, in 2020, 86% of dog owners and 84% of cat owners agreed that their pets have had a positive impact on their mental health. With pets increasingly viewed as companions, friends and family members, pet owners behave like “pet parents” with a strong inclination for spending disposable income to meet all of their pets’ needs during all economic cycles. Pets have become a household and individual spending priority.
- **Increasing Consumer Focus on Pet Health and Wellness:** Consumers are exhibiting greater interest in improved health for their pets and, as a result, are increasing their spending on veterinary care as well as purchases of the most effective veterinarian-grade pet products and supplies. In 2020, in the wake of COVID-19, Packaged Facts data show that 42% of dog owners and 43% of cat owners are paying closer attention to their pets’ health and wellness. In addition, 32% of dog/cat owners who consider their pets part of the family are concerned about the affordability of routine health care for their pets and 42% are concerned about the affordability of emergency care for their pets. Pet owners of all demographic and income levels aspire to purchase leading veterinarian-grade treatments.

- **Increasing Pet Age and Incidents of Pet Disease:** Pets are living longer and, as a result, have increasing medical needs. Packaged Facts cites Association for Pet Obesity Prevention (APOP) data for 2018 show that 56% of dogs and 60% of cats are overweight, and Packaged Facts cites Merck Animal Health estimates from 2018 that up to 75% of older dogs have heart disease. Packaged Facts also found in a July-August 2020 survey that 38% of dog and 36% of cat owners have a pet that is 7 years old or older, and in a November-December 2020 survey that 17% of dog owners report having pets with aging-related special needs.
- **Increasing Market Size and Consumer Spending:** Pet spending in the United States has steadily increased every year since 1994, with Americans spending approximately \$98 billion on pet products and services for their pets in 2020, up from \$73 billion in 2014. Packaged Facts projects the total U.S. pet products and services market to grow at a CAGR of 5% from 2020 to 2024.

**Strong Growth in Pet Products.** According to Packaged Facts, the \$98.0 billion U.S. consumers spent on pet products and services in 2020 nearly doubled 2010 spending of \$53.7 billion. Veterinary channel sales of pet medications grew from an estimated \$7.3 billion in 2019 to \$7.7 billion in 2020, and overall retail sales of pet medications and supplements are estimated to grow from \$9.7 billion in 2018 to \$11.2 billion in 2020, according to Packaged Facts, with pet supplement sales growing from \$636 million in 2018 to \$797 million in 2020 in keeping with increasing consumer attention to pet health and wellness. Additionally, our innovative pet treats compete in the U.S. dog and cat treat market, which has grown every year since 2012. According to Packaged Facts, the U.S. dog and cat treat market has grown from \$6.5 billion in 2018 to \$7.3 billion in 2020.

**Growth of Pet Medication Purchases from Retail Channel.** We believe the market for pet medication and health and wellness products in the retail channel will likely outpace growth in the broader pet industry. The pet owner has increasingly purchased veterinarian grade pet products from the retail channel including both brick and mortar and online offerings. We believe that migration will continue in the future as more consumers take advantage of the convenience of their local retail store and online, become aware of the significant cost savings that retail channels can deliver, and our product penetration at retail increases. Additionally, there is a significant segment of pet owners who have not sought pet health care for a variety of reasons. Our affordable high-quality products will help unlock demand and provide customers the leading treatments they want at prices they can afford as the estimated retail share of the U.S. pet medication industry has remained strong and stable over the past decade. In addition, we have strong relationships with established distribution to veterinarians and believe we are uniquely positioned to provide veterinarian services within the retail channel, and continue to benefit from this channel expansion.

### **Our Business Strategy**

There are significant opportunities to grow our brand awareness, increase our net sales and profitability and deliver shareholder value by executing on the following initiatives:

**Grow Consumer Awareness of Our Products in the Retail Channel.** We are an established category creator in the pet health and wellness and medication market. While we maintain strong relationships with the top distributors to the veterinary channel, we have strong penetration of the retail channel and high awareness among retailers. With our broad retail network that includes the top U.S. retailers, we are increasingly focused on providing these retailers with excellent value and on building consumer awareness and converting more pet owners to use products we manufacture or distribute. As retailers continue to see the value our proprietary products bring to their bottom line and in helping them compete with other OTC channels, and as pet owners learn that our proprietary value-branded products offer the same active ingredients as leading brands at lower prices, we believe our share of the overall pet Rx and OTC medications and health and wellness products market will continue to grow.

**Increase Volume of Products with Existing Retailers.** We conduct business with the majority of leading U.S. retailers with our core product offerings. We believe our net sales will continue to grow as we expand the number of products we have available for sale at each retailer. We also plan to creatively expand SKU placement within existing accounts through

our in-house merchandising capabilities. Additionally, we believe we are positioned to expand our presence within leading retailers as a result of the growth of our Services segment.

**Provide Veterinarian Services in Conjunction with our Retail Partners.** Through our Services segment, we participate in the veterinary services industry, which grew from \$28.5 billion in 2018 to \$31.0 billion in 2020, according to Packaged Facts. This growth equally reflects increased consumer focus on pet health and the veterinary industry's effective response to COVID-19 related challenges. We provide a comprehensive suite of services at 2,900 community clinic locations and wellness centers hosted at retailers across 41 states, which includes diagnostic tests, vaccinations, prescription medications, microchipping and wellness checks. We believe we have the ability to expand those offerings within our existing retail footprint, which will provide an additional earnings stream, as well as drive pet parent traffic to our retail partners for the purchase of pet medication and health and wellness products, thereby expanding the sales of our product offerings through our retail partners. In addition, we opened 27 wellness centers within retail partners in 2020 and we expect to open 1,000 wellness centers by 2024. We believe that our wellness centers will help us address the \$10.0 billion underserved veterinary market according to L.E.K. Consulting, consisting of an estimated \$7.4 billion of services and an estimated \$2.6 billion in related product revenue generated from such services based on management estimates.

## Human Capital

The Company employed approximately 2,072 people as of December 31, 2020, of which 2,034 are employed within the United States. Our workforce is comprised of approximately 49% full time and 51% part time employees. Of our total employees, approximately 1,561 of our employees worked in our Services division. In addition, we regularly contract with veterinarians to provide veterinary services in our mobile community clinics and wellness centers. During the year ending December 31, 2020, we had approximately 2,700 veterinarians that were independent contractors.

COVID-19 provided us with a defining moment to support and further develop and entrench our employee-centric culture. This year, we enhanced the ways we help our employees care for themselves and their families including:

- Paying all Services segment employees at two-thirds pay with full benefits during the three to seven month period of clinic closures.
- Offering Families First Coronavirus Employee Paid Leave rights, encouraging employees to care for COVID-impacted family members.
- Arranging for work from home options for office employees.
- Enhancing our Company-wide paid, sick-leave policy.

The animal health industry is highly competitive and PetIQ is a fast growing company. We hired 1,054 new team members in 2020. PetIQ's benefit offerings are designed to meet the evolving needs of a diverse workforce across the Company. Attraction and retention of key talent is a focal point for the Company. To support these objectives, our human resources programs are designed to reward and support employees through competitive pay and benefits; support and facilitate internal talent mobility; and evolve and invest in technology, tools, and resources to enable employees at work. Some examples of key programs and initiatives that are focused to attract and retain our workforce include:

- The Company established four core values that serve as the foundation for our business: commitment, quality, integrity and teamwork.
- The Company has implemented an annual review process which is a culmination of multiple touch-points between employees and managers to focus on development programs and career paths/succession.
- The Company holds quarterly Town Halls to invite dialogue among employees and leaders.
- The Company works to continuously improve and promote health and wellness resources. During COVID-19, the Company adopted several policies supporting supplemental personal and family leave as well as remote-working flexibility.
- Free mental and behavioral health resources, including on-demand access to the Employee Assistance Program (EAP) for employees and their dependents.

- Investment in paid days off and annual financial support for continuing education for the Company's employee veterinarians.
- The Company encourages and supports renewal of all professional licenses and professional memberships.
- The Company encourages and financially rewards employee veterinary talent referrals reinforcing our search for key veterinary talent.
- The Company offers total rewards to all employees to include competitive pay, various output related bonus plans in both the Service and Product segments, a 401(k) plan with three percent Company match, paid time off, maternity leave, health, vision and dental insurance, and other ancillary benefits.

### **Seasonality**

While many of our products are sold consistently throughout the year, we do experience seasonality in the form of increased demand for our flea and tick product offerings in the first half of the year, both leading up to and throughout the spring and summer seasons. Additionally we may experience fluctuations in net sales related to the inventory management strategies of our retail customers.

Similarly, the practice of veterinary medicine is subject to seasonal fluctuation. In particular, demand for veterinary services is significantly higher during the warmer months as there are more fleas, ticks, and mosquitos during these months and products and services sold to prevent or treat illness or diseases related to these insects.

### **Our Products**

Through our Products segment, we are a manufacturer and distributor of pet medication and health and wellness products to the retail channel, and also have strong relationships with distribution to veterinarians. We focus our product offerings on innovative, proprietary value-branded products, and leading third-party branded products for dogs and cats, including pet Rx medications, OTC medications, and wellness products. We offer and supply these products to customers primarily in the United States.

#### ***Rx Medications***

Our Rx pet medications include heartworm preventatives, arthritis, thyroid, diabetes and pain treatments, antibiotics and other specialty medications, all of which require a prescription from a veterinarian. We co-develop and manufacture our own proprietary value-branded products and distribute well-known leading third-party branded medications.

Our proprietary value-branded Rx medications allow consumers to care for their pets with the same quality of branded medications at a lower cost. We plan to develop, and bring to retail customers, proprietary value-branded versions of other popular pet Rx medications currently available only in branded versions at premium prices.

We also sell to retailers more than 330 SKUs of the most popular pet Rx medications, in multiple formats, that previously had only been available primarily through the veterinarian channel. These retailers then sell these pet Rx medications to pet owners who have a prescription. We source these pet Rx medications directly from manufacturers or through licensed distributors. Several of the top-selling Rx medications that we distribute include Nexgard®, Heartgard® Plus and Vetmedin®.

#### ***OTC Medications and Supplies***

The OTC medications we sell are primarily within the flea and tick control and behavior management categories of the broader Health & Wellness industry. These products are available in multiple forms that consumers choose between, such as spot on (topical) treatments, chewables, oral tablets and collars.

We sell to the retail channel more than 450 SKUs of the most popular leading OTC-branded and value-branded medications within the Animal Health OTC category. With the 2019 acquisition of the Perrigo Animal Health business unit, we have

now expanded our manufacturing capabilities to include multiple product forms within flea & tick control. Most of our manufactured OTC Medication volume is represented by PetArmor, Capstar, Sentry and Sergeants brands.

### **Health and Wellness Products**

Our health and wellness products include specialty treats and other pet products such as dental treats and nutritional supplements (including hip and joint, vitamins and skin and coat products). We manufacture and distribute more than 400 SKUs of proprietary wellness products for dogs and cats, mainly under our PetArmor, VetIQ, Minties and Sentry product lines.

Specific products in this category include dental treats, such as *Minties* dental treats; nutritional supplements, such as our VetIQ products, hip and joint chews, vitamin chews and treats that disguise medication to aid in pets' pill ingestion; and treats, such as our Pur Luv, Vet Works & Betsy Farms dog treats.

### **Product Innovation**

We offer a broad portfolio of pet medications and health and wellness products to our retail customers, including an array of products that we develop, manufacture and distribute. To continue to grow our pet Rx medication, OTC medications and other health and wellness product offerings, we invest in research and development on an ongoing basis. We use a combination of in-house specialists, third-party consultants and animal health research and development experts to expand our proprietary value-branded portfolio and develop next-generation versions of our current pet products.

In addition, we have harnessed our position to emerge as an attractive partner for outside research and development researchers and entrepreneurs developing new products and technologies in the strategic pet health and wellness field. We believe these scientists and entrepreneurs seek out our partnership on innovative products given our experience in proprietary value-branded manufacturing and relationships with key retail channel contacts. Our process of assessing partnerships with any outside research and development opportunity includes performing our own internal research and development review, testing and quality control procedures.

### **Channels**

Traditional industry sales channels for pet Rx medications, OTC medications, and other health and wellness products include sales through the veterinarian, retail and e-commerce channels, depending primarily on the product involved. In recent years the retail and e-commerce channels have become intertwined with brick and mortar retailers expanding their online presence and online retailers opening brick and mortar stores.

Historically, pet Rx and flea and tick medications have been sold through veterinarian offices and, to a lesser extent, e-commerce. We have focused on making these products, as well as our proprietary value-branded products, available directly to consumers through retail outlets, which offer consumers access to these products at lower prices and in more convenient locations. Our retail channel sales are primarily concentrated in five sub-channels of retail: (i) food, drug and mass market sales (e.g., Walmart, Target and Kroger); (ii) club stores (e.g., Sam's Club, Costco Wholesale and BJ's Wholesale Club); (iii) pet specialty stores (e.g., PetSmart, Petco and independent pet stores); (iv) e-commerce (e.g., Chewy.com and Amazon.com); and (v) independent pharmacies and pharmacy distributors. We believe we are a key participant in the sales growth of pet medication products to the retail channel, with the additional benefit of having access to the veterinary channel through solid relationships with established distributors.

### **Customers**

Approximately 99% of our 2020 and 2019 net sales were generated from customers located in the United States and Canada, with the remainder from foreign locations. Our customers are primarily national superstore chains, e-commerce retailers, and national pet superstore chains, such as Walmart, Sam's Club, Costco, PetSmart, Petco, Kroger, Target, Chewy.com, Amazon, and The Tractor Supply Company. We supply each of these customers on a national basis. Our largest retail customers in 2020 were Chewy.com and Walmart, which represented 31% and 11%, respectively, of our net

sales. Our largest retail customers in 2019 were Chewy.com and Walmart, which represented 22% and 12%, respectively, of our net sales.

Finally, we believe that maintaining our level of customer care is critical in retaining and expanding our relationships with our key customers. Our in-house customer care representatives participate in ongoing training programs under the supervision of our training managers. These training sessions include a variety of topics such as product knowledge, computer usage and customer service tips. Our customer care representatives promptly respond to customer inquiries related to products, order status, prices and shipping. We believe that our customer care representatives are a valuable source of feedback regarding customer satisfaction.

## **Supply Chain**

### ***Proprietary Value-Branded Products***

None of our suppliers for our proprietary value-branded products are individually significant. We believe there is ample available capacity, including of active pharmaceutical ingredients (“API”), for our value-added products, including at contract manufacturing organizations around the world. Our proprietary value-branded products are currently manufactured by us at our facilities in Omaha, Nebraska, Daytona Beach, Florida and Springville, Utah and through a network of manufacturing facilities owned and operated by contract manufacturing partners across the United States and in Europe. We expect that the combined capacities of our facilities and those of our contract manufacturing partners will meet our forecasted needs for our proprietary value-branded products for the foreseeable future.

### ***Distributed Products***

We purchase branded and other products that we distribute, but do not manufacture, from a variety of sources in the United States and Europe, including certain manufacturers and licensed distributors. We believe that having strong relationships with our suppliers will ensure the availability of an adequate volume of products ordered by our retail customers and will enable us to provide more and better product information.

### ***Fulfillment, Warehousing and Shipping***

To accomplish efficient fulfillment for Rx medication products across the United States into retail, we utilize our established medication distribution channels with our distribution partner, Anda, Inc. We have a multi-year contract with Anda, Inc., which automatically renews for successive two year terms.

For most products, our in-house fulfillment and distribution operations manage the entire supply chain, beginning with the placement of the order, continuing through order processing and then fulfilling and shipping of the product to the customer. All customer orders are processed by our customer service team. We inventory our products at, and fill most customer orders from, our distribution centers in Daytona Beach, Florida, Omaha, Nebraska and Springville, Utah. We also use third-party warehouse providers to fulfill a small amount of our orders. We ship our products using common carriers.

## **Product Quality and Safety**

We believe that product safety and quality are critical. We have developed, implemented and enforced a robust product safety and quality program. We have established critical control points throughout the entire supply chain from ingredient sourcing to finished goods to ensure compliance with our quality program.

The food safety program at our Utah plant, where our pet treats are made, is certified at Safe Quality Food (“SQF”) Level II (Food Safety) under Global Food Safety Initiative (GFSI) Benchmarks. To achieve this qualification level, our Utah facility has been built to comply with particular food safety specifications and allows for correct airflow to prevent cross-contamination, among other things. This qualification level also requires us to have certain standard operating procedures in place written to SQF code specifications, hold regular training seminars for manufacturing employees and maintain reporting documentation evidencing compliance with such standard operating procedures.



In addition, our food safety and quality program includes strict guidelines for incoming ingredients, batching, processing, packaging and finished goods. As part of our focus on food safety and quality, we have implemented batch and lot traceability controls across our manufacturing network, including at our manufacturing facilities, where such controls have been implemented into our enterprise resource planning system. These controls allow us to track and tie discreet, inbound raw material components through the manufacturing process to the ultimate finished product, allowing us to maintain and control all finished product lot details and quickly access process manufacturing details.

At the Florida facility where our Rx and some OTC medications are held for distribution, we maintain a Veterinary Prescription Drug Wholesale Distributor license with the State of Florida Department of Business and Professional Regulation, which is the same government entity that regulates distribution facilities for human medications. In connection with our maintenance of this license, the State of Florida conducts random inspections of our facility. To pass these inspections, we must demonstrate safety compliance at the highest standard, including maintaining correct plant temperatures and environmental controls.

As described above, we use contract manufacturers to produce certain of our proprietary value-branded products. To ensure product quality, consistency and safety standards, we actively monitor each contract manufacturer's operations through the standard operating procedures and facility audits described above.

At our Omaha location EPA and FDA regulated products are produced and packaged and distributed from our nearby state of the art distribution center. This includes dog and cat flea and tick spot-on, shampoo, collars, toothpaste and hairball paste. We have a robust quality management program that includes quality processes for the laboratory, incoming inspection, manufacturing and packaging inspections, supplier quality, change control, deviations, and corrective and preventative actions (CAPA). We manage customer interaction through our call centers and social media to ensure that products maintain the highest quality. All call data is tracked, trended and reviewed for signals that may indicate product quality issues. The Omaha site is inspected several times annually by external auditors and we perform annual internal audits and mock recalls. We have received high marks and consistently maintain compliance with cGMPs and retain certifications as required.

All of our contract manufacturing facilities are required to have quality control standard operating procedures in place. We require our contract manufacturing facilities to maintain third-party certifications and pass our own quality system and safety audits, and for FDA-regulated products, to comply with the Good Manufacturing Practices of the FDA. Third-party certifications provide an independent and external assessment that a product and/or process complies with applicable safety regulations and standards, though a regulatory authority may disagree with that assessment. In addition, our quality control team conducts reviews of all aspects of our supply chain to ensure that ingredients, finished goods and manufacturing processes meet our strict safety and quality requirements and that all of our ingredients are rigorously tested prior to being used in our products.

Any consumer may call our customer service line, where we have trained representatives on staff. Any call reporting an adverse event relating to our products is further addressed by our third-party vendor, SafetyCall, through its own on-site veterinarians. On a quarterly basis, we submit filings in accordance with the EPA specifications reporting any adverse event associated with our flea and tick products.

### **Marketing and Advertising**

Our marketing strategy largely focuses on building awareness and educating pet owners about our various brands and products. To accomplish this goal, we use a combination of television, digital marketing (e.g. digital coupons, display ads, pay per click, email), social media marketing and in-store displays and promotions. Our marketing message highlights the quality and cost-savings our products offer customers such as our proprietary, value-branded flea and tick products that contain the same active ingredients as leading brands at lower prices.

### **Competition**

The pet medication and health and wellness industry is highly competitive. In our Products segment, we compete on the basis of product quality, product availability, quality, palatability, loyalty and trust, product variety and ingredients,

product packaging and design, shelf space, reputation and brand, price point and promotional efforts. We compete directly and indirectly with both manufacturers and distributors of pet medication and health and wellness products and online distributors, as well as with veterinarians. We directly face competition from companies that distribute various pet medications and pet health and wellness products to traditional retailers such as Elanco (formerly Bayer AG), Central Garden and Pet Company, Hartz (Unicharm Corp.), Mars, Inc. (“Mars”), Manna Pro, Nestlé S.A. (“Nestlé”), Spectrum Holdings, Promika LLC, Tevra Brands (“Tevra”), and The J.M. Smucker Company (“Smucker”), most of which are larger than we are and have greater financial resources. Similarly, we face intense competition from manufacturers who sell pet medications and pet health and wellness products to e-commerce and other retailers and to veterinarians, who compete directly with our retailers to offer consumers pet flea and tick and other pet health and wellness products.

Our retail customers compete with veterinarians for the sale of Rx and OTC pet medications and other health and wellness products. Many pet owners may prefer the convenience of purchasing their pet medications or other health products during a veterinarian visit. In order to effectively compete with veterinarians, we and retail partners must continue to price competitively and to educate pet owners about the product availability, service and savings offered by purchasing pet medications and other health products in their retail stores or from their websites.

Within our Services segment, we compete directly with veterinarians. Our primary competitors for our veterinary clinics in most markets are individual practitioners or small, regional multi-clinic practices. In addition, some national companies such as Banfield Pet Hospitals, VCA Animal Hospitals, or Petco are developing or have developed networks of veterinary clinics or hospitals in markets in which we currently operate.

### **Our Trademarks and Other Intellectual Property**

We believe that our intellectual property is valuable and has contributed to the success of our business. Our primary trademarks include “PetIQ,” “PetArmor,” “VIP Petcare,” “VetIQ PetCare,” “VetIQ,” “Capstar,” “Advecta,” “SENTRY,” “Sergeants,” “PetLock,” “Heart Shield Plus,” “TruProfen,” “Betsy Farms,” “PetAction,” “Minties,” “Vera” and “Delightibles” all of which are registered with the U.S. Patent and Trademark Office. We also have numerous other trademark registrations and pending applications, in the U.S., Canada and Europe, for product names that are central to our branding. Our trademarks are assets that reinforce our brand, our sub-brands and our consumers’ perception of our products. The current registrations of these trademarks in the U.S. and foreign countries are effective for varying periods of time and may be renewed periodically, provided that we, as the registered owner, or our licensees where applicable, comply with all applicable renewal requirements including, where necessary, the continued use of the trademarks in connection with the goods or services identified in the applicable registrations. In addition to trademark protection, we own numerous URL designations, including [www.petarmor.com](http://www.petarmor.com), [www.vetiqpetcare.com](http://www.vetiqpetcare.com), [www.vippetcare.com](http://www.vippetcare.com), [petvet.vippetcare.com](http://petvet.vippetcare.com), [www.vetiq.com](http://www.vetiq.com), [www.advecta.com](http://www.advecta.com), [www.sentrypetcare.com](http://www.sentrypetcare.com), [www.sergeants.com](http://www.sergeants.com), [www.delightibles.com](http://www.delightibles.com) and [www.mintiestreats.com](http://www.mintiestreats.com), which are important to the successful implementation of our marketing and advertising strategy. We also have patents and pending patent applications for products, formulas and packaging that we consider important to our business. Including various methods of use, interomone, pheromone compositions and spot-on pesticide compositions. We rely on and carefully protect unpatented proprietary expertise, recipes and formulations, continuing innovation and other trade secrets to develop and maintain our competitive position. The contents of our websites are not intended to be incorporated by reference into this Annual Report on Form 10-K or in any other report or document we file with the SEC, and any references to our websites are intended to be inactive textual references only.

### **Government Regulation**

Along with our contract manufacturers, ingredient and packaging suppliers and third-party shipping providers, we are subject to a broad range of laws and regulations, both in the U.S. and elsewhere, intended to protect public health and safety, natural resources and the environment. Our products and operations in the U.S. are subject to regulation by the FDA, the EPA, the Florida Department of Health and the USDA and by various other federal, state, local and foreign authorities regarding the registration, manufacturing, processing, packaging, storage, distribution, advertising, labeling and export of our products, including drug and food safety standards.

All Rx animal drugs are required to be approved by the FDA through either a New Animal Drug Application or, in the case of generic Rx animal drugs, an Abbreviated New Animal Drug Application (“ANADA”). Two of our proprietary value-branded products, TruProfen and Heart Shield Plus, have been approved by the FDA under ANADAs submitted to the FDA by third parties. We have agreements with these third parties that hold approved ANADAs to private label or proprietary value-branded products under such ANADAs. However, the third parties that hold the ANADAs are ultimately responsible for compliance with regulatory obligations associated with these products.

In addition, our foreign subsidiaries are subject to the laws of the United Kingdom, the Republic of Ireland and the European Union, as well as provincial and local regulations.

Under various statutes and regulations, these agencies and authorities, among other things, (i) prescribe the requirements for registration and establish the standards for quality and safety, (ii) regulate our marketing, advertising and sales to consumers and (iii) control the importing and exporting of our products. Certain of these agencies, in certain circumstances, must not only approve our products, but also review the manufacturing processes and facilities used to produce these products before they can be marketed in the United States and elsewhere. In particular, certain of our pet products require EPA or FDA approval prior to marketing. To market such a regulated pet product, the regulatory agency must approve a new product, supported by data from animal safety and effectiveness studies that adequately demonstrate the safety and efficacy of that product in the target animal for the intended indication; or, in the case of generic versions of previously approved reference-listed pet products, the regulatory agency, supported by data to demonstrate, among other things, that the proposed generic product has the same active ingredients in the same concentration as the reference-listed product and is bioequivalent to the reference listed product. After approval, manufacturers are required to collect reports of adverse events and submit them on a regular basis to either the EPA or FDA. Some of the approved products we distribute are held by third parties with whom we contract to distribute those products under our own label.

We are subject to labor and employment laws, safety and health regulations and other laws, including those promulgated by the EPA and the National Labor Relations Board. Our operations, and those of our contract manufacturers, ingredient and packaging suppliers and third-party shipping providers, are subject to various laws and regulations relating to worker health and safety matters as well as environmental and natural resource protection, including the availability and use of pesticides, emissions and discharges to the environment, and the treatment, handling, storage and disposal of materials and wastes. We monitor changes in these laws and believe that we are in material compliance with applicable laws and regulations. No assurance can be given, however, that material costs and liabilities will not arise in the future, such as due to a change in the law or the discovery of currently unknown conditions.

Certain states have laws, rules and regulations which require that veterinary medical practices be either wholly-owned or majority-owned by licensed veterinarians and that corporations which are not wholly-owned or majority-owned by licensed veterinarians refrain from providing, or holding themselves out as providers of, veterinary medical care. In these states and provinces, we provide management and other administrative services to veterinary practices rather than owning such practices or providing such care. In some cases, in addition to providing management and administrative services we may lease the veterinary facility and equipment to the veterinary practice. Although we have structured our operations to comply with our understanding of the veterinary medicine laws of each state and province in which we operate, interpretive legal precedent and regulatory guidance varies by jurisdiction and is often sparse and not fully developed.

In addition, all of the states in which we operate impose various registration permit and/or licensing requirements. To fulfill these requirements, we have registered each of our facilities with appropriate governmental agencies and, where required, have appointed a licensed veterinarian to act on behalf of each facility. All veterinarians practicing in our animal wellness centers are required to maintain valid state licenses to practice.

### **Our Corporate Information**

Our principal executive offices are located at 923 S. Bridgeway Place, Eagle, Idaho 83616. Our telephone number is 208-939-8900. The address of our corporate website is [www.peti.com](http://www.peti.com), and our investor relations website is located at <http://ir.peti.com>. The contents of our website are not intended to be incorporated by reference into this Annual Report on Form 10-K or in any other report or document we file with the SEC, and any references to our websites are intended to be inactive textual references only.

## Available Information

Our Annual Reports on Form 10-K, annual proxy statements and related proxy cards are made available on our website at the same time they are mailed to stockholders. Our quarterly reports on Form 10-Q, periodic reports on Form 8-K and amendments to those reports that we file or furnish pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), are available through our website, free of charge, as soon as reasonably practicable after they have been electronically filed or furnished to the SEC. Our website also provides access to reports filed by our directors, executive officers and certain significant shareholders pursuant to Section 16 of the Exchange Act. In addition, General Code of Ethics and charters for the committees of our board of directors are available on our website as well as other shareholder communications. The information contained in or that can be accessed through our website does not constitute a part of, and is not incorporated by reference into, this report. The SEC maintains an internet site (<http://www.sec.gov>) that contains reports, proxy information statements and other information related to issuers that file electronically with the SEC.

## Item 1A – Risk Factors

*Our business, results of operations and financial condition may be materially adversely affected by a number of factors, including the following:*

### Risks Related to Our Business and Industry

***There is significant uncertainty regarding the extent to which and how long the COVID-19 pandemic and its related effects will impact the U.S. economy and related demand for our products and services and, as a result, our business and future operating results and financial condition.***

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. There is significant uncertainty regarding the extent to which and how long COVID-19 and its related effects will impact the U.S. economy and related demand for our products and services. The extent to which COVID-19 will impact our business and operating results during 2021 will depend on future developments, including the duration and continued spread of COVID-19, the availability and effectiveness of vaccines, and the impact on our customers and employees, as well as the U.S. economy, all of which are highly uncertain and cannot be predicted.

The COVID-19 pandemic may have other adverse effects on our business, operating results and financial condition, including changes in customer and consumer behavior related to pandemic fears, quarantines and market downturns, as well as impacts on our workforce if the virus becomes widespread in any of our markets. For example, the Company has experienced an elevated level of absenteeism due to COVID-19 related illnesses and as a result between 12% and 16% of service segment operations are temporarily closed week to week. If the virus were to affect a significant amount of the workforce employed or operating at our facilities, we may experience delays or the inability to produce and deliver products to our retail partners on a timely basis. In addition, one or more of our customers, service providers or suppliers may experience financial distress, file for bankruptcy protection, go out of business, or suffer disruptions in their business due to the COVID-19 outbreak.

We are uncertain of the potential full magnitude or duration of the business and economic impacts from the COVID-19 pandemic. This inherent uncertainty, due in part to rapidly changing governmental directives, public health challenges and progress, including the availability and effectiveness of vaccines, and market reactions thereto, makes it challenging for our management to estimate the future performance of our business and plan accordingly. Should the potential adverse impacts described above (or others that are currently unknown) occur, whether individually or collectively, it is likely to result in an adverse impact on our business, results of operations and financial condition, at least for the near term.

Finally, the impacts from the COVID-19 pandemic and efforts to contain it heighten the risks described in other risk factors in this Form 10-K.

***We may seek to grow our business through acquisitions of or investments in new or complementary businesses, facilities, technologies or products, or through strategic alliances, and the failure to manage acquisitions, investments or strategic alliances, or the failure to integrate them with our existing business, could have a material adverse effect on us.***

From time to time we may consider opportunities to acquire or make investments in new or complementary businesses, facilities, technologies or products, or enter into strategic alliances, that may enhance our capabilities, expand our manufacturing network, complement our current products or expand the breadth of our markets. Potential and completed acquisitions and investments and other strategic alliances involve numerous risks, including:

- problems integrating the purchased business, facilities, technologies or products;
- issues maintaining uniform standards, procedures, controls and policies;
- unanticipated costs associated with acquisitions, investments or strategic alliances;
- diversion of management's attention from our existing business;
- adverse effects on existing business relationships with suppliers, contract manufacturers, and retail customers;
- risks associated with entering new markets in which we have limited or no experience;
- potential loss of key employees of acquired businesses; and
- increased legal and accounting compliance costs.

We do not know if we will be able to identify acquisitions or strategic relationships we deem suitable, whether we will be able to successfully complete any such transactions on favorable terms or at all or whether we will be able to successfully integrate any acquired business, facilities, technologies or products into our business or retain any key personnel, suppliers or customers. Our ability to successfully grow through strategic transactions depends upon our ability to identify, negotiate, complete and integrate suitable target businesses, facilities, technologies and products and to obtain any necessary financing. These efforts could be expensive and time-consuming and may disrupt our ongoing business and prevent management from focusing on our operations. If we are unable to integrate any acquired businesses, facilities, technologies and products effectively, our business, results of operations and financial condition could be materially adversely affected.

Completed acquisitions may result in additional goodwill and/or an increase in other intangible assets on our balance sheet. We are required annually, or as facts and circumstances exist, to test goodwill and other intangible assets to determine if impairment has occurred. If the testing performed indicates that impairment has occurred, we are required to record a non-cash impairment charge for the difference between the carrying value of the goodwill or other intangible assets and the implied fair value of the goodwill or the fair value of other intangible assets in the period the determination is made. Should the value of goodwill or other intangible assets become impaired, there could be a material adverse effect on our financial condition and results of operations.

***We are dependent on a relatively limited number of customers for a significant portion of our net sales.***

Our largest retail customers in 2020 were Chewy.com and Walmart, which accounted for 31% and 11%, respectively, of our net sales. Our largest retail customers in 2019 were Chewy.com and Walmart, which accounted for 22% and 12%, respectively, of our net sales. No other retail customer has accounted for 10% or more of our net sales during these two years. If we were to lose any of our key customers, or if any of our key customers reduce the amount of their orders, consolidate, reduce their store footprint, experience financial or operational difficulties or generate less traffic, our business, financial condition and results of operations may be materially adversely affected.

In addition, we generally do not enter into long-term contracts with our retail customers. As a result, we rely on consumers' continuing demand for our products and our position in the market for all purchase orders. Our customers are sophisticated and have the ability to replace our proprietary value brands with various other supply options if we do not compete aggressively for their business. If our retail customers change their pricing, margin expectations or business terms (including through the imposition of warehouse and other fees), change their business strategies as a result of industry consolidation or otherwise, reduce the number of brands or product lines they carry, decrease their advertising or promotional efforts for, or the amount of shelf space they allocate to, our products or allocate greater shelf space to other

products, our net sales could decrease and our business, financial condition and results of operations may be materially adversely affected.

***We may not be able to successfully implement our growth strategy in our Products segment on a timely basis or at all.***

Our future success depends, in large part, on our ability to implement our growth strategy, including introducing products and expanding into new markets, attracting new consumers to our brand and sub-brands, improving placement of our products in the stores of our retail customers, and expanding our distribution and online sales through our retail partners. Our ability to implement this growth strategy depends, among other things, on our ability to:

- develop new proprietary value-branded products and product line extensions that appeal to consumers;
- continue to effectively compete in our industry;
- increase our brand and sub-brand recognition by effectively implementing our marketing strategy and advertising initiatives;
- maintain and, to the extent necessary, improve our high standards for product quality, safety and integrity;
- expand and maintain brand and sub-brand loyalty;
- secure shelf space and wellness center space in the stores of our retail customers;
- increase profitability of our mobile clinics or wellness centers; and
- enter into distribution and other strategic arrangements with traditional retailers and other potential distributors of our products.

We may not be able to successfully implement our growth strategy and may need to change our strategy in order to maintain our growth. If we fail to implement our growth strategy or if we invest resources in a growth strategy that ultimately proves unsuccessful, our business, financial condition and results of operations may be materially adversely affected.

***We may be unsuccessful in opening new wellness centers, which could adversely affect our growth***

One of the key means to achieving our growth strategy is through opening new clinics, both wellness centers and mobile clinics, and operating those on a profitable basis. During 2020, we have opened 27 new wellness centers within retail partners and we plan to open an additional 130 to 170 wellness centers in 2021 with an expected 1,000 wellness centers by the end of 2024. Our ability to open new clinics is dependent upon a number of factors, many of which are beyond our control, including our ability to:

- identify locations and retail partners that can support our wellness centers;
- compete for sites;
- reach acceptable lease or host arrangement terms;
- hire, train, and retain the skilled veterinarians and skilled employees necessary to staff the clinics and wellness centers;
- obtain, in a timely manner and for an acceptable cost, required licenses, permits, and regulatory approvals;
- respond effectively to any changes in local, state, and federal law and regulations that adversely affect our ability to open new wellness centers or clinics; and
- control construction and other launch costs to open the wellness centers and clinics.

There is no guarantee that a sufficient number of suitable sites or hosts will be available in desirable areas or on terms that are acceptable to us in order to achieve our growth plan. If we are unable to open new wellness centers, or if openings are significantly delayed, our earnings or revenue growth and our business could be materially and adversely affected, as we expect a portion of our growth to come from new locations.

As part of our longer-term growth strategy, we may enter into geographic markets in which we have little or no prior operating history. The challenges of entering new markets include (i) difficulties in hiring experienced personnel, (ii) lack

of familiarity with local real estate markets and demographics, (iii) lack of consumer familiarity with our brand, and (iv) competitive and economic conditions, and discretionary spending patterns that are different from and more difficult to predict or satisfy than in our existing markets. In addition, wellness centers that we open in new markets may take longer to reach expected sales and profit levels on a consistent basis, and may have higher construction, occupancy, and operating costs, than wellness centers that we open in existing markets, thereby affecting our overall profitability. Any failure on our part to recognize or respond to these challenges may adversely affect the success of any new wellness centers.

***If we continue to grow rapidly, we may not be able to manage our growth effectively.***

Our historical rapid growth has placed and, if continued, may continue to place significant demands on our management and our operational and financial resources. Our organizational structure may become more complex as we add additional staff, and we would likely require more resources to grow and continue to improve our operational, management and financial controls. If we are not able to manage our growth effectively, our business, financial condition and results of operations may be materially adversely affected.

***We currently purchase our distributed Rx and OTC medications from manufacturers and licensed distributors. We do not have a long term guaranteed supply of medications at pre-established prices for the majority of our products.***

We currently do not manufacture the vast majority of our branded products that we distribute and we are depending on certain manufacturers and licensed distributors for our supply of products. We cannot guarantee that we will be able to purchase an adequate supply of Rx and OTC medications from manufacturers and licensed distributors to meet our customers' demands, or that we will be able to purchase these medications at competitive prices. As these medications represent a significant portion of our net sales, our failure to fill customer orders for these medications could adversely impact our net sales. If we are forced to pay higher prices for these medications to ensure an adequate supply, we cannot guarantee that we will be able to pass along to our customers any increases in the prices we pay for these medications.

Manufacturers may also decide to compete further with us by pursuing or increasing their efforts in direct marketing and sales of their products. These manufacturers can sell their products at lower prices and maintain a higher gross margin on their product sales than we can. In this event, retailers may elect to purchase Rx and OTC medications directly from those manufacturers. Additionally, in the event that the manufacturers of these Rx and OTC medications take action to prohibit our licensed distributors from selling such medications to us entirely, or dictate the pricing at which our licensed distributors sell such medications to us or that our retail customers sell such medications to end consumers, our financial condition and results of operations could be materially and adversely affected.

***We operate in a highly competitive industry and may lose market share or experience margin erosion if we are unable to compete effectively.***

The pet products and services retail industry is highly competitive. In our Products segment, we compete on the basis of product quality, product availability, quality, palatability, loyalty and trust, product variety and ingredients, product packaging and design, shelf space, reputation and brand, price point and promotional efforts. We compete directly and indirectly with both manufacturers and distributors of pet medication and health and wellness products and online distributors, as well as with veterinarians. We directly face competition from companies that distribute various pet medications and pet health and wellness products to traditional retailers such as Elanco (formerly Bayer AG), Central Garden and Pet Company, Hartz (Unicharm Corp.), Mars, Inc., Nestlé S.A, Promika LLC, Tevra Brands, and The J.M. Smucker Company, most of which are larger than we are and have greater financial resources. Similarly, we face intense competition from manufacturers who sell pet medications and pet health and wellness products to e-commerce and other retailers and to veterinarians, who compete directly with our retailers to offer consumers pet flea and tick and other pet health and wellness products.

Our retail customers compete with online retailers and veterinarians for the sale of Rx and OTC pet medications and other health and wellness products. Veterinarians hold a competitive advantage over us because many pet owners may find it more convenient or preferable to purchase these products directly from their veterinarians at the time of an office visit. In order to effectively compete with veterinarians, we and retail partners must continue to price competitively and to educate pet owners about the product availability, service and savings offered by purchasing pet medications and other health products in their retail stores.

Within our Services segment, we compete directly with veterinarians. Our primary competitors for our veterinary clinics in most markets are individual practitioners or small, regional multi-clinic practices. In addition, some national companies such as Banfield Pet Hospitals, VCA Animal Hospitals, or Petco are developing or have developed networks of veterinary clinics in markets in which we currently operate.

These competitors may be able to identify and adapt to changes in consumer preferences more quickly than us due to their resources and scale. They may also be more successful in marketing and selling their products, better able to increase prices to reflect cost pressures and better able to increase their promotional activity, which may impact us and the entire pet health and wellness industry. If these or other competitive pressures cause our products to lose market share or experience margin erosion, our business, financial condition and results of operations may be materially adversely affected.

***Resistance from veterinarians to authorize prescriptions, or attempts/efforts on their part to discourage pet owners to purchase from retailers and pharmacies could cause our net sales to decrease and could materially adversely affect our financial condition and results of operations.***

Since we began our operations, some veterinarians have resisted providing, or simply refuse to provide, pet owners with a copy of their pet's prescription or authorizing the prescription to an outside pharmacy, thereby effectively preventing outside pharmacies from filling such prescriptions under state law. We have also been informed by customers and consumers that veterinarians on certain occasions have tried to discourage pet owners from purchasing from the retail channel. If the number of veterinarians who refuse to authorize prescriptions should increase, or if veterinarians are successful in discouraging pet owners from purchasing from outside retailers and pharmacies, our net sales could decrease and our financial condition and results of operations may be materially adversely affected.

***Any damage to our reputation or our brand or sub-brands may materially adversely affect our business, financial condition and results of operations.***

Maintaining, developing and expanding our reputation with consumers, our retail customers and our suppliers is critical to our success. Our brand and sub-brands may suffer if our marketing plans or product initiatives are not successful. The importance of our brand and sub-brands may decrease if competitors offer more products with formulations similar to the products that we manufacture. Further, our brand and sub-brands may be negatively impacted due to real or perceived quality issues or if consumers perceive us as being untruthful in our marketing and advertising, even if such perceptions are not accurate. Product contamination, the failure to maintain high standards for product quality, safety and integrity, including raw materials and ingredients obtained from suppliers, or allegations of product quality issues, mislabeling or contamination, even if untrue or caused by our contract manufacturing partners or raw material suppliers, may reduce demand for our products or cause production and delivery disruptions. We maintain guidelines and procedures to ensure the quality, safety and integrity of our products. However, we may be unable to detect or prevent product and/or ingredient quality issues, mislabeling or contamination, particularly in instances of fraud or attempts to cover up or obscure deviations from our guidelines and procedures. If any of our products become unfit for consumption, cause injury or are mislabeled, we may have to engage in a product recall and/or be subject to liability. Damage to our reputation or our brand or sub-brands or loss of consumer confidence in our products for any of these or other reasons could result in decreased demand for our products and our business, financial condition and results of operations may be materially adversely affected.

***Our growth and business are dependent on trends that may change, and our historical growth may not be indicative of our future growth.***

The growth of our business depends primarily on the continued shift from consumers purchasing pet health and wellness products from veterinarians to purchasing such products through traditional retail channels, growth of the pet health and wellness products market and popularity of pet ownership, transitions from traditional veterinarians to mobile clinics and wellness centers, as well as on general economic conditions. These trends may not continue or may change. In the event of a decline in consumers purchasing pet health and wellness products through traditional retail channels, a change in pet health and wellness trends or a decrease in the overall number of pets, or during challenging economic times, we may be unable to persuade our retail customers and consumers to purchase our products, and our business, financial condition and results of operations may be materially adversely affected and our growth rate may slow or stop.



***There may be decreased spending on pets in a challenging economic climate.***

The United States has from time to time experienced challenging economic conditions, including the COVID-19 pandemic, and the global financial markets have recently undergone and may continue to experience significant volatility and disruption. Our business, financial condition and results of operations may be materially adversely affected by a challenging economic climate, including adverse changes in interest rates, volatile commodity markets and inflation, contraction in the availability of credit in the market and reductions in consumer spending. The keeping of pets and the purchase of pet-related products may constitute discretionary spending for some consumers and any material decline in the amount of consumer discretionary spending may reduce overall levels of pet ownership or spending on pets. As a result, a slow-down in the general economy may cause a decline in demand for our products. In addition, we cannot predict how worsening economic conditions would affect consumer behavior and our retail customers and suppliers, generally. If economic conditions result in decreased spending on pets and have a negative impact on our retail customers and suppliers, our business, financial condition and results of operations may be materially adversely affected.

***Our business depends, in part, on the sufficiency and effectiveness of our marketing and trade promotion programs and incentives.***

Due to the competitive nature of our industry, we must effectively and efficiently promote and market our products through television, internet and print advertisements as well as through trade promotions and incentives to sustain and improve our competitive position in our market. Marketing investments may be costly. In addition, we may, from time to time, change our marketing strategies and spending, including the timing or nature of our trade promotions and incentives. We may also change our marketing strategies and spending in response to actions by our customers, competitors and other companies that manufacture and/or distribute pet health and wellness products. The sufficiency and effectiveness of our marketing and trade promotions and incentives are important to our ability to retain and improve our market share and margins. If our marketing and trade promotions and incentives are not successful or if we fail to implement sufficient and effective marketing and trade promotions and incentives or adequately respond to changes in industry marketing strategies, our business, financial condition and results of operations may be adversely affected.

***If our products or services are alleged to cause injury or illness or our products fail to comply with governmental regulations, we may need to recall our products and/or may experience related claims and reputational damage.***

Our products may be subject to product recalls, including voluntary recalls or withdrawals, if they are alleged to pose a risk of injury or illness, or if they are alleged to have been mislabeled, misbranded or adulterated or to otherwise be in violation of governmental regulations. We may also voluntarily recall or withdraw products in order to protect our brand or reputation if we determine that they do not meet our standards, whether for quality, palatability, appearance or otherwise. If there is any future product recall or withdrawal, it could result in substantial and unexpected expenditures, destruction of product inventory, damage to our reputation and lost sales due to the unavailability of the product for a period of time, and our business, financial condition and results of operations may be materially adversely affected. In addition, a product recall or withdrawal may require significant management attention and could result in enforcement action by regulatory authorities.

We also may be subject to product liability claims if the consumption or use of our products is alleged to cause injury or illness. Although we carry product liability insurance, our insurance may not be adequate to cover all liabilities that we may incur in connection with product liability claims. For example, punitive damages are generally not covered by insurance. If we are subject to substantial product liability claims in the future, we may not be able to continue to maintain our existing insurance, obtain comparable insurance at a reasonable cost, if at all, or secure additional coverage. This could result in future product liability claims being uninsured. If there is a product liability judgment against us or a settlement agreement related to a product liability claim, our business, financial condition and results of operations may be materially adversely affected. In addition, even if product liability claims against us are not successful or are not fully pursued, these claims could be costly and time-consuming and may require management to spend time defending claims rather than operating our business.

Additionally, we may be subject to claims for veterinary malpractice or negligence in the event as a result of services provided by our veterinarians. Although we carry appropriate insurance, our insurance may not be adequate to cover all

liabilities that we may incur in connection with veterinary malpractice or negligence claims. Additionally, any such claims may result in reputational damage to our services segment and our business, financial condition and results of operations may be materially adversely affected.

***To the extent our retail customers purchase products in excess of consumer consumption in any period, our net sales in a subsequent period may be adversely affected as our retail customers seek to reduce their inventory levels.***

From time to time, our retail customers may purchase more products than they expect to sell to consumers during a particular time period. Our retail customers may grow their inventory in anticipation of, or during, our promotional events, which typically provide for reduced prices during a specified time or other incentives. Our retail customers may also increase inventory in anticipation of a price increase for our products, or otherwise over-order our products as a result of overestimating demand for our products. If a retail customer increases its inventory during a particular reporting period as a result of a promotional event, anticipated price increase or otherwise, then our net sales during the subsequent reporting period may be adversely impacted as our retail customers seek to reduce their inventory to customary levels. This effect may be particularly pronounced when the promotional event, price increase or other event occurs near the end or beginning of a reporting period or when there are changes in the timing of a promotional event, price increase or similar event, as compared to the prior year. To the extent our retail customers seek to reduce their usual or customary inventory levels or change their practices regarding purchases in excess of consumer consumption, our net sales and results of operations may be materially adversely affected in that or subsequent periods.

***We may not be able to manage our manufacturing and supply chain effectively, which may adversely affect our results of operations.***

We must accurately forecast demand for all of our products in order to ensure that we have enough products available to meet the needs of our retail customers. Our forecasts are based on multiple assumptions that may cause our estimates to be inaccurate and affect our ability to obtain adequate manufacturing capacity (whether our own manufacturing capacity or contract manufacturing capacity) in order to meet the demand for our proprietary value-branded products, which could prevent us from meeting increased retail customer or consumer demand and harm our brand, our sub-brands and our business. If we do not accurately align our manufacturing capabilities with demand, our business, financial condition and results of operations may be materially adversely affected.

If for any reason we were to change any one of our contract manufacturers, we could face difficulties that might adversely affect our ability to maintain an adequate supply of our proprietary value-branded products, and we would incur costs and expend resources in the course of making the change. Moreover, we might not be able to obtain terms as favorable as those received from our current contract manufacturers, which in turn would increase our costs.

In addition, we must continuously monitor our inventory and product mix against forecasted demand. If we underestimate demand, we risk having inadequate supplies. We also face the risk of having too much inventory on hand that may reach its expiration date and become unsalable, and we may be forced to rely on markdowns or promotional sales to dispose of excess or slow-moving inventory. If we are unable to manage our supply chain effectively, our operating costs could increase and our profit margins could decrease.

***Shipping is a critical part of our business and any changes in, or disruptions to, our shipping arrangements could adversely affect our business, financial condition, and results of operations.***

We currently rely on third-party national and regional logistics providers to deliver products to our manufacturing and distribution warehouses from our third-party suppliers and contract manufacturers and to deliver products from our manufacturing and distribution warehouses to our retail customers. If we are not able to negotiate acceptable pricing and other terms with these providers, or if these providers experience performance problems or other difficulties in processing our orders or delivering our products, it could negatively impact our results of operations and our customers' experience. For example, changes to the terms of our shipping arrangements may adversely impact our margins and profitability. In addition, our ability to receive inbound inventory efficiently and ship merchandise to our retail customers may be negatively affected by factors beyond our and these providers' control, including inclement weather, fire, flood, power loss, earthquakes, acts of war or terrorism or other events specifically impacting our or other shipping partners, such as

labor disputes, financial difficulties, system failures and other disruptions to the operations of the shipping companies on which we rely. We are also subject to risks of damage or loss during delivery by our shipping vendors. If any of the foregoing occurs, our business, financial condition and results of operations may be materially adversely affected.

***Changes affecting the availability of the London Inter-bank Offered Rate (“LIBOR”) may have consequences for us that cannot yet be reasonably predicted.***

We have outstanding debt with variable interest rates based on LIBOR. Advances under our revolving credit facility and our term loan facility generally bear interest based on (i) the Eurodollar Rate (as defined in our credit agreements and calculated using LIBOR) or (ii) the Base Rate (as defined in our credit agreements). The LIBOR benchmark has been the subject of national, international and other regulatory guidance and proposals to reform. In July 2017, the United Kingdom Financial Conduct Authority (the authority that regulates LIBOR) announced that it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. These reforms may cause LIBOR to perform differently than it has in the past, and LIBOR may ultimately cease to exist after 2021. Alternative benchmark rates may replace LIBOR and could affect our debt securities, debt payments and receipts. At this time, it is not possible to predict the effect of any changes to LIBOR, any phase out of LIBOR or any establishment of alternative benchmark rates. Any new benchmark rate will likely not replicate LIBOR exactly, which could impact our contracts that terminate after 2021. There is uncertainty about how applicable law and the courts will address the replacement of LIBOR with alternative rates on variable rate retail loan contracts and other contracts that do not include alternative rate fallback provisions. If LIBOR ceases to exist after 2021, the interest rates on our revolving credit facility and our term loan facility will be based on the Base Rate or an alternative benchmark rate, which may result in higher interest rates. In addition, any changes to benchmark rates may have an uncertain impact on our cost of funds and our access to the capital markets, which could impact our results of operations and cash flows. Uncertainty as to the nature of such potential changes may also adversely affect the trading market for our securities

***The growth of our business depends in part on our ability to accurately predict consumer trends, successfully introduce new products and improve existing products, and expand into new offerings.***

Our growth depends, in part, on our ability to successfully introduce new products, including our manufactured products, and improve and reposition our existing products to meet the requirements of our retail partners and those of pet parents. This, in turn, depends on our ability to predict and respond to evolving consumer trends, demands and preferences. The success of our innovation and product development efforts is affected by the technical capability of our product development staff and third-party consultants in developing and testing new products, including complying with governmental regulations, our attractiveness as a partner for outside research and development scientists and entrepreneurs and the success of our management and sales team in introducing and marketing new products.

We may be unable to determine with accuracy when or whether any of our products now under development will be approved or launched, and we may be unable to develop or otherwise acquire product candidates or products. Additionally, we cannot predict whether any such products, once launched, will be commercially successful. Furthermore, the timing and cost of our R&D initiatives may increase as a result of additional government regulation or otherwise, making it more time-consuming and/or costly to research, test and develop new products. If we are unable to successfully develop or otherwise acquire new products, our financial condition and results of operations may be materially adversely affected.

***Failure to protect our intellectual property could harm our competitive position or require us to incur significant expenses to enforce our rights.***

Our success depends in part on our ability to protect our intellectual property rights. Our trademarks such as “PetIQ,” “PetArmor,” “VIP Petcare,” “VetIQ PetCare,” “VetIQ,” “Capstar,” “Advecta,” “SENTRY,” “Sergeants,” “PetLock,” “Heart Shield Plus,” “TruProfen,” “Betsy Farms,” “PetAction,” “Minties,” “Vera,” and “Delightibles” and others are assets that support our brand, sub-brands and consumers’ perception of our products. We rely on trademark, copyright, trade secret, patent and other intellectual property laws, as well as nondisclosure and confidentiality agreements and other methods, to protect our trademarks, trade names, proprietary information, technologies and/or processes. Our non-disclosure agreements and confidentiality agreements may not effectively prevent disclosure of our proprietary information, technologies and processes and may not provide an adequate remedy in the event of unauthorized disclosure

of such information, which could harm our competitive position. In addition, effective patent, copyright, trademark and trade secret protection may be unavailable or limited for some of our intellectual property rights and trade secrets in foreign countries. We may need to engage in litigation or similar activities to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of proprietary rights of others. Any such litigation could require us to expend significant resources and divert the efforts and attention of our management and other personnel from our business operations. If we fail to protect our intellectual property, our business, financial condition and results of operations may be materially adversely affected.

***We may be subject to intellectual property infringement claims or other allegations, which could result in substantial damages and diversion of management's efforts and attention.***

We have obligations to respect third-party intellectual property. The steps we take to prevent misappropriation, infringement or other violation of the intellectual property of others may not be successful. From time to time, third parties have asserted intellectual property infringement claims against us, our suppliers, or our retail customers and may continue to do so in the future. Although we believe that our products and manufacturing processes do not infringe in any material respect upon proprietary rights of other parties and/or that meritorious defenses would exist with respect to any assertions of infringement of other parties, we may from time to time be found to infringe on the proprietary rights. For example, patent applications in the United States and some foreign countries are generally not publicly disclosed until the patent application is published, and we may not be aware of currently filed patent applications that relate to our products or processes. If patents later issue on these applications, we may be found liable for subsequent infringement. Such claims that our products or processes infringe these rights, regardless of their merit or resolution, could be costly and may divert the efforts and attention of our management and technical personnel. In part due to the complex technical issues and inherent uncertainties in intellectual property litigation, we cannot predict whether we will prevail in such proceedings. If such proceedings result in an adverse outcome, we could, among other things, be required to:

- Pay substantial damages (potentially treble damages in the United States);
- cease the manufacture, use or sale of the infringing products;
- discontinue the use of the infringing processes;
- expend significant resources to develop non-infringing processes;
- expend significant resources to litigate matters or to develop non-infringing processes; and
- enter into licensing arrangements with the third party claiming infringement, which may not be available on commercially reasonable terms, or may not be available at all.

If any of the foregoing occurs, our ability to compete could be affected and our business, financial condition and results of operations may be materially adversely affected.

***Adverse litigation judgments or settlements resulting from legal proceedings relating to our business operations could materially adversely affect our business, financial condition and results of operations.***

From time to time, we are subject to allegations, and may be party to legal claims and regulatory proceedings, relating to our business operations. Such allegations, claims and proceedings may be brought by third parties, including our customers, employees, governmental or regulatory bodies or competitors. Defending against such claims and proceedings, regardless of their merits or outcomes, is costly and time consuming and may divert management's attention and personnel resources from our normal business operations, and the outcome of many of these claims and proceedings cannot be predicted. If any of these claims or proceedings were to be determined adversely to us, a judgment, a fine or a settlement involving a payment of a material sum of money were to occur, or injunctive relief were issued against us, our reputation could be affected and our business, financial condition and results of operations could be materially adversely affected.

***A failure of one or more key information technology systems, networks or processes may materially adversely affect our ability to conduct our business.***

The efficient operation of our business depends on our information technology systems. We rely on our information technology systems to effectively manage our sales and marketing, accounting and financial and legal and compliance

functions, engineering and product development tasks, research and development data, communications, supply chain, order entry and fulfillment and other business processes. We also rely on third parties and virtualized infrastructure to operate and support our information technology systems. The failure of our information technology systems to perform as we anticipate could disrupt our business and could result in transaction errors, processing inefficiencies and the loss of sales and customers, causing our business and results of operations to suffer.

In addition, our information technology systems may be vulnerable to damage or interruption from circumstances beyond our control, including fire, natural disasters, power outages, systems failures, security breaches, cyberattacks and computer viruses. The failure of our information technology systems to perform as a result of any of these factors or our failure to effectively restore our systems or implement new systems could disrupt our entire operation and could result in decreased sales, increased overhead costs, excess inventory and product shortages and a loss of important information. Further, to the extent that we have customer information in our databases, any unauthorized disclosure of, or access to, such information could result in claims under data protection laws and regulations and could damage our reputation and result in lost sales. If any of these risks materialize, our reputation and our ability to conduct our business may be materially adversely affected.

***We are subject to extensive and ongoing governmental regulation and we may incur material costs in order to comply with existing or future laws and regulations, and our failure to comply may result in enforcement, recalls and other adverse actions or significant penalties.***

We are subject to a broad range of federal, state, local and foreign laws and regulations intended to protect public health and safety, natural resources and the environment. See “Business—Government Regulation.” Our operations are subject to extensive and ongoing regulation by the FDA, EPA, the U.S. Department of Agriculture (the “USDA”), the Florida Department of Health and by various other federal, state, local and foreign authorities regarding the manufacturing, processing, packaging, storage, distribution, advertising, labeling and import and export of our products, including drug and food safety standards. Our operations also are subject to regulation regarding the availability and use of pesticides, emissions and discharges to the environment, and the treatment, handling, storage and disposal of materials and wastes. Many of these laws and regulations are becoming increasingly stringent and compliance with them is becoming increasingly expensive. Costs of compliance, and the impacts on us of any non-compliance, with any such laws and regulations could materially adversely affect our business, financial condition and results of operations.

Later discovery of previously unknown problems with a product, including adverse events of unanticipated severity or frequency, or with our third-party manufacturers or manufacturing processes, or failure to comply with regulatory requirements, may result in, among other things:

- restrictions on the marketing or manufacturing of the product, withdrawal of the product from the market, or voluntary or mandatory product recalls;
- fines, warning letters or holds on target animal studies;
- refusal by applicable regulatory authorities to approve pending applications or supplements to approved applications, or suspension or revocation of product approvals;
- product seizure or detention, or refusal to permit the import or export of products; and
- injunctions or the imposition of civil or criminal penalties.

Regulatory policies may change and additional government regulations may be enacted that could prevent, limit or delay regulatory approval of any current or future product candidates. We cannot predict the likelihood, nature or extent of government regulation that may arise from future legislation or administrative action. If we are slow or unable to adapt to changes in existing requirements or the adoption of new requirements or policies, or if we are not able to maintain regulatory compliance, we may lose any marketing approval that we may have obtained, which would adversely affect our business.

Our business is also affected by export and import controls and similar laws and regulations, both in the United States and elsewhere. Issues such as national security or health and safety, which may slow or otherwise restrict imports or exports, may adversely affect our business, financial condition and results of operations.

Violations of or liability under any of these laws and regulations may result in administrative, civil or criminal fines or penalties against us, revocation or modification of applicable permits, environmental investigations or remedial activities, voluntary or involuntary product recalls, warning or untitled letters or cease and desist orders against or restrictions on operations that are not in compliance, among other things. Liability may be imposed under some laws and regulations regardless of fault or knowledge and regardless of the legality of the original action. These laws and regulations, or their interpretation, may change in the future and we may incur (directly, or indirectly through our contract manufacturers) material costs to comply with current or future laws and regulations or in any required product recalls.

Certain states have laws, rules and regulations which require that veterinary medical practices be owned by licensed veterinarians and that corporations which are not owned by licensed veterinarians refrain from providing, or holding themselves out as providers of, veterinary medical care. We may experience difficulty in expanding our operations into other states or provinces with similar laws, rules and regulations. Although we have structured our operations to comply with our understanding of the veterinary medicine laws of each state and province in which we operate, interpretive legal precedent and regulatory guidance varies by jurisdiction and is often sparse and not fully developed. A determination that we are in violation of applicable restrictions on the practice of veterinary medicine in any jurisdiction in which we operate, could have a material adverse effect on us, particularly if we are unable to restructure our operations to comply with the requirements of that jurisdiction.

All of the states in which we operate impose various registration permit and/or licensing requirements. To fulfill these requirements, we have registered each of our facilities with appropriate governmental agencies and, where required, have appointed a licensed veterinarian to act on behalf of each facility. All veterinarians practicing in our animal hospitals are required to maintain valid state licenses to practice.

***Failure to comply with federal, state and international laws and regulations relating to permit and/or licensing requirements, or the expansion of existing or the enactment of new laws or regulation relating to permit and/or licensing requirements, could adversely affect our business and our financial condition.***

We strive to comply with all applicable laws, regulations and other legal obligations relating to permit and/or licensing requirements. It is possible, however, that these requirements may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another or may conflict with other rules or our practices. We cannot guarantee that our practices have complied, comply or will comply fully with all such laws, regulations, requirements and obligations. Any failure, or perceived failure, by us to comply with our filed permits and licenses with any applicable federal, state or international related laws, industry standards or codes of conduct, regulatory guidance, orders to which we may be subject or other legal obligations relating to privacy or consumer protection could adversely affect our reputation, brand and business, and may result in claims, proceedings or actions against us by governmental entities or others or other liabilities. Any such claim, proceeding or action could hurt our reputation, brand and business, force us to incur significant expenses in defense of such proceedings, distract our management, increase our costs of doing business, result in a loss of customers and suppliers and may result in the imposition of monetary liability. We may also be contractually liable to indemnify and hold harmless third parties from the costs or consequences of non-compliance with any laws, regulations or other legal obligations relating to permit and/or licensing requirements. In addition, various federal, state and foreign legislative and regulatory bodies may expand existing laws or regulations, enact new laws or regulations or issue revised rules or guidance regarding permit and/or licensing requirements. Any such changes may force us to incur substantial costs or require us to change our business practices. This could compromise our ability to pursue our growth strategy effectively and may adversely affect our ability to acquire customers or otherwise harm our business, financial condition and results of operations.

***If we fail to comply with governmental regulations applicable to our Services business, various governmental agencies may impose fines, institute litigation or preclude us from operating in certain states.***

Certain states and provinces have laws, rules and regulations which require that veterinary medical practices be owned by licensed veterinarians and that corporations which are not owned by licensed veterinarians refrain from providing, or holding themselves out as providers of, veterinary medical care. We may experience difficulty in expanding our operations into other states or provinces with similar laws, rules and regulations. Although we have structured our operations to comply with our understanding of the veterinary medicine laws of each state in which we operate, interpretive legal

precedent and regulatory guidance varies by jurisdiction and is often sparse and not fully developed. A determination that we are in violation of applicable restrictions on the practice of veterinary medicine in any jurisdiction in which we operate, could have a material adverse effect on us, particularly if we are unable to restructure our operations to comply with the requirements of that jurisdiction. All of the states in which we operate impose various registration requirements. To fulfill these requirements, we have registered each of our facilities with appropriate governmental agencies and, where required, have appointed a licensed veterinarian to act on behalf of each facility. All veterinarians practicing in our animal hospitals are required to maintain valid state licenses to practice.

***Our success depends on our ability to attract and retain key employees and the succession of senior management.***

Our continued growth and success requires us to hire, retain and develop our leadership team. If we are unable to attract and retain talented, highly qualified senior management and other key executives, as well as provide for the succession of senior management, our growth and results of operations may be adversely impacted.

***We may experience difficulties hiring skilled veterinarians due to shortages that could disrupt our business.***

From time to time we may experience shortages of skilled veterinarians in markets in which we operate mobile clinics and wellness centers, which may require us to enhance wages and benefits to recruit and retain enough qualified veterinarians to adequately staff mobile clinics and wellness centers. If we are unable to recruit and retain qualified veterinarians, or to control our labor costs, our business, financial conditions and results of operations may be materially adversely affected.

***We have incurred net losses in the past and may be unable to sustain profitability in the future.***

We incurred a net loss of \$77.5 million for the year ended December 31, 2020. As of December 31, 2020, we had an accumulated deficit of \$93.4 million. We expect to continue to incur significant product commercialization and regulatory, sales and marketing, clinic opening, and other expenses. In addition, our general and administrative expenses increased following prior acquisitions to support the larger combined Company and product portfolio. The net income we earn may fluctuate significantly from quarter to quarter. We will need to generate additional net sales or increased gross margin to attain and sustain profitability, and we cannot be sure that we will remain profitable for any substantial period of time. Our failure to maintain profitability could negatively impact the value of our Class A common stock.

***If our cash from operations is not sufficient to meet our current or future operating needs, expenditures and debt service obligations, our business, financial condition and results of operations may be materially adversely affected.***

Our ability to generate cash to meet our operating needs, expenditures and debt service obligations will depend on our future performance and financial condition, which will be affected by financial, business, economic, legislative, regulatory and other factors, including potential changes in costs, pricing, the success of product innovation and marketing, competitive pressure and consumer preferences. If our cash flow and capital resources are insufficient to fund our debt service obligations and other cash needs, we could face substantial liquidity problems and could be forced to reduce or delay investments and capital expenditures or to dispose of material assets or operations, seek additional debt or equity capital or restructure or refinance our indebtedness. Our credit facility restricts our ability to take these actions and we may not be able to affect any such alternative measures on commercially reasonable terms or at all. If we cannot make scheduled payments on our debt, the lenders under our senior secured credit facilities can terminate their commitments to loan money, can declare all outstanding principal and interest to be due and payable, foreclose against the assets securing their borrowings and we could be forced into bankruptcy or liquidation. In addition, any downgrade of our debt ratings by any of the major rating agencies, which could result from our financial performance, acquisitions or other factors, would also negatively impact our access to additional debt financing (including leasing) or refinancing on favorable terms, or at all. Even if we are successful in taking any such alternative actions, such actions may not allow us to meet our scheduled debt service obligations and, as a result, our business, financial condition and results of operations may be materially adversely affected.

***The trading price of our Class A common stock is highly volatile. The trading price of our Class A common stock has fluctuated significantly since our IPO.***

This volatility, as well as general economic, market or political conditions, could reduce the market price of shares of our Class A common stock in spite of our operating performance. In addition, our results of operations could be below the expectations of public market analysts and investors due to a number of potential factors, including variations in our quarterly results of operations, additions or departures of key management personnel, failure to meet analysts' earnings estimates, publication of research reports about our industry, litigation and government investigations, changes or proposed changes in laws or regulations or differing interpretations or enforcement thereof affecting our business, adverse market reaction to any indebtedness we may incur or securities we may issue in the future, changes in market valuations of similar companies or speculation in the press or investment community, announcements by our competitors of significant contracts, acquisitions, dispositions, strategic partnerships, joint ventures or capital commitments and adverse publicity about our industry in or individual scandals, and in response the market price of shares of our Class A common stock could decrease significantly.

In the past few years, stock markets have experienced extreme price and volume fluctuations. In the past, following periods of volatility in the overall market and the market price of a company's securities, securities class action litigation has often been instituted against these companies. This litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

***Our quarterly operating results may fluctuate significantly and could fall below the expectations of securities analysts and investors due to seasonality and other factors, some of which are beyond our control, resulting in a decline in our stock price.***

Our quarterly operating results may fluctuate significantly because of several factors, including:

- the timing of new product and clinic launches;
- the timing and extent of customer inventory management decisions;
- our ability to procure product in a cost effective manner;
- expansion to new customers or product categories;
- seasonality of services;
- macroeconomic conditions, both nationally and locally;
- negative publicity relating to use of pet products outside the veterinary channel; and
- taxes

Seasonal factors and the timing of holidays cause our revenue to fluctuate from quarter to quarter. Our flea and tick product offerings are most significant in the first half of the year, both leading up to and throughout the spring and summer seasons. Adverse weather conditions may also affect customer traffic to our customers or our ability to meet customer delivery requirements.

#### **Risks Related to Our Company and Our Organizational Structure**

***Our principal asset is our interest in HoldCo, and, accordingly, we depend on distributions from HoldCo to pay our taxes and expenses. HoldCo's ability to make such distributions may be subject to various limitations and restrictions.***

We are a holding company and have no material assets other than our ownership of LLC Interests of HoldCo. As such, we have no independent means of generating revenue or cash flow, and our ability to pay our taxes and operating expenses or declare and pay dividends in the future, if any, will be dependent upon the financial results and cash flows of HoldCo and its subsidiaries and distributions we receive from HoldCo. There can be no assurance that our subsidiaries will generate sufficient cash flow to distribute funds to us or that applicable state law and contractual restrictions, including negative covenants in our debt instruments, will permit such distributions.



HoldCo is treated as a partnership for U.S. federal income tax purposes and, as such, is not subject to any entity-level U.S. federal income tax. Instead, taxable income is allocated to holders of LLC Interests, including us. Accordingly, we incur income taxes on our allocable share of any net taxable income of HoldCo. Under the terms of the HoldCo Agreement, HoldCo will be obligated to make tax distributions to holders of LLC Interests, including us. These tax distributions are funded from available cash of HoldCo and its subsidiaries. These tax distributions will be computed, for us, based on our actual tax liability as a result of the net taxable income allocated to us as a result of owning interests in HoldCo and, for all Continuing LLC Owners, based on the net taxable income of HoldCo allocated to such holder of LLC Interests multiplied by an assumed, combined tax rate equal to the maximum rate applicable to an individual resident in New York, New York (taking into account the deductibility of state and local taxes and other applicable adjustments). In addition to tax expenses, we will also incur expenses related to our operations. We intend, as its managing member, to cause HoldCo to make cash distributions to the owners of LLC Interests in an amount sufficient to (i) fund all or part of their tax obligations in respect of taxable income allocated to them and (ii) cover our operating expenses. However, HoldCo's ability to make such distributions may be subject to various limitations and restrictions, such as restrictions on distributions that would either violate any contract or agreement to which HoldCo is then a party, including debt agreements, or any applicable law, or that would have the effect of rendering HoldCo insolvent. Our credit agreement does not currently restrict our ability to make tax distributions. If we do not have sufficient funds to pay tax or other liabilities or to fund our operations, we may have to borrow funds, which could materially adversely affect our liquidity and financial condition and subject us to various restrictions imposed by any such lenders. In addition, if HoldCo does not have sufficient funds to make distributions, our ability to declare and pay cash dividends will also be restricted or impaired.

***If we are deemed to be an investment company under the Investment Company Act of 1940, as amended (the "1940 Act"), as a result of our ownership of HoldCo, applicable restrictions could make it impractical for us to continue our business as contemplated and could have a material adverse effect on our business.***

Under Sections 3(a)(1)(A) and (C) of the 1940 Act, a company generally will be deemed to be an "investment company" for purposes of the 1940 Act if (i) it is, or holds itself out as being, engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities or (ii) it engages, or proposes to engage, in the business of investing, reinvesting, owning, holding or trading in securities and it owns or proposes to acquire investment securities having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis. We do not believe that we are an "investment company," as such term is defined in either of those sections of the 1940 Act.

As the sole managing member of HoldCo, we will control and operate HoldCo. On that basis, we believe that our interest in HoldCo is not an "investment security" as that term is used in the 1940 Act. However, if we were to cease participation in the management of HoldCo, our interest in HoldCo could be deemed an "investment security" for purposes of the 1940 Act.

We and HoldCo intend to conduct our operations so that we will not be deemed an investment company. However, if we were to be deemed an investment company, restrictions imposed by the 1940 Act, including limitations on our capital structure and our ability to transact with affiliates, could make it impractical for us to continue our business as contemplated and could have a material adverse effect on our business.

***Anti-takeover provisions in our organizational documents and Delaware law might discourage or delay acquisition attempts for us that you might consider favorable.***

Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that may make the merger or acquisition of the Company more difficult without the approval of our board of directors. Among other things:

- a staggered board of directors;
- removal of directors, only for cause, by a supermajority of the voting power of stockholders entitled to vote;
- a provision denying stockholders the ability to call special meetings;
- a provision denying stockholders the ability to act by written consent;

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- provisions waiving the corporate opportunity doctrine with respect to Certain Sponsors and their affiliates;
- advance notice requirements for stockholder proposals and nominations;
- amendment of our amended and restated charter by a supermajority of the voting power of stockholders entitled to vote; and
- the authorization of undesignated preferred stock, the terms of which may be established and shares of which may be issued without stockholder approval.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management, and may discourage, delay or prevent a transaction involving a change of control of our Company that is in the best interest of our stockholders. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of our Class A common stock if they are viewed as discouraging future takeover attempts. In addition, because we are incorporated in Delaware, we have opted out of Section 203 of the General Corporation Law of the State of Delaware (the “DGCL”).

***Our board of directors is authorized to issue and designate shares of our preferred stock in additional series without stockholder approval.***

Our amended and restated certificate of incorporation authorizes our board of directors, without the approval of our stockholders, to issue shares of our preferred stock, subject to limitations prescribed by applicable law, rules and regulations and the provisions of our amended and restated certificate of incorporation, as shares of preferred stock in series, to establish from time to time the number of shares to be included in each such series and to fix the designation, powers, preferences and rights of the shares of each such series and the qualifications, limitations or restrictions thereof. The powers, preferences and rights of these additional series of preferred stock may be senior to or on parity with our Class A common stock, which may reduce its value.

***Unanticipated changes in effective tax rates or adverse outcomes resulting from examination of our income or other tax returns could adversely affect our results of operations and financial condition.***

We are subject to taxes by the U.S. federal, state and local tax authorities, and our tax liabilities will be affected by the allocation of expenses to differing jurisdictions. Our future effective tax rates could be subject to volatility or adversely affected by a number of factors, including:

- changes in the valuation of our deferred tax assets and liabilities;
- expected timing and amount of the release of any tax valuation allowances;
- tax effects of stock-based compensation; or
- changes in tax laws, regulations or interpretations thereof.

In addition, we may be subject to audits of our income, sales and other transaction taxes by U.S. federal, state and local taxing authorities. Outcomes from these audits could have an adverse effect on our operating results and financial condition.

### **Item 1B. Unresolved Staff Comments**

None.

## Item 2 - Properties

The following table sets forth the location, size, use and lease expiration date of our material properties as of December 31, 2020.

LOCATION	APPROXIMATE SIZE	PRINCIPAL USE(S)	LEASE EXPIRATION DATE
Daytona Beach, Florida	142,900 square feet	Manufacturing and distribution warehouse; office	November 30, 2022
Springville, Utah	242,000 square feet	Manufacturing and distribution warehouse; office	January 31, 2024
Omaha, Nebraska	131,150 square feet	Manufacturing; office	Owned
Omaha, Nebraska	349,680 square feet	Distribution warehouse	September 30, 2026
Eagle, Idaho	14,000 square feet	Corporate Headquarters	Owned

We are obligated under non-cancelable leases for the facilities we do not own. Our leases have varying terms, typically with three to five year renewal options.

We believe that our current properties are adequate for our intended purposes and represent sufficient capacity for our near term plans.

## Item 3 – Legal Proceedings

For a discussion of our “Legal Proceedings,” refer to Note 13 – Legal Proceedings and Contingencies in the notes to our audited consolidated financial statements of this Annual Report on Form 10-K.

## Item 4 – Mine Safety Disclosures

**Not Applicable**

## PART II

## Item 5 – Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

As of February 26, 2021, there were approximately 12 holders of record of our Class A common stock and 18 holders of record of our Class B common stock. The holders of our Class B common stock also hold LLC interests in Holdco. There is no public market for these interests. A substantially greater number of holders of our stock are held in “street name” and held of record by banks, brokers, and other financial institutions.

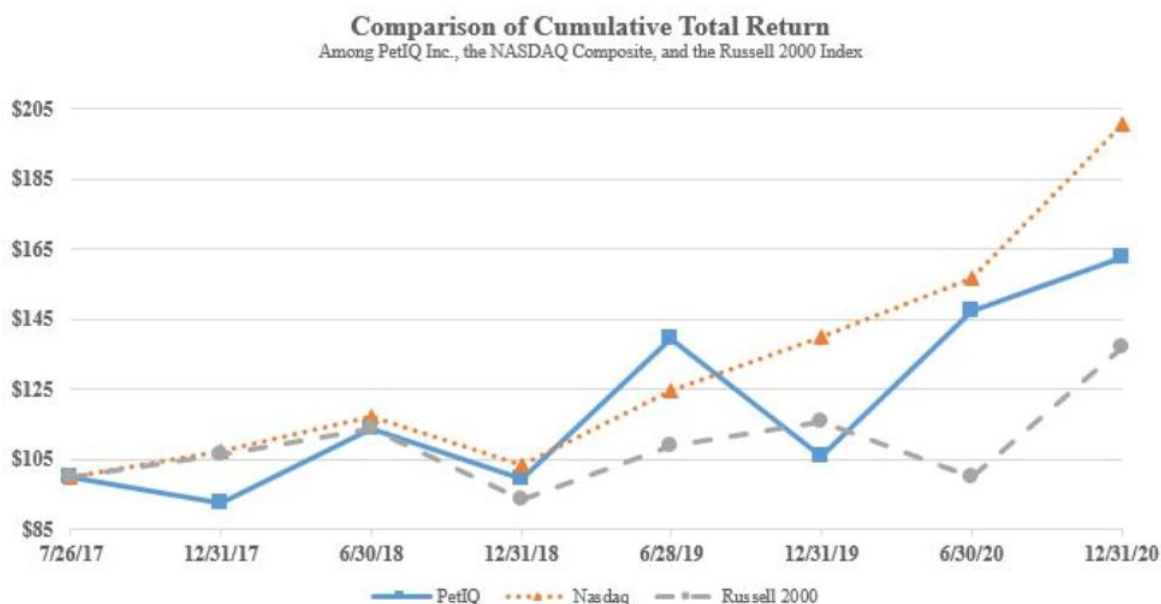
## Dividend Policy

We have not historically paid cash dividends on our common stock, and have no current plans to pay cash dividends on our Class A common stock. The declaration, amount and payment of any future dividends will be at the sole discretion of our board of directors. Our board of directors may take into account general and economic conditions, our financial condition and results of operations, our available cash and current and anticipated cash needs, capital requirements, contractual, legal, tax and regulatory restrictions and implications on the payment of dividends by us to our stockholders or by our subsidiaries to us, including restrictions under our senior secured credit facilities and other indebtedness we may incur, and such other factors as our board of directors may deem relevant.

**Stock Performance Graph**

The information contained in the following chart is not considered to be “soliciting material,” or “filed,” or incorporated by reference in any past or future filing by the Company under the Securities Act or Exchange Act unless and only to the extent that, the Company specifically incorporates it by reference.

The following graph compares our total common stock return with the total return for (i) the NASDAQ Composite Index (the “NASDAQ Composite”) and (ii) the Russell 2000 Index (the “Russell 2000”) for the period from July 26, 2017 (the date our common stock commenced trading on the NASDAQ Global Market) through December 31, 2020. The figures represented below assume an investment of \$100 in our common stock at the closing price of \$23.64 on July 26, 2017 and in the NASDAQ Composite and the Russell 2000 on July 26, 2017. The comparisons in the table are required by the SEC and are not intended to forecast or be indicative of possible future performance of our common stock.



Date	PetIQ	NASDAQ Composite	Russell 2000
July 26, 2017	\$ 100.00	\$ 100.00	\$ 100.00
December 31, 2017	92.39	107.48	106.46
December 31, 2018	99.28	103.31	93.50
December 31, 2019	105.96	139.70	115.68
December 31, 2020	162.65	200.67	136.93

## **Item 6 – Selected Financial Data**

Not applicable.

## **Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations**

*We conduct our business through PetIQ, LLC and its subsidiaries. The following discussion and analysis of our financial condition and results of operations should be read together with our financial statements and related notes and other financial information appearing elsewhere in this report. This section of the Form 10-K generally discusses 2020 and 2019 items and year-to-year comparisons of 2020 to 2019. Discussions of 2018 items and year-to-year comparisons of 2019 and 2018 that are not included in this Form 10-K can be found in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 on our Annual Report on Form 10-K for the year ended December 31, 2019. 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 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, 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 Holdco, which is the sole member of 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. There is significant uncertainty regarding the extent to which and how long COVID-19 and its related effects will impact the U.S. economy and related demand for our products and services. The extent to which COVID-19 will impact our business and operating results during 2021 will depend on future developments, including the duration and continued spread of COVID-19, the availability and effectiveness of vaccines, and the impact on our customers and employees, as well as the U.S. economy, all of which are highly uncertain and cannot be predicted.

We made the strategic and difficult decision to temporarily close all of our veterinarian service clinics effective March 20, 2020 to protect the health and safety of our employees, customers and retail partners. We began to reopen veterinary service locations in May 2020 with 95% wellness centers and mobile clinics reopened by September 30, 2020. This effort required developing a number of protocols, including curbside service, development of a virtual line management process, procurement of personal protective equipment, training of team members, and more to facilitate our ability to re-open.

Pursuant to various State and local executive orders and Public Health Departments, as well as the Department of Homeland Security and Centers for Disease Control and Prevention guidelines, it has determined that veterinary services are an essential business, and as such the Company does not expect an additional large scale disruption to its Services segment.

The amount of the decrease in business that we will ultimately experience remains uncertain. This is largely due to: (i) existing concerns that many non-essential businesses and employees face permanent closure or heavy reliance on newly-established federal government programs, such as the Coronavirus Aid, Relief, and Economic Security Act of 2020 (CARES Act), in order to remain in operation and the ultimate success of these programs remains unknown; (ii) uncertainty of consumer/pet owner response and more specifically, the timing of engaged demand as the public is reintroduced to our retail environments as government restrictions are lifted or reduced; and (iii) absenteeism as it relates to employee symptoms, illness, and or exposure to COVID-19.

Our Products segment has remained in operation at our main three facilities in Springville, Utah, Omaha, Nebraska, and Daytona Beach, Florida, as well as our contract manufacturing partner in Plano, Texas. We have implemented a variety of policies and procedures to ensure the health and safety of our workforce, including staggering break times, adding additional shifts to enhance social distancing, enhancing sanitation procedures, providing personal protective equipment to employees, and requiring social distancing. We also provided a \$2 an hour temporary wage increase for our production employees during the twelve months ended December 31, 2020.

Our corporate and administrative personnel have been fully functional since we closed various administrative offices to employees and the general public, and implemented enhanced social distancing and work-from-home policies. A number of employees returned to these offices since we began re-opening, however a number of employees remain working remotely. We expect to continually review and adjust to local health conditions for the various jurisdictions in which we operate.

We are taking precautions to protect the safety and well-being of our employees while providing uninterrupted deliveries of products to our retailer partners. However, no assurance can be given that these actions will be sufficient, nor can we predict the level of disruption that will occur should the COVID-19 pandemic and its related macro-economic risks continue for an extended period of time. Additional information regarding risks and uncertainties to our business and results of operations related to the COVID-19 pandemic are set forth in Part I, Item 1A of this report.

## **Results of Operations**

### **Components of our Results of Operations**

#### ***Net Sales***

Our Product Segment net sales consist of our total product sales net of product returns, allowances (discounts), trade promotions and incentives. We offer a variety of trade promotions and incentives to our customers, such as cooperative advertising programs and in-store displays. We recognize revenue when control transfers to our customers, in accordance with the terms of our contracts, which generally occurs upon shipment of product. Most contracts contain variable consideration, which is estimated at the time of sale and updated at each period end. Trade promotions are used to increase our aggregate net sales. Our net sales are periodically influenced by the timing, extent and amount of such trade promotions and incentives.

Key factors that may affect our future Product sales growth include: new product introductions; expansion into other customer bases; expansion of items sold to existing customers, addition of new retail customers and to maintain pricing levels necessary for profitability; aggressive pricing by our competitors; and whether we can maintain and develop positive relationships with key retail customers. In addition, our products are primarily consumables and, as such, they experience a replenishment cycle.

Our Service Segment revenue consists of providing veterinary services to consumers and selling products to the consumer in conjunction with those services. The customer generally renders payment at the time the service is rendered.

While many of our products are sold consistently throughout the year, we experience seasonality in the form of increased demand for our flea and tick product offerings in the first half of the year, both leading up to and throughout the spring and summer seasons. Additionally our veterinary services experience seasonality as consumers typically seek more services in the warmer months.

### **Gross Profit**

Gross profit is our net product sales plus service revenue less cost of product sales and services. Our cost of product sales consists primarily of costs of raw goods, finished goods, packaging materials, manufacturing, shipping and handling costs and costs associated with our warehouses and distribution network. Cost of services are comprised of all service and product costs related to providing veterinary services, including but not limited to, salaries or contract costs of veterinarians, technicians and other clinic based personnel, transportation and delivery costs, facilities rent, occupancy costs, supply costs, depreciation and amortization of clinic assets, certain marketing and promotional expenses and costs of goods sold.

Gross margin measures our gross profit as a percentage of net sales. With respect to our proprietary products, we have a manufacturing network that includes leased and owned manufacturing facilities where we manufacture finished goods, as well as third-party contract manufacturing facilities from which we purchase finished products predominately on a dollar-per-unit basis. The gross margin on our proprietary value-branded products is higher than on our distributed products. For distributed products, our costs are driven by the extent of value-added products and services we render with the distributed product. Gross profit in the services segment is driven by the number of pets that seek services in the individual clinics and wellness centers due to the relatively fixed cost nature of providing the clinic or wellness center.

### **General and Administrative Expenses**

Our general and administrative expenses primarily consist of employee compensation and benefits expenses, sales and merchandizing expenses, advertising and marketing expenses, rent and lease expenses, IT and utilities expenses, professional fees, insurance costs, R&D costs, host fees, banking charges, and consulting fees. General and administrative expenses as a percentage of net sales have increased to 17.7% in 2020 from 14.5% in 2019. The increase in general and administrative expenses in 2020 compared to 2019 was primarily driven by integration costs related to centralization efforts, costs related to the addition of overhead to support the Omaha facilities, incremental amortization expense on the newly acquired intangible assets and general growth in corporate services to correspond with the growth in the Company, partially offset by a decrease in acquisition costs.

Our advertising and marketing expenses primarily consist of digital marketing (e.g. social, display and search, etc.), addressable TV, e-mail, in-store merchandising and trade shows in an effort to build awareness and drive demand for our products and services. These expenses may vary from quarter to quarter but typically they are higher in the second and third quarters. Our Product Segment focuses on promoting PetArmor direct-to-consumer, supported by trade promotions and merchandising. Our Services Segment focuses on promoting our veterinary services direct-to-consumer, geo-targeted around our retail locations, supported by in-store signage. We expect our marketing expenses to increase commensurate with increases in revenue and market share for both segments.

As noted above, we experience seasonality in the form of increased demand for our flea and tick product offerings in the first half of the year, both leading up to and throughout the spring and summer seasons and, as a result, the sales and merchandizing expenses component of our general and administrative expenses generally increases during this period due to promotional spending relating to our flea and tick product lines.

### **Contingent Note revaluations**

A portion of the purchase price for the acquisition of Community Veterinary Clinics, LLC, d/b/a (“VIP” and such acquisition the “VIP Acquisition”), was structured in the form of Contingent Notes (the “Contingent Notes”) that vested based on the combined Company EBITDA targets for the years ending December 31, 2019 and 2018. The Contingent Notes were earned based on consolidated company EBITDA as discussed in the accompanying financial statements, and were revalued each period through earnings. The combined Company EBITDA targets were met for each year end, and as such the Contingent Notes became fixed as of December 31, 2019 and 2018. During the year ended December 31, 2020, the Company recognized no additional expense due to the revaluation of the Contingent Notes, but recognized \$7.3 million during the year ended December 31, 2019.

**Net (Loss) Income**

Our net (loss) income for future periods will be affected by the various factors described above. In addition, our historical results are impacted by Opco's status as a pass-through entity for U.S. federal income tax purposes and our ownership percentage of Holdco. During the current year, we recorded a valuation allowance which effectively removed our deferred tax assets based on the likelihood of realization. Improved profitability could reverse that allowance, resulting in significant swings in Net (loss) income. We anticipate future results will not be consistent as our net income will be subject to U.S. federal and state income taxes. Our tax expense is impacted by our structure and, as a result, we expect our tax expense to fluctuate on a quarterly basis depending on the number of Exchanges that occur during each period.

**Non-Controlling Interest**

We consolidate the financial position and results of operations of HoldCo. Our Continuing LLC Owners hold their equity investment in us primarily through LLC Interests in the Company's subsidiary, HoldCo, and an equal number of shares of the Company's Class B common stock. Our Class B Stock has voting, but no economic rights. Each LLC Interest, together with a share of Class B Stock held by the Continuing LLC, is exchangeable for a share of the Company's Class A common stock (or at the option of the Company, the cash equivalent thereof). The Company is the managing member of HoldCo and owns a majority of the LLC Interests, and consolidates HoldCo in the Company's Consolidated Financial Statements. The interest of the Continuing LLC Owners in HoldCo is reflected in our Consolidated Financial Statements as a non-controlling interest.

**Results of Operations**

The following table sets 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>			<b>% of Net Sales</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Product sales	\$ 725,705	\$ 617,118	93.0 %	87.0 %
Service revenue	54,346	92,313	7.0 %	13.0 %
Total net sales	780,051	709,431	100.0 %	100.0 %
Cost of products sold	584,401	530,031	74.9 %	74.7 %
Cost of services	60,462	72,017	7.8 %	10.2 %
Total cost of sales	644,863	602,048	82.7 %	84.9 %
Gross profit	135,188	107,383	17.3 %	15.1 %
General and administrative expenses	138,375	103,200	17.7 %	14.5 %
Contingent note revaluation loss	—	7,320	- %	1.0 %
Operating loss	(3,187)	(3,137)	(0.4)%	(0.4)%
Interest expense, net	(26,299)	(14,495)	(3.4)%	(2.0)%
Foreign currency gain (loss), net	109	(151)	0.0 %	(0.0)%
Other income, net	571	172	0.1 %	0.0 %
Total other expense, net	(25,619)	(14,474)	(3.3)%	(2.0)%
Pretax net loss	(28,806)	(17,611)	(3.7)%	(2.5)%
Income tax (expense) benefit	(52,216)	3,309	(6.7)%	0.5 %
Net loss	\$ (81,022)	\$ (14,302)	(10.4)%	(2.0)%

**Year Ended December 31, 2020 Compared With Year Ended December 31, 2019****Net sales***Consolidated Net Sales*

Consolidated net sales increased approximately \$70.7 million, or 10%, to \$780.1 million for the year ended December 31, 2020, compared to \$709.4 million for the year ended December 31, 2019. This increase was driven by the expansion of manufactured items as a result of the Perrigo Animal Health Acquisition, other growth in the Products segment related to



distributed products led by the online channel, offset by declining sales in the Services segment due to COVID-19 related closures.

#### Products Segment

Product sales increased approximately \$108.6 million, or 18%, to \$725.7 million for the year ended December 31, 2020, compared to \$617.1 million for the year ended December 31, 2019. This increase was driven by accelerated growth in manufactured products led by those produced in our Omaha facility and by velocity growth within current customers of distributed products, specifically the online channel.

#### Services Segment

Service revenue decreased approximately \$38.0 million, or 41%, from \$92.3 million to \$54.3 million for the year ended December 31, 2020, compared to the year ended December 31, 2019. Same-store sales decreased approximately \$38.8 million, or 46%, to \$45.4 million for the year ended December 31, 2020, compared to \$84.2 million for the year ended December 31, 2019. The decrease in same-store sales was driven by COVID-19 related closures. Non same-store sales increased approximately \$0.9 million, or 11%, to \$9.0 million for the year ended December 31, 2020, compared to \$8.1 million for the year ended December 31, 2019. The increase in non same-store sales was a result of opening 80 additional wellness centers in 2019 an additional 27 wellness centers in 2020, as well as the maturation of clinics opened in the past six trailing quarters, offset by wellness centers moving into the same store sales base and COVID-19 related closures. Services revenue has rebounded to nearly the same levels prior to the COVID-19 pandemic, the Company is continuing to experience unplanned clinic closures due to absenteeism, which are expected to continue until the overall health situation improves.

#### **Gross profit**

Gross profit increased by approximately \$27.8 million, or 26%, to \$135.2 million for the year ended December 31, 2020, compared to \$107.4 million for the year ended December 31, 2019. This increase is due to the significant Product sales growth, and particularly in products manufactured in our Omaha, Nebraska facility as well as the Capstar assets acquired during 2020, which carry a higher margin than our distributed product sales, offset by a negative gross profit in services due to COVID-19 related closures.

#### **General and administrative expenses**

Consolidated general and administrative expenses (“G&A”) increased approximately \$35.2 million, or 34%, to \$138.4 million for the year ended December 31, 2020, compared to \$103.1 million for the year ended December 31, 2019. As a percentage of net sales, G&A increased from approximately 15% in 2019 to 18% in 2020, driven by integration costs related to centralization efforts, costs related to the addition of overhead to support the Omaha facilities, incremental amortization expense on the newly acquired intangible assets and general growth in corporate services to correspond with the growth in the Company, partially offset by a decrease in acquisition costs.

#### Products Segment

Products segment G&A increased approximately \$3.2 million or 11.7% to \$30.5 million for the year ended December 31, 2020, compared to \$27.3 million for the year ended December 31, 2019. This increase was driven by acquisitions, resulting in approximately \$6.4 million in G&A costs related to the acquired Perrigo Animal Health business in the first six months of the year, primarily selling and distribution expenses. This was offset by a reduction in other costs, such as the centralization of certain functions like Company wide marketing to the corporate segment.

#### Services Segment

Services segment G&A increased approximately \$0.8 million, or 5%, to \$16.8 million for the year ended December 31, 2020, compared to \$16.0 million for the year ended December 31, 2019. This increase was primarily driven by higher

compensation and benefits costs as the Services segment continues to build the team, offset by declining variable selling costs, such as host fees and credit card service charges.

#### Unallocated Corporate

Unallocated corporate G&A increased \$41.4 million, or 83.3%, to \$91.1 million for the year ended December 31, 2020, from \$49.7 million for the year ended December 31, 2019.

- Increased corporate marketing efforts for approximately \$6.7 million;
- Additional corporate compensation (both stock compensation and wages/bonus) of approximately \$9.9 million, partially related to the severance accruals as part of integration activities;
- Increased professional fees and licensing costs, primarily related to the increased size of the Company, and fees for professional services provided to the Company in conjunction with new Sarbanes Oxley requirements as a result of losing Emerging Growth Company status during 2020.;
- Higher amortization on the inclusion of the Perrigo Animal Health Acquisition for the full year as well as new 2020 intangible asset acquisitions;
- A contract termination cost due to an alleged breach of contract related to the transition from the Perrigo Animal Health Acquisition of \$7.8 million, and
- Other variable costs related to Company growth, such as insurance and information technology.

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

Interest expense, net, increased \$11.8 million, to \$26.3 million for the year ended December 31, 2020, compared to \$14.5 million for the year ended December 31, 2019. This increase was driven by additional debt incurred to fund the Perrigo Animal Health Acquisition during 2019 being outstanding for the full year as well as the Convertible Notes entered into during May 2020 that were used to finance the Capstar Acquisition.

#### ***Pre-tax net loss***

As a result of the factors above, pre-tax net loss increased \$11.2 million to a pre-tax net loss of \$28.8 million for the year ended December 31, 2020 compared to a pre-tax net loss of \$17.6 million for the year ended December 31, 2019.

#### ***Tax (expense) benefit***

As a result of continued exchanges by Continuing LLC Owners of LLC Interests and Class B common shares, offset by the use of LLC Interests as consideration in business combinations during 2018, the Company now owns approximately 89.4% of Holdco with the LLC Interests not held by the Company considered 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.

Income tax (expense) benefit totaled (181.3%) and 18.8% of pretax earnings for the years ended December 31, 2020 and 2019, respectively. Our tax rate is affected primarily by the recognition of a valuation allowance during the year ended December 31, 2020 and the portion of income and expense allocated to the noncontrolling interest. It is also affected by discrete items that may occur in any given year such as stock based compensation, but are not consistent from year to year. Our effective income tax rate prior to the IPO differed from statutory rates primarily due to our pass-through entity structure for U.S. income tax purposes.

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

##### Products Segment

Products segment Adjusted EBITDA increased approximately \$43.7 million, or 59.4%, to \$117.2 million for the year ended December 31, 2020, compared to \$73.5 million for the year ended December 31, 2019. Products segment Adjusted EBITDA fluctuates based on the quantity and mix of products sold, specifically whether the products are manufactured by

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PetIQ or are distributed for other manufacturers. The significant growth in Products segment Adjusted EBITDA relates to significant sales growth of manufactured products, primarily produced at the Omaha facility with a minor contribution from the Capstar branded products in third and fourth quarters.

Services Segment

Services segment Adjusted EBITDA decreased approximately \$16.7 million, or 83.1%, to \$3.4 million for the year ended December 31, 2020, compared to \$20.0 million for the year ended December 31, 2019. Services segment Adjusted EBITDA can fluctuate considerably 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 under “Consolidated Non-GAAP Financial Measures”. Services segment Adjusted EBITDA was significantly impacted by the COVID-19 closures, as well as converting some community clinics to wellness centers, which transitions operations into the non-same store category.

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 acquisition expenses, integration costs, and the fair value adjustment to the contingent note. 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>Year ended December 31, 2020</b>			
	<b>Products</b>	<b>Services</b>	<b>Unallocated Corporate</b>	<b>Consolidated</b>
Pretax net income (loss)	\$ 112,027	\$ (22,839)	\$ (117,994)	\$ (28,806)
<b>Adjustments:</b>				
Depreciation	4,810	3,775	3,497	12,082
Interest, net	—	—	26,299	26,299
Amortization	—	—	12,815	12,815
Acquisition costs <sup>(1)</sup>	—	—	2,620	2,620
Stock based compensation expense	—	—	9,170	9,170
Non same-store revenue <sup>(2)</sup>	—	(8,987)	—	(8,987)
Non same-store costs <sup>(2)</sup>	—	22,256	—	22,256
Integration costs and costs of discontinued clinics <sup>(3)</sup>	—	—	9,776	9,776
Clinic launch expense <sup>(4)</sup>	—	3,085	—	3,085
Litigation expenses	—	—	1,006	1,006
COVID-19 related costs <sup>(5)</sup>	379	6,097	—	6,476
<b>Adjusted EBITDA</b>	<b>\$ 117,216</b>	<b>\$ 3,387</b>	<b>\$ (52,811)</b>	<b>\$ 67,792</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 to 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.

<i>\$'s in 000's</i>	<b>Year ended December 31, 2019</b>			
	<b>December 31, 2019</b>	<b>Products</b>	<b>Services</b>	<b>Unallocated Corporate</b>
Pretax net income (loss)	\$ 58,081	\$ 4,134	\$ (79,826)	\$ (17,611)
<b>Adjustments:</b>				
Depreciation	3,552	3,170	2,417	9,139
Interest, net	66	135	14,294	14,495
Amortization	—	—	5,994	5,994
Acquisition costs <sup>(1)</sup>	—	—	6,147	6,147
Stock based compensation expense	—	—	7,355	7,355
Purchase accounting adjustment to inventory	4,805	—	—	4,805
Non same-store revenue <sup>(2)</sup>	—	(8,088)	—	(8,088)
Non same-store costs <sup>(2)</sup>	—	19,553	—	19,553
Fair value adjustment of contingent note <sup>(3)</sup>	—	—	7,320	7,320
Integration costs and costs of discontinued clinics <sup>(4)</sup>	551	374	2,863	3,788
Clinic launch expense <sup>(5)</sup>	—	767	—	767
Litigation expenses	—	—	529	529
SKU Rationalization <sup>(6)</sup>	6,482	—	—	6,482
<b>Adjusted EBITDA</b>	<b>\$ 73,537</b>	<b>\$ 20,045</b>	<b>\$ (32,907)</b>	<b>\$ 60,675</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) Fair value adjustment on the contingent note represents the non cash adjustment to mark the 2019 Contingent Note to fair value.
- (4) 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.
- (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) SKU rationalization relates to the disposal of or reserve to estimated net realizable value for inventory that will either no longer be sold, or will be de-emphasized, as the Company aligns brands between Legacy PetIQ brands and brands acquired as part of the Perrigo Animal Health Acquisition. All costs are included in the Products segment gross margin.

**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

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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 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 years ended	
	December 31, 2020	December 31, 2019
Net loss	\$ (81,022)	\$ (14,302)
Plus:		
Tax expense (benefit)	52,216	(3,309)
Depreciation	12,082	9,139
Amortization	12,815	5,994
Interest	26,299	14,495
EBITDA	\$ 22,390	\$ 12,017
Acquisition costs <sup>(1)</sup>	2,620	6,147
Integration costs and costs of discontinued clinics <sup>(2)</sup>	9,776	3,788
SKU rationalization <sup>(3)</sup>	—	6,482
Purchase accounting adjustment to inventory	—	4,805
Stock based compensation expense	9,170	7,355
Fair value adjustment of contingent note <sup>(4)</sup>	—	7,320
Non same-store revenue <sup>(5)</sup>	(8,987)	(8,088)
Non same-store costs <sup>(5)</sup>	22,256	19,553
Clinic launch expenses <sup>(6)</sup>	3,085	767
Litigation expenses	1,006	529
COVID-19 related costs <sup>(7)</sup>	6,476	—
Adjusted EBITDA	\$ 67,792	\$ 60,675

- (1) Acquisition costs include legal, accounting, banking, consulting, diligence, and other out-of-pocket costs related to completed and contemplated acquisitions.
- (2) 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.
- (3) SKU rationalization relates to the disposal of or reserve to estimated net realizable value for inventory that will either no longer be sold, or will be de-emphasized, as the Company aligns brands between Legacy PetIQ brands and brands acquired as part of the Perrigo Animal Health Acquisition. All costs are included in the Products segment gross margin.
- (4) Fair value adjustment on the contingent note represents the non cash adjustment to mark the 2019 Contingent Note to fair value.
- (5) 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.
- (6) 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.
- (7) Costs related to maintaining service segment infrastructure, staffing, and overhead related to 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 flow from operations, borrowings, and equity contributions. As of December 31, 2020 and December 31, 2019, our cash and cash equivalents were \$33.5 million and \$27.3 million, respectively. As of December 31, 2020, we had \$15.0 million outstanding under a revolving credit facility, \$217.3 million under a term loan, \$143.8 million of outstanding 4.0% Convertible Senior Notes due 2026 (the "Notes"), and \$16.3 million in other debt. The debt agreements bear interest at rates between 2.3% and 6.75%.

Our primary cash needs are for working capital and to support our growth plans, which may include acquisitions. 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 that is currently ongoing or the construction of new corporate headquarters, which is also currently underway. Our primary working capital requirements are to carry inventory and receivable levels necessary to support our increasing Product net sales. Fluctuations in working capital are primarily driven by the timing of new product launches and seasonal retailer demand. As of December 31, 2020 and December 31, 2019, we had working capital (current assets less current liabilities) of \$141.2 million and \$112.4 million, respectively.

We believe that our operating cash flow, cash on hand, and debt proceeds from our borrowings under our credit facility 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. As in the past, we will continue to explore opportunities to optimize our capital structure.

### **Cash Flows**

#### ***Cash provided by or used in Operating Activities***

Net cash used in operating activities was \$4.6 million for the year ended December 31, 2020, compared to \$20.8 million provided by operating activities for the year ended December 31, 2019. The change in operating cash flows primarily reflects lower earnings, offset by higher non-cash items such as stock-based compensation, depreciation and amortization, deferred tax adjustment, and decreases in working capital. Working capital changes are driven by increased accounts receivable resulting from our growing sales and increased inventory due to timing and composition of expected sales in 2021, offset by growth in accounts payable to purchase inventory. Net changes in assets and liabilities accounted for \$23.0

million in cash used in operating activities for the year ended December 31, 2020 compared to \$7.2 million of cash used in operating activities for the year ended December 31, 2019.

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

Net cash used in investing activities was \$118.0 million for the year ended December 31, 2020, compared to \$195.0 million for the year ended December 31, 2019. The decrease in net cash used in investing activities is a result of the purchase of Perrigo Animal Health in the prior year, partially offset by the Acquisition of Capstar®, as well as increased purchase of property, plant, and equipment, primarily to support the launch of additional wellness centers and the construction of the new corporate headquarters.

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

Net cash provided by financing activities was \$128.8 million for the year ended December 31, 2020, compared to \$135.1 million in net cash provided by financing activities for the year ended December 31, 2019. The change in cash provided by financing activities is primarily driven by the Company's issuance of Notes and the purchase of capped call options to finance the Capstar Acquisition, compared to financing obtained for the purchase of Perrigo Animal Health. During the year ended December 31, 2020, we received \$137.9 million of proceeds from the issuance the Notes, net of issuance costs and paid \$14.8 million for the Capped Call.

#### ***Description of Indebtedness***

##### ***Convertible Notes***

On May 19, 2020, the Company issued \$143.8 million in aggregate principal amount of 4.00% Convertible Senior Notes due 2026 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.

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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.

In accounting for the issuance of the Notes, the Company separated the Notes into liability and equity components. The carrying amount of the liability component was calculated using a discount rate of 13%, which was determined by measuring the fair value of a similar debt instrument that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was \$53.3 million and was determined by deducting the fair value of the liability component from the par value of the Notes. The excess of the principal amount of the liability component over its carrying amount, or the debt discount, is amortized to interest expense at an annual effective interest rate over the contractual terms of the Notes.

### ***A&R Credit Agreement***

On July 8, 2019 the Company amended the existing revolving credit agreement of PetIQ, LLC and each of its domestic wholly-owned subsidiaries (the "Amended Revolving Credit Agreement"). The Amended Revolving Credit Agreement provides for a secured revolving credit facility of \$110 million, with an accordion feature allowing an additional increase up to a total facility of \$125 million and extends the maturity date of the revolving facility to July 8, 2024. In addition, the Amended Revolving Credit Agreement reduces the interest rate on Eurodollar rate loans and modifies certain financial covenants, including eliminating the maximum first lien net coverage ratio. 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.

All obligations under the Amended Revolving Credit Agreement are unconditionally guaranteed by PetIQ Holdings, LLC 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.

The Amended Revolving Credit Agreement contains a number of covenants that, among other things, restrict the ability of the borrowers and guarantors thereunder to (subject to certain exceptions): (i) make investments, loans or advances; (ii) incur additional indebtedness; (iii) create liens on assets; (iv) engage in mergers or consolidations and/or sell assets; (v) pay dividends and distributions or repurchase our equity interests; (vi) repay subordinated indebtedness; (vii) make certain acquisitions; and (viii) other restrictions typical for a credit agreement of this type. As of December 31, 2020, the borrowers and guarantors thereunder were in compliance with these covenants.

The Amended Revolving Credit Agreement also contains certain customary affirmative covenants and events of default (including change of control). In addition, the Amended Revolving Credit Agreement contains a minimum fixed charge coverage ratio covenant which is tested if availability under the Amended Revolving Credit Agreement falls below a certain level. As of December 31, 2020, the borrowers and guarantors thereunder were in compliance with these covenants.

As of December 31, 2020, \$15.0 million was outstanding under the Amended Revolving Credit Agreement. The weighted average interest rate on the Amended Revolving Credit Agreement was 2.3% at December 31, 2020.

### ***A&R Term Loan Credit Agreement***

Also on July 8, 2019, the Company amended and restated the existing term loan credit agreement of PetIQ, LLC (the "A&R Term Loan Credit Agreement"). The A&R Term Loan Credit Agreement was increased from \$74.1 million to \$220.0 million at an interest rate equal to the Eurodollar rate plus 4.50%, the proceeds of which were used to refinance the existing term loan facility and consummate the acquisition.



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.

The A&R Term Loan Credit Agreement contains a number of covenants that, among other things, restrict the ability of the borrower and guarantors thereunder to (subject to certain exceptions): (i) make investments, loans or advances; (ii) incur additional indebtedness; (iii) create liens on assets; (iv) engage in mergers or consolidations and/or sell assets; (v) pay dividends and distributions or repurchase our equity interests; (vi) repay subordinated indebtedness; (vii) make certain acquisitions; and (viii) other restrictions typical for a credit agreement of this type. As of December 31, 2020, the borrower and guarantors thereunder were in compliance with these covenants.

The A&R Term Loan Credit Agreement also contains certain customary affirmative covenants and events of default (including change of control). In addition, the A&R Term Loan Credit Agreement includes a maintenance covenant that requires compliance with a maximum first lien net leverage ratio. The availability of certain baskets and the ability to enter into certain transactions (including our ability to pay dividends) may also be subject to compliance with secured leverage ratios. As of December 31, 2020, the borrower and guarantors thereunder were in compliance with these covenants.

As of December 31, 2020, \$217.3 million was outstanding under the A&R Term Loan Credit Agreement.

### ***General Other Debt***

The Company entered into a mortgage with a local bank to finance \$1.9 million of the purchase price of 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.

In July 2020, the Company entered into the Agreement. See Note 2 – “Business Combinations and Asset Acquisitions.” In the footnotes to the financial statements included in Item 8 to this Form 10-K. 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.

In connection with the VIP Acquisition, the Company entered into a guarantee note and the Contingent Notes (together the “Notes Payable – VIP Acquisition”), which have a collective balance of \$27.5 million and require quarterly interest payments of 6.75% with the balance payable July 17, 2023.

The Company paid deferred financing fees and debt discount related to the Notes of \$6.4 million and \$0.6 million of loan fees related to the A&R Credit Agreement during the year ended December 31, 2020.

The Company incurred debt issuance costs of \$0.7 million during the year ended December 31, 2019, related to the A&R Credit Agreement and \$5.1 million during the year ended December 31, 2019, related to the A&R Term Loan Credit Agreement.

## Contractual Obligations and Commitments

The following table summarizes our contractual obligations as of December 31, 2020:

<i>\$'s in 000's</i>	<b>Total</b>	<b>Payments Due by Period</b>			
		<b>2021</b>	<b>2022-2023</b>	<b>2024-2025</b>	<b>Thereafter</b>
Long-term debt	\$ 419,757	\$ 6,219	\$ 38,731	\$ 8,316	\$ 366,491
Interest on debt	86,381	21,319	41,223	21,348	2,491
Operating lease obligations	23,243	5,861	10,380	5,637	1,365
Finance lease obligations	5,271	1,757	3,164	350	—
Product purchase obligations	67,057	49,245	7,662	7,964	2,186
R&D arrangement	20,100	6,000	14,100	—	—
<b>Total contractual obligations</b>	<b>\$ 621,809</b>	<b>\$ 90,401</b>	<b>\$ 115,260</b>	<b>\$ 43,615</b>	<b>\$ 372,533</b>

## Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

## Critical Accounting Policies and Estimates

Our management's discussion and analysis of financial condition and results of operations is based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the revenue and expenses incurred during the reported periods. On an ongoing basis, we evaluate our estimates and judgments, including those related to accrued expenses and stock-based compensation. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not apparent from other sources. Changes in estimates are reflected in reported results for the period in which they become known. Actual results may differ from these estimates under different assumptions or conditions.

While our significant accounting policies are described in the notes to our financial statements appearing in this report, we believe that the following critical accounting policies are most important to understanding and evaluating our reported financial results.

### Revenue Recognition

The Company recognizes product sales when product control is transferred to the customer, which is generally upon delivery or shipment of goods, depending on terms with a customer. Many customer contracts include some form of variable consideration such as discounts, rebates, and sales returns and allowance. 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.

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.

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 other current assets or accounts payable in the Consolidated Balance Sheet.

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.

### ***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.

### ***Purchase Accounting***

The purchase method of accounting requires companies to assign values to assets and liabilities acquired based upon their fair values at the acquisition date. In most instances, there are not readily defined or listed market prices for individual assets and liabilities acquired in connection with a business, including intangible assets. The determination of fair value for assets and liabilities in many instances requires a high degree of estimation. The valuation of intangible assets, in particular, is very subjective. We generally obtain third-party valuations to assist us in estimating fair values. The use of different valuation techniques and assumptions could change the amounts and useful lives assigned to the assets and liabilities acquired and the related amortization expense.

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

The Company's annual income tax rate is based on its income, statutory tax rates, changes in prior tax positions and tax planning opportunities available in the various jurisdictions in which it operates. Significant judgment and estimates are required to determine the Company's annual tax rate and evaluate its tax positions. Despite the Company's belief that its tax return positions are fully supportable, these positions are subject to challenge, and the Company may not be successful in defending these challenges.

Deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, which will result in taxable or deductible amounts in the future. In evaluating our ability to recover our deferred tax assets in the jurisdiction from which they arise, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax-planning strategies, and results of recent operations. In the event that it is determined that an asset is not more likely than not to be realized, a valuation allowance is recorded against the asset. Valuation allowances related to deferred tax assets can be impacted by changes to tax laws, changes to statutory tax rates and future taxable income levels. In the event the Company were to determine that it would not be able to realize all or a portion of its deferred tax assets in the future, the unrealizable amount would be charged to earnings in the period in which that determination is made. Conversely, if the Company were to determine that it would be able to realize deferred tax assets in the future in excess of the net carrying amounts, it would decrease the recorded valuation allowance through a favorable adjustment to earnings in the period that the determination was made. The Company has assessed the realizability of the net deferred tax assets as of December 31, 2020 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 Company believes it is more likely than not that the benefit from the recorded deferred tax assets will not be realized and has recorded a valuation allowance.

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.

**Item 7A – 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 market value of our credit agreement but do affect the amount of our interest payments and, therefore, our future earnings and cash flows. As of December 31, 2020, we had variable rate debt of approximately \$232.3 million under our Revolver and Term Loan. An increase of 1% would have increased our interest expense for the year ended December 31, 2020 by approximately \$2.6 million.

**Item 8 – Financial Statements and Supplementary Data**

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KPMG LLP  
Suite 600  
205 North 10th Street  
Boise, ID 83702-5798

## Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors  
PetIQ, Inc.:

### *Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated balance sheets of PetIQ, Inc. and subsidiaries (the Company) as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 26, 2021 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

### *Change in Accounting Principle*

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for leases as of January 1, 2019 due to the adoption of Accounting Standard Update No. 2016-02 *Leases (Topic 842)*, and related amendments.

### *Basis for Opinion*

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.



### *Critical Audit Matters*

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

#### *Evaluation of deferred tax assets recorded for exchange transactions*

As discussed in Note 7 to the consolidated financial statements, as a result of the IPO and related reorganization transactions completed in July 2017, the Company held an economic interest of approximately 62% in PetIQ Holdings, LLC ("Holdco") and consolidates the financial position and results of Holdco. The Company is the sole managing member of Holdco. Holdco is treated as a partnership for U.S. federal income tax purposes with the remaining partners of Holdco (the "LLC Owners") owning a non-controlling interest. The LLC Owners have an exchange right which grants them the right to exchange a Holdco partnership interest and a PetIQ Class B Common Stock share for a PetIQ Class A Common Stock share. Upon such an exchange, the Company is treated as purchasing an additional interest in Holdco from the LLC Owners in a taxable exchange which generates deferred tax assets as a result of an increase in tax basis for the Company. As of December 31, 2020, the Company had \$53.1 million of deferred tax assets associated with these exchanges.

We identified the evaluation of deferred tax assets recorded for exchange transactions as a critical audit matter. Complex auditor judgment, including specialized skills and knowledge, was required to evaluate the calculation of the deferred tax assets generated in exchange transactions as a result of the Company's tax basis in the interest in the Holdco partnership acquired from the LLC Owners.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls over the deferred tax calculation. This included the internal control over the Company's calculation of the deferred tax assets generated in exchange transactions. We involved tax professionals with specialized skills and knowledge who assisted in assessing the Company's application of the relevant tax law for the exchanges, including:

- evaluating the Company's application of income tax law related to the tax basis in the interest acquired from the LLC Owners in exchange transactions
- performing an independent calculation of the tax basis in the interest acquired from the LLC Owners in exchange transactions and comparing it to the Company's calculation

#### *Fair value estimate of convertible notes*

As discussed in Notes 1 and 5 to the consolidated financial statements, the Company issued \$143.8 million in aggregate principal amount of Convertible Senior Notes due 2026 (the Notes). In accounting for the Notes, the Company separated the Notes into liability and equity components whose carrying values were calculated using a fair value estimate of similar debt instruments without an associated conversion feature.

We identified the evaluation of the fair value estimate of the Notes as a critical audit matter. A high degree of auditor judgment was required in assessing the interest rate that would be available to the Company for a similar debt instrument that does not have an associated conversion feature. Additionally, minor changes to the interest rate could have a significant effect on the amounts allocated to the liability and equity components. The audit effort associated with the evaluation of the fair value estimate required specialized skills and knowledge.



The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the critical audit matter. This included controls over the interest rate used in the fair value measurement of the Notes. We involved valuation professionals with specialized skills and knowledge who assisted in the following:

- performing an independent analysis of interest rate yields for similar debt instruments that do not have an associated conversion feature using publicly available market data.
- developing an independent estimate of the fair value of the Notes using an independent interest rate yield and information from the debt agreement, and comparing it to the Company's estimate.

/s/ KPMG LLP

We have served as the Company's auditor since 2014.

Boise, Idaho  
February 26, 2021



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

	December 31, 2020	December 31, 2019
<b>Current assets</b>		
Cash and cash equivalents	\$ 33,456	\$ 27,272
Accounts receivable, net	102,755	71,377
Inventories	97,773	79,703
Other current assets	8,312	7,071
<b>Total current assets</b>	<b>242,296</b>	<b>185,423</b>
Property, plant and equipment, net	63,146	52,525
Operating lease right of use assets	20,122	20,785
Deferred tax assets	—	59,780
Other non-current assets	1,870	3,214
Intangible assets, net	213,000	119,956
Goodwill	231,158	231,045
<b>Total assets</b>	<b>\$ 771,592</b>	<b>\$ 672,728</b>
<b>Liabilities and equity</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 68,131	\$ 51,538
Accrued wages payable	10,540	9,082
Accrued interest payable	903	83
Other accrued expenses	8,815	3,871
Current portion of operating leases	4,915	4,619
Current portion of long-term debt and finance leases	7,763	3,821
<b>Total current liabilities</b>	<b>101,067</b>	<b>73,014</b>
Operating leases, less current installments	15,789	16,580
Long-term debt, less current installments	355,979	251,376
Finance leases, less current installments	3,338	3,331
Other non-current liabilities	1,397	117
<b>Total non-current liabilities</b>	<b>376,503</b>	<b>271,404</b>
Commitments and contingencies (Note 13)		
<b>Equity</b>		
Additional paid-in capital	356,442	300,120
Class A common stock, par value \$0.001 per share, 125,000 shares authorized; 25,711 and 23,554 shares issued and outstanding, respectively	26	23
Class B common stock, par value \$0.001 per share, 100,000 shares authorized; 3,040 and 4,752 shares issued and outstanding, respectively	3	5
Accumulated deficit	(93,377)	(15,903)
Accumulated other comprehensive loss	(686)	(1,131)
<b>Total stockholders' equity</b>	<b>262,408</b>	<b>283,114</b>
Non-controlling interest	31,614	45,196
<b>Total equity</b>	<b>294,022</b>	<b>328,310</b>
<b>Total liabilities and equity</b>	<b>\$ 771,592</b>	<b>\$ 672,728</b>

See accompanying notes to the consolidated financial statements.

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

	For the Year Ended December 31,		
	2020	2019	2018
Product sales	\$ 725,705	\$ 617,118	\$ 450,229
Services revenue	54,346	92,313	78,385
Total net sales	780,051	709,431	528,614
Cost of products sold	584,401	530,031	383,501
Cost of services	60,462	72,017	61,825
Total cost of sales	644,863	602,048	445,326
Gross profit	135,188	107,383	83,288
Operating expenses			
General and administrative expenses	138,375	103,200	72,260
Contingent note revaluation loss	—	7,320	3,280
Operating (loss) income	(3,187)	(3,137)	7,748
Interest expense, net	(26,299)	(14,495)	(8,022)
Foreign currency gain (loss), net	109	(151)	45
Other income (expense), net	571	172	(345)
Total other expense, net	(25,619)	(14,474)	(8,322)
Pretax net (loss) income	(28,806)	(17,611)	(574)
Income tax benefit (expense)	(52,216)	3,309	661
Net (loss) income	(81,022)	(14,302)	87
Net (loss) income attributable to non-controlling interest	(3,548)	(2,849)	869
Net loss attributable to PetIQ, Inc.	\$ (77,474)	\$ (11,453)	\$ (782)
<b>Net loss per share attributable to PetIQ, Inc. Class</b>			
<b>A common stock</b>			
Basic	\$ (3.15)	\$ (0.51)	\$ (0.05)
Diluted	\$ (3.15)	\$ (0.51)	\$ (0.05)
<b>Weighted average shares of Class A common stock outstanding</b>			
Basic	24,629	22,652	17,216
Diluted	24,629	22,652	17,216

See accompanying notes to the consolidated financial statements.

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

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	For the Year Ended December 31,		
	2020	2019	2018
Net (loss) income	\$ (81,022)	\$ (14,302)	\$ 87
Foreign currency translation adjustment	363	366	(613)
Comprehensive (loss) income	(80,659)	(13,936)	(526)
Comprehensive (loss) income attributable to non-controlling interest	(3,525)	(2,777)	697
Comprehensive loss attributable to PetIQ	<u>\$ (77,134)</u>	<u>\$ (11,159)</u>	<u>\$ (1,223)</u>

See accompanying notes to the consolidated financial statements.

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

	For the Year Ended December 31,		
	2020	2019	2018
Cash flows from operating activities			
Net (loss) income	\$ (81,022)	\$ (14,302)	\$ 87
Adjustments to reconcile net loss to net cash provided by (used in) operating activities			
Depreciation and amortization of intangible assets and loan fees	30,975	16,509	12,467
Termination of supply agreement	7,801	—	16
Gain on disposition of property, plant, and equipment	(238)	(189)	(90)
Stock based compensation expense	9,170	7,355	3,812
Deferred tax adjustment	51,511	(3,458)	(843)
Contingent note revaluation	—	7,320	3,280
Other non-cash activity	164	405	(334)
Changes in assets and liabilities			
Accounts receivable	(31,652)	(14,123)	(14,209)
Inventories	(17,846)	30,448	(36,610)
Other assets	556	(1,619)	1,423
Accounts payable	17,435	(7,595)	15,701
Accrued wages payable	1,424	2,800	1,979
Other accrued expenses	7,121	(2,718)	908
Net cash (used in) provided by operating activities	(4,601)	20,833	(12,413)
Cash flows from investing activities			
Proceeds from disposition of property, plant, and equipment	442	340	229
Purchase of property, plant, and equipment	(22,392)	(10,276)	(7,178)
Purchase of Capstar and related intangibles	(96,072)	—	—
Business acquisitions (net of cash acquired)	—	(185,090)	(93,052)
Net cash used in investing activities	(118,022)	(195,026)	(100,001)
Cash flows from financing activities			
Proceeds from issuance of convertible notes - liability component	90,465	—	—
Proceeds from issuance of convertible notes - equity component	53,285	—	—
Payment for Capped Call options	(14,821)	—	—
Proceeds from issuance of long-term debt	837,675	818,387	538,028
Principal payments on long-term debt	(838,073)	(676,509)	(466,912)
Payment of financing fees on Convertible Notes	(5,884)	—	—
Proceeds from public offering of class A common stock, net of underwriting discounts and offering costs	—	—	73,914
Tax distributions to LLC Owners	(47)	(1,686)	(1,485)
Principal payments on finance lease obligations	(1,965)	(1,547)	(1,254)
Payment of deferred financing fees and debt discount	(550)	(5,790)	(2,750)
Tax withholding payments on Restricted Stock Units	(595)	(114)	—
Exercise of options to purchase class A common stock	9,274	2,318	1,429
Net cash provided by financing activities	128,764	135,059	140,970
Net change in cash and cash equivalents	6,141	(39,134)	28,556
Effect of exchange rate changes on cash and cash equivalents	43	46	(92)
Cash and cash equivalents, beginning of period	27,272	66,360	37,896
Cash and cash equivalents, end of period	\$ 33,456	\$ 27,272	\$ 66,360

See accompanying notes to the consolidated financial statements.

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

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Supplemental cash flow information	For the Year Ended December 31,		
	2020	2019	2018
Interest paid	\$ 19,402	\$ 13,632	\$ 7,220
Net change in property, plant, and equipment acquired through accounts payable	279	(1,814)	25
Finance lease additions	2,019	(3,006)	656
Deferred tax liability created by convertible debt issuance	(8,197)	—	—
Net change of deferred tax asset from step-up in basis	—	12,381	36,882
Income taxes paid, net of refunds	130	249	640
Accrued tax distribution	(434)	786	2,097
Issuance of note for termination, settlement, and asset acquisition agreement	17,487	—	—
Purchase of intangible assets from note issuance	(9,686)	—	—
Non cash consideration - Issuance of Contingent Notes	—	—	6,900
Non cash consideration - Issuance of Guarantee Notes	—	—	10,000
Non cash consideration - Issuance of Class B common stock and LLC Interests	—	—	103,004

See accompanying notes to the consolidated financial statements.

**PetIQ, Inc.**  
**Consolidated Statements of Stockholders' Equity**  
(In 000's)

	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, 2018	\$ (3,493)	\$ (687)	13,223	\$ 13	8,268	\$ 8	\$ 70,873	\$ 38,130	\$ 104,844
ASC 606 adoption, net of tax	(175)	—	—	—	—	—	—	(110)	(285)
Issuance of equity for business combination	—	128	—	—	4,600	5	43,075	59,796	103,004
Exchange of LLC Interests held by LLC Owners	—	(290)	6,321	6	(6,321)	(6)	47,458	(47,168)	—
Net increase in deferred tax asset from LLC Interest transactions	—	—	—	—	—	—	36,882	—	36,882
Accrued tax distributions	—	—	—	—	—	—	—	(2,097)	(2,097)
Other comprehensive income	—	(441)	—	—	—	—	—	(172)	(613)
Public offering	—	—	2,000	2	—	—	73,912	—	73,914
Equity shift as a result of the public offering	—	(26)	—	—	—	—	(13,914)	13,940	—
Stock based compensation expense	—	—	—	—	—	—	2,504	1,308	3,812
Exercise of Options to purchase Common Stock	—	—	76	—	—	—	1,429	—	1,429
Net (loss) income	(782)	—	—	—	—	—	—	869	87
Balance - December 31, 2018	\$ (4,450)	\$ (1,316)	21,620	\$ 22	6,547	\$ 7	\$ 262,219	\$ 64,496	\$ 320,977
Exchange of LLC Interests held by LLC Owners	—	(109)	1,794	1	(1,794)	(1)	17,299	(17,190)	—
Net increase in deferred tax asset from LLC Interest transactions	—	—	—	—	—	—	12,381	—	12,381
Accrued tax distributions	—	—	—	—	—	—	—	(786)	(786)
Other comprehensive income	—	294	—	—	—	—	—	72	366
Stock based compensation expense	—	—	—	—	—	—	5,902	1,453	7,355
Exercise of Options to purchase Common Stock	—	—	119	—	—	—	2,318	—	2,318
Issuance of stock vesting of RSU's	—	—	21	—	—	—	—	—	—
Net (loss)	(11,453)	—	—	—	—	—	—	(2,849)	(14,302)
Balance - December 31, 2019	\$ (15,903)	\$ (1,131)	23,554	\$ 23	4,752	\$ 5	\$ 300,120	\$ 45,196	\$ 328,310
Exchange of LLC Interests held by LLC Owners	—	105	1,712	2	(1,712)	(2)	15,461	(15,566)	—
Equity component of Convertible Notes, net of offering costs and tax	—	—	—	—	—	—	37,064	5,843	42,907
Payment for capped call share options	—	—	—	—	—	—	(12,803)	(2,018)	(14,821)
Accrued tax distributions	—	—	—	—	—	—	—	434	434
Other comprehensive income	—	340	—	—	—	—	—	23	363
Stock based compensation expense	—	—	—	—	—	—	7,921	1,249	9,170
Exercise of Options to purchase Common Stock	—	—	395	—	—	—	9,274	—	9,274
Issuance of stock vesting of RSU's, net of tax withholdings	—	—	50	—	—	—	(595)	—	(595)
Net (loss)	(77,474)	—	—	—	—	—	—	(3,548)	(81,022)
Balance - December 31, 2020	\$ (93,377)	\$ (686)	25,711	\$ 26	3,040	\$ 3	\$ 356,442	\$ 31,614	\$ 294,022

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

See accompanying notes to the consolidated financial statements.

## **Notes to the consolidated financial statements**

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

#### **Principal Business Activity and Principals of Consolidation**

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. The company engages with customers through points of distribution across retail channels with its branded distributed medications, which is further supported by its own world-class medications manufacturing facility in Omaha, Nebraska. The Company's national service platform, VIP Petcare, operates retail partner locations providing cost effective and convenient veterinary wellness services.

PetIQ has 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.

PetIQ is the 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 the business and affairs of Opco.

The consolidated financial statements include the accounts of the Company and all majority-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

#### **Use of Estimates**

The preparation of consolidated financial statements in conformity with U.S. Generally Accepted Accounting Principles ("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.

The guarantee note is carried at cost, which approximates fair value due to the recent issuance of the note. 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.

A portion of the purchase price for the acquisition of Community Veterinary Clinics, LLC d/b/a VIP Petcare (“VIP” and such acquisition, the “VIP Acquisition”) was structured in the form of Contingent Notes (the “Contingent Notes”) that vest based on the combined Company EBITDA targets for the years ending December 31, 2018 and 2019 (“Measurement Dates”). See Note 2 – “Business Combinations” for more information regarding the VIP Acquisition. The liabilities related to the 2018 and 2019 Contingent Notes became fixed as of December 31, 2018 and 2019, respectively, and are carried at cost, which approximates fair value as the stated interest rate is consistent with current market rates.

The Contingent Notes are included in long-term debt in the accompanying consolidated balance sheets. The Contingent Notes began bearing interest at a fixed rate of 6.75%, with the balance payable July 17, 2023.

The following table summarizes the Level 3 activity related to the Contingent Notes for the twelve months ended December 31, 2019:

<i>\$'s in 000's</i>	
Balance at beginning of the period	\$ 2,680
Change in fair value of contingent consideration	7,320
Transfer out of level 3	(10,000)
Balance at the end of the period	\$ —

#### 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 notes receivable from suppliers. Non-current portions of these other receivables are included in other non-current assets on the consolidated balance sheets.

Accounts receivable consists of the following as of:

<i>\$'s in 000's</i>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Trade receivables	\$ 96,381	\$ 67,551
Other receivables	7,094	4,257
	103,475	71,808
Less: Allowance for doubtful accounts	(720)	(431)
Total accounts receivable, net	\$ 102,755	\$ 71,377



## 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>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Raw materials	\$ 15,761	\$ 10,675
Work in progress	2,273	1,717
Finished goods	79,739	67,311
Total inventories	<u>\$ 97,773</u>	<u>\$ 79,703</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 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

## Goodwill and Intangible Assets

Goodwill is the excess of the consideration paid over the fair value of specifically identifiable assets, liabilities and contingent liabilities in a business combination. Intangible assets acquired are recorded at estimated fair value. Goodwill and intangible assets deemed to have indefinite lives are not amortized, but are tested for impairment annually during the fourth quarter, and at any time when events suggest an impairment more likely than not occurred.

To assess goodwill for impairment, the Company, depending on relevant facts and circumstances, performs either a qualitative assessment or a quantitative analysis utilizing a discounted cash flow valuation model. In performing the qualitative assessment, the Company evaluates relevant factors such as macroeconomic conditions, industry and market considerations, cost factors and overall financial performance, as well as company and reporting unit specific items. If, after assessing these qualitative factors, the Company determines that it is more likely than not that the carrying value of the reporting unit is less than its fair value, then no further testing is required. In performing a quantitative analysis, the Company determines the fair value of a reporting unit using management’s assumptions about future cash flows based on long-range strategic plans. This approach incorporates many assumptions including discount rates and future growth rates. In the event the carrying amount of a reporting unit exceeded its fair value, an impairment loss would be recognized.

Indefinite-lived intangible assets are tested for impairment utilizing either a qualitative assessment or a quantitative analysis. For a qualitative assessment, the Company identifies and considers relevant key factors, events, and circumstances to determine whether it is necessary to perform a quantitative impairment test. The key factors considered include macroeconomic, industry, and market conditions, as well as the asset's actual and forecasted results. For the quantitative impairment tests, the Company compares the carrying amounts to the current fair market values. Intangible assets with definite lives are amortized over their estimated useful lives to reflect the pattern over which the economic benefits of the intangible assets are consumed. Definite-lived intangible assets are also evaluated for impairment when impairment indicators are present.

No impairment charge was recorded for the years ended December 31, 2020, 2019, and 2018.

### **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". We separately account for the liability and equity components of convertible debt instruments that can be settled in cash by allocating the proceeds from issuance between the liability component and the embedded conversion option in accordance with accounting for convertible debt instruments that may be settled in cash (including partial cash settlement) upon conversion. The value of the equity component is calculated by first measuring the fair value of the liability component, using the interest rate of a similar liability that does not have a conversion feature, as of the issuance date. The difference between the proceeds from the convertible debt issuance and the amount measured as the liability component is recorded as the equity component with a corresponding discount recorded on the debt. We recognize amortization of the resulting discount using the effective interest method as interest expense in our consolidated statements of operations. The equity component is not remeasured as long as it continues to meet the conditions for equity classification.

We have allocated issuance costs to the liability and equity components. Issuance costs attributable to the liability component are being amortized to expense over the respective term of the Notes, and issuance costs attributable to the equity component were netted with the respective equity component in additional paid-in capital.

### **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 December 31, 2020.

#### *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 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 December 31, 2020 and 2019 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 \$2.3 million, \$1.3 million, and \$0.2 million and advertising costs were \$10.1 million, \$4.5 million, and \$2.9 million for the years ended December 31, 2020, 2019, and 2018, respectively.

### **Collaboration Agreements**

Through the Perrigo Animal Health Acquisition, we entered into a product development and asset purchase agreement with a third party for certain product formulations in development by the third party. The Company may make up to \$20.5 million of payments over the course of the next several years contingent on achievement of certain development and regulatory approval milestones. 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 Consolidated Statements of Operations. There were no expenses incurred under the agreement for the periods ended December 31, 2020 and 2019.

### **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. See Note 13 for more information.

### **Stock based compensation**

The Company expenses employee share-based awards under ASC Topic 718, Compensation—Stock Compensation, which requires compensation cost for the grant-date fair value of share-based awards to be recognized over the requisite service period. Stock options granted to executives and other employees are valued using the Black-Scholes option pricing model. See Note 9 for more information.

### **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. 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 make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

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.

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

Interest expense, net, is comprised primarily of interest expense related to (i) our debt agreements, (ii) unused line fees, (iii) amortization of deferred loan fees and discounts, (iv) finance lease obligations and the mortgage note outstanding, offset by interest income earned on our demand deposits and other assets. Interest expense was \$26.3 million, \$14.9 million, and \$8.3 million for the years ended December 31, 2020, 2019, and 2018, respectively, offset by \$0.0 million, \$0.4 million, and \$0.3 million of interest income, respectively.

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

The non-controlling interests on the 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 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.

#### **Earnings Per Share**

Basic earnings per share is computed by dividing net loss attributable to PetIQ, Inc. by the weighted average shares outstanding during the period. Diluted earnings per share is computed by dividing net loss attributable to PetIQ, Inc., adjusted as necessary for the impact of potentially dilutive securities, by the weighted-average shares outstanding during the period and the impact of securities that would have a dilutive effect on earnings per share. See Note 8 for further discussion.

#### **Recently Issued Accounting Pronouncements / Adopted Accounting Standard Updates**

From time to time, the Financial Accounting Standards Board ("FASB") or other standards setting bodies issue new accounting pronouncements. Updates to the Accounting Standards Codification ("ASC") are communicated through issuance of an Accounting Standards Update ("ASU").

Effective January 1, 2020, the Company adopted Accounting Standards Update ("ASU") No. 2016-13, "Financial Instruments - Credit Losses." This ASU requires an organization to measure all expected credit losses for financial assets, including trade receivables, held at the reporting date based on historical experience, current conditions, and reasonable and supportable information. Organizations will now use forward-looking information to better estimate their credit losses. The Company adopted this ASU using a modified retrospective approach. Under this method of adoption, the Company determined that there was no cumulative-effect adjustment to beginning Retained earnings on the consolidated balance sheet. Adoption of this standard did not impact the Company's net loss and had no impact on the consolidated statement of cash flows.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." The purpose of ASU 2016-02 is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet

and disclosing key information about leasing arrangements. In addition, ASU 2016-02 modifies the definition of a lease to clarify that an arrangement contains a lease when such arrangement conveys the right to control the use of an identified asset. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within the year of adoption. Originally under ASU 2016-02, an organization was required upon adoption to recognize and measure leases beginning in the earliest period presented using a modified retrospective approach and restate the financial statements for all periods presented. In July 2018, the FASB issued ASU 2018-11, which amends ASU 2016-02 to provide organizations with an additional (and optional) transition method whereby it may elect to recognize and measure leases by applying the cumulative impact of adopting ASU 2016-02 to the opening retained earnings balance in the period of adoption, thereby removing the requirement that the financial statements of prior periods be restated. The Company adopted the provisions of this guidance effective January 1, 2019, using the modified retrospective optional transition method. Therefore, the standard was applied beginning January 1, 2019 and prior periods were not restated. The adoption of the standard did not result in a cumulative-effect adjustment to the opening balance of accumulated deficit. The Company elected the package of practical expedients and implemented internal controls and system functionality to enable the preparation of financial information upon adoption. In addition, the Company has elected to apply the practical expedient to not separate the lease and non-lease components for all of the Company's leases.

The adoption of the new standard resulted in the recognition of a right of use asset and short-term and long-term liabilities recorded on the Company's consolidated balance sheet related to operating leases. Accounting for finance leases remained substantially unchanged. In addition, the adoption of the standard did not have a material impact on the Company's results of operations or cash flows.

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, the 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 new guidance also requires the if-converted method to be applied for all convertible instruments. ASU 2020-06 is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. Adoption of the standard requires using either a modified retrospective or a full retrospective approach. Effective January 1, 2021, we intend to adopt ASU 2020-06 using the full retrospective approach. We expect the adoption of the new standard to result in a decrease to stockholders equity of \$51.4 million and a corresponding increase to convertible senior notes. Interest expense, net for the year ending December 31, 2020 will decrease approximately \$4.0 million. Interest expense, net, recognized in future periods will be reduced as a result of accounting for the convertible debt instrument as a single liability measured at its amortized cost. Additionally we expect that the change will result in significantly more dilutive shares outstanding.

Although there are several other new accounting pronouncements issued by the FASB, the Company does not believe any of these accounting pronouncements had or will have a material impact on its consolidated financial statements.

## **Note 2 – Business Combination and Asset Acquisition**

### Perrigo Animal Health Acquisition

On July 8, 2019, PetIQ, Inc., through its subsidiary PetIQ, LLC, completed the acquisition of all the outstanding stock of Sergeant's Pet Care Products, Inc. ("Sergeant's"), d/b/a Perrigo Animal Health, including any assets related to Perrigo Company plc's animal health business (the "Perrigo Animal Health Acquisition"). Sergeant's is now an indirect wholly-owned subsidiary of the Company.

The fair value of the consideration is summarized as follows:

<i>\$'s in 000's</i>	<b>Fair Value</b>
Inventories	\$ 17,998
Property, plant and equipment	19,568
Other current assets	13,048
Other assets	9,680
Indefinite-lived intangible assets	23,040
Definite-lived intangible assets – 13 year weighted average life	14,480
Goodwill	105,838
Total assets	203,652
Liabilities assumed	19,259
Purchase price	\$ 184,393
Cash paid, net of cash acquired	\$ (185,090)
Post-closing working capital adjustment	697
Fair value of total consideration transferred	\$ (184,393)

The definite-lived intangibles primarily relate to trademarks, customer relationships, and developed technology and know-how. The \$14.6 million represents the fair value and will be amortized over the estimated useful lives of the assets through June 2039.

The indefinite-lived intangibles primarily relate to trademarks and in-process research and development.

Goodwill represents the future economic benefits that do not qualify for separate recognition and primarily includes the assembled workforce and other non-contractual relationships, as well as expected future synergies. Approximately \$105.8 million of goodwill is expected to be deductible for tax purposes. Goodwill was allocated to the Products segment.

Transaction costs of \$6.1 million were incurred in the year ended December 31, 2019, and are included in General and Administrative expenses on the Consolidated Statements of Operations.

#### Capstar® (nitenpyram) 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 \$1.0 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 relationship 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
Total purchased intangible assets	\$	96,072

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 (“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 has 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 will be amortized over 10 years. The assets were valued using the relief from royalty method. The remainder of the obligation is 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 consolidated statement of operations for the year ended December 31, 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>December 31, 2020</b>	<b>December 31, 2019</b>
Leasehold improvements	\$ 19,709	\$ 15,517
Equipment	25,664	23,138
Vehicles and accessories	7,110	6,007
Computer equipment and software	10,858	8,070
Buildings	10,168	10,050
Furniture and fixtures	2,347	1,836
Land	7,067	4,557
Construction in progress	11,331	3,392
	94,254	72,567
Less accumulated depreciation	(31,108)	(20,042)
Total property, plant, and equipment	\$ 63,146	\$ 52,525

Depreciation and amortization expense related to these assets total \$12.1 million, \$9.1 million, and \$6.7 million for the years ended December 31, 2020, 2019, and 2018, respectively.



**Note 4 – Intangible Assets and Goodwill**

Intangible assets consist of the following at:

<i>\$'s in 000's</i>	Useful Lives	December 31, 2020	December 31, 2019
<b>Amortizable intangibles</b>			
Certification	7 years	\$ 350	\$ 350
Customer relationships	12-20 years	160,178	89,232
Patents and processes	5-10 years	14,905	4,928
Brand names	5-15 years	24,740	15,019
Total amortizable intangibles		200,173	109,529
Less accumulated amortization		(25,984)	(13,058)
Total net amortizable intangibles		174,189	96,471
<b>Non-amortizable intangibles</b>			
Trademarks and other		33,341	18,016
In-process research and development		5,470	5,469
Intangible assets, net of accumulated amortization		\$ 213,000	\$ 119,956

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 years ended December 31, 2020, 2019, and 2018 was \$12.8 million, \$6.0 million, and \$5.2 million, 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.

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

<b>Years ending December 31, (\$'s in 000's)</b>	
2021	\$ 18,504
2022	18,310
2023	17,481
2024	15,078
2025	14,369
Thereafter	90,447

The following is a summary of the changes in the carrying value of goodwill for the years ended December 31, 2020 and 2019.

<i>(\$'s in 000's)</i>	Reporting Unit		Total
	Products	Services	
Goodwill as of January 1, 2019	77,765	47,264	125,029
Foreign currency translation	178	—	178
Acquisitions	105,838	—	105,838
Goodwill as of December 31, 2019	183,781	47,264	231,045
Foreign currency translation	113	—	113
Goodwill as of December 31, 2020	\$ 183,894	\$ 47,264	\$ 231,158

## **Note 5 – Debt**

### ***Convertible Notes***

On May 19, 2020, the Company issued \$143.8 million in aggregate principal amount of 4.00% Convertible Senior Notes due 2026 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.

In accounting for the issuance of the Notes, the Company separated the Notes into liability and equity components. The carrying amount of the liability component was calculated using a discount rate of 13%, which was determined by measuring the fair value of a similar debt instrument that does not have an associated conversion feature. The amount of the equity component representing the conversion option was \$53.3 million and was determined by deducting the fair value of the liability component from the par value of the Notes. The excess of the principal amount of the liability component over its carrying amount, or the debt discount, is amortized to interest expense at an annual effective interest rate over the contractual terms of the Notes. The Company has early adopted ASU 2020-06 as of January 1, 2021, which will impact the accounting for the Notes.

The fair value of the Notes was \$218.1 million as of December 31, 2020. The estimated fair value of the Notes is based on market rates and the closing trading price of the Convertible Notes as of December 31, 2020 and is classified as Level 2

in the fair value hierarchy. As of December 31, 2020 the if-converted value of the Notes did not exceed the principal amount.

The net carrying amount of the liability component of the Notes was as follows:

<i>(\$'s in 000's)</i>	<b>December 31, 2020</b>	
Par value of the Notes	\$	143,750
Unamortized debt discount		(49,526)
Unamortized debt issuance costs		(3,441)
Net carrying amount	\$	<u>90,783</u>

The net carrying amount of the equity component of the Notes was as follows:

<i>(\$'s in 000's)</i>	<b>December 31, 2020</b>	
Proceeds allocated to the conversion option	\$	53,285
Deferred tax affect		(8,197)
Issuance costs		(2,181)
Net carrying amount	\$	<u>42,907</u>

The following table sets forth the interest expense recognized related to the Notes:

<i>(\$'s in 000's)</i>	<b>For the Year Ended December 31, 2020</b>	
Contractual interest expense	\$	3,546
Amortization of debt discount		3,759
Amortization of debt issuance costs		261
Total	\$	<u>7,566</u>
<i>Effective interest rate of the liability component</i>		<u>13.0%</u>

### ***Capped Call Transactions***

On May 14, 2020 and May 19, 2020, the Company entered into capped call transactions (the “Capped Call Transactions”) with two counterparties (the “Option Counterparties”). The Capped Call Transactions cover, subject to anti-dilution adjustments substantially similar to the Notes, the underlying shares of Class A common stock and are intended to reduce, subject to a limit, the potential dilution with respect to the Class A common stock upon conversion of the Notes. The cap price of the Capped Call Transactions is \$41.51 per share of Class A common stock, and is subject to certain adjustments under the terms of the Capped Call Transactions.

The Company paid approximately \$14.8 million for the Capped Call Transactions, which was recorded as additional paid-in capital, using a portion of the gross proceeds from the sale of the Notes. The capped call is expected to be tax deductible as the Company elected to integrate the capped call into the Notes for tax purposes. The tax effect on the equity component of the Convertible Notes of \$8.2 million was recorded through additional paid-in capital. The Company has recorded a full valuation allowance against its deferred tax assets as of December 31, 2020, as a result, the \$8.2 million deferred tax liability associated with the Capped Call Transactions will be offset by a reduction to the valuation allowance adjustment through continuing operations.

### ***A&R Credit Agreement***

The Company amended the existing revolving credit agreement of Opco and each of its domestic wholly-owned subsidiaries (the “Amended Revolving Credit Agreement”) on July 8, 2019. 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.

The Amended Revolving Credit Agreement contains a number of covenants that, among other things, restrict the ability of the borrowers and guarantors thereunder to (subject to certain exceptions): (i) make investments, loans or advances; (ii) incur additional indebtedness; (iii) create liens on assets; (iv) engage in mergers or consolidations and/or sell assets; (v) pay dividends and distributions or repurchase our equity interests; (vi) repay subordinated indebtedness; (vii) make certain acquisitions; and (viii) other restrictions typical for a credit agreement of this type. As of December 31, 2020, the borrowers and guarantors thereunder were in compliance with these covenants. Although the Company currently expects continued compliance with debt covenants, the impact COVID-19 may negatively affect the Company's ability to comply with these covenants. The Amended Revolving Credit Agreement also contains certain customary affirmative covenants and events of default (including change of control). In addition, the Amended Revolving Credit Agreement contains a minimum fixed charge coverage ratio covenant which is tested if availability under the Amended Revolving Credit Agreement falls below a certain level. As of December 31, 2020, the borrower and guarantors thereunder were in compliance with these covenants.

As of December 31, 2020, \$15.0 million was outstanding under the Amended Revolving Credit Agreement. The weighted average interest rate on the Amended Revolving Credit Agreement was 2.3% at December 31, 2020.

#### ***A&R Term Loan Credit Agreement***

The Company amended and restated the existing term loan credit agreement of Opco (the "A&R Term Loan Credit Agreement") on July 8, 2019. 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.

The A&R Term Loan Credit Agreement contains a number of covenants that, among other things, restrict the ability of the borrower and guarantors thereunder to (subject to certain exceptions): (i) make investments, loans or advances; (ii) incur additional indebtedness; (iii) create liens on assets; (iv) engage in mergers or consolidations and/or sell assets; (v) pay dividends and distributions or repurchase our equity interests; (vi) repay subordinated indebtedness; (vii) make certain acquisitions; and (viii) other restrictions typical for a credit agreement of this type. The A&R Term Loan Credit Agreement also contains certain customary affirmative covenants and events of default (including change of control). In addition, the A&R Term Loan Credit Agreement includes a maintenance covenant that requires compliance with a maximum first lien net leverage ratio. The availability of certain baskets and the ability to enter into certain transactions (including our ability to pay dividends) may also be subject to compliance with secured leverage ratios. As of December 31, 2019, the borrower and guarantors thereunder were in compliance with these covenants.

The A&R Term Loan Credit Agreement also contains certain customary affirmative covenants and events of default (including change of control). In addition, the A&R Term Loan Credit Agreement includes a maintenance covenant that requires compliance with a maximum first lien net leverage ratio. The availability of certain baskets and the ability to enter into certain transactions (including our ability to pay dividends) may also be subject to compliance with secured leverage ratios. As of December 31, 2020, the borrower and guarantors thereunder were in compliance with these covenants.

As of December 31, 2020, \$217.3 million was outstanding under the A&R Term Loan Credit Agreement.

**General Other Debt**

The Company entered into a mortgage with a local bank to finance \$1.9 million of the purchase price of 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.

In July 2020, the Company entered into the Agreement. See Note 2 – “Business Combinations and 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.

In connection with the VIP Acquisition, the Company entered into a guarantee note of \$10.0 million. As of December 31, 2019, \$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 require quarterly interest payments of 6.75% with the balance payable July 17, 2023.

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

<b><i>\$'s in 000's</i></b>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Convertible Notes	\$ 143,750	\$ —
Term loans	217,250	220,000
Revolving credit facility	15,000	10,000
Notes Payable - VIP Acquisition	27,500	27,500
Other Debt	16,257	1,812
Net discount on debt and deferred financing fees	(57,559)	(5,688)
	<u>\$ 362,198</u>	<u>\$ 253,624</u>
Less current maturities of long-term debt	(6,219)	(2,248)
Total long-term debt	<u>\$ 355,979</u>	<u>\$ 251,376</u>

Future maturities of long-term debt, excluding net discount on debt and deferred financing fees, as of December 31, 2020, are as follows:

<b><i>(\$'s in 000's)</i></b>	
2021	\$ 6,219
2022	5,476
2023	33,255
2024	6,057
2025	2,259
Thereafter	366,491

The Company incurred debt issuance costs of \$0.6 million related to the A&R Credit Agreement during the year ended December 31, 2020. The Company incurred debt issuance costs of \$0.7 million during the year ended December 31, 2019 related to the A&R Credit Agreement and \$5.1 million related to the A&R Term Loan Credit Agreement.

The Company incurred debt issuance costs of \$5.9 million in May 2020 in connection with the Notes. In accordance with FASB ASC 470, *Debt*, these costs were allocated to debt and equity components in proportion to the allocation of proceeds. \$2.2 million of issuance costs were recorded as additional paid-in capital and such amounts are not subject to amortization. The remaining issuance costs of \$3.7 million are recorded as debt issuance costs in the net carrying value of the Notes. The debt issuance costs are amortized on an effective interest basis over the term of the Notes and is included in interest expense, net on the condensed consolidated statements of operations. Future amortization of our debt discount and debt issuance costs for the term of the Convertible Notes is as follows:

(\$'s in 000's)	Debt Discounts	Debt Issuance Costs
2021	\$ 6,761	\$ 470
2022	7,684	534
2023	8,733	607
2024	9,925	690
2025	11,280	784
Thereafter	5,143	356

**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 2026. A portion of leases are denominated in foreign currencies.

For both operating and finance leases, the Company recognizes a right-of-use 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 follow:

\$'s in 000's	For the Year Ended	
	December 31, 2020	December 31, 2019
Finance lease cost		
Amortization of right-of-use assets	\$ 1,681	\$ 1,441
Interest on lease liabilities	315	308
Operating lease cost	5,831	4,833
Variable lease cost <sup>(1)</sup>	1,130	629
Short-term lease cost	34	41
Sublease income	(528)	(452)
Total lease cost	\$ 8,463	\$ 6,800

<sup>(1)</sup> Variable lease cost primarily relates to common area maintenance, property taxes and insurance on leased real estate.

Other information related to leases was as follows as of:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Weighted-average remaining lease term (years)		
Operating leases	4.41	5.15
Finance leases	2.38	2.73
Weighted-average discount rate		
Operating leases	5.3%	5.3%
Finance leases	5.7%	5.7%

Annual future commitments under non-cancelable leases as of December 31, 2020, consist of the following:

<i>\$'s in 000's</i>	<u>Lease Obligations</u>	
	<u>Operating Leases</u>	<u>Finance Leases</u>
2021	\$ 5,861	\$ 1,757
2022	5,591	1,584
2023	4,789	1,580
2024	3,280	330
2025	2,357	20
Thereafter	1,365	—
Total minimum future obligations	\$ 23,243	\$ 5,271
Less interest	(2,539)	(367)
Present value of net future minimum obligations	20,704	4,904
Less current lease obligations	(4,915)	(1,566)
Long-term lease obligations	\$ 15,789	\$ 3,338

Supplemental cash flow information:

<i>\$'s in 000's</i>	<u>Year Ended</u>	<u>Year Ended</u>
	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from finance leases	\$ 315	\$ 308
Operating cash flows from operating leases	5,668	4,568
Financing cash flows from finance leases	1,965	1,547
(Noncash) right-of-use assets obtained in exchange for lease obligations		
Operating leases	5,105	5,368
Finance leases	2,019	(3,006)

Total operating lease expense for the year ended December 31, 2018, totaled \$6.0 million.

#### **Note 7 - Income Taxes**

The Company is the sole managing member of Holdco. Holdco is treated as a partnership for U.S. federal income tax purposes with the remaining partners of Holdco (the "LLC Owners") owning a non-controlling interest. The LLC Owners have an exchange right which grants them the right to exchange a Holdco partnership interest and a PetIQ Class B Common Stock share for a PetIQ Class A Common Stock share. Upon such an exchange, the Company is treated as purchasing an additional interest in Holdco from the LLC Owners in a taxable exchange which generates deferred tax assets as a result of an increase in tax basis for the Company. As of December 31, 2020, the Company had \$67.6M of deferred tax assets associated with these exchanges, which currently have a full valuation allowance against the deferred tax asset. The non-controlling interests totaled approximately 11% of the ownership of Holdco as of December 31, 2020. See Note 11 – Non-controlling interests for more information.

HoldCo's members, including the Company, are liable for federal, state, and local income taxes based on their share of HoldCo's taxable income.

Holdco makes cash distributions to members to pay taxes attributable to their allocable share of income earned. In the years ended December 31, 2020 and 2019, the Company made cash distributions of \$0.05 million and \$1.7 million, respectively. Additionally, Holdco accrues for distributions required to be made related to estimated income taxes. During the years ended December 31, 2020 and 2019, the Company relieved previously accrued distributions of \$(0.4) million and accrued distributions of \$0.8 million, respectively. This liability is included in accounts payable on the consolidated balance sheet.

The components of earnings before net loss taxes, determined by tax jurisdiction, are as follows:

\$'s in 000's	Years Ended December 31		
	2020	2019	2018
United States	\$ (29,239)	\$ (17,953)	\$ (1,116)
Foreign	433	342	542
<b>Total</b>	<b>\$ (28,806)</b>	<b>\$ (17,611)</b>	<b>\$ (574)</b>

The provision for income taxes for 2020, 2019, and 2018 consisted of the following:

\$'s in 000's	Years Ended December 31		
	2020	2019	2018
Current:			
Federal	\$ —	\$ —	\$ —
State	327	317	148
Foreign	137	17	—
	<b>\$ 464</b>	<b>\$ 334</b>	<b>\$ 148</b>
Deferred and other:			
Federal	40,598	(2,146)	(751)
State	11,175	(1,336)	(135)
Foreign	(21)	(161)	77
	51,752	(3,643)	(809)
<b>Total income tax expense (benefit)</b>	<b>\$ 52,216</b>	<b>\$ (3,309)</b>	<b>\$ (661)</b>

Reconciliation between the effective tax rate on income from continuing operations and the statutory tax rate is as follows:

	Years Ended December 31		
	2020	2019	2018
Income tax expense (benefit) at federal statutory rate	21.0 %	21.0 %	21.0 %
State and local income taxes net of federal tax benefit	2.4	1.3	(5.7)
Non-controlling interest and nontaxable income	(2.9)	(4.0)	54.7
Deferred tax rate changes	(1.3)	(0.4)	37.2
Share-based compensation	0.6	0.1	18.3
Tax Cuts and Jobs Act of 2017	-	-	(13.1)
Return-to-Provision	(2.0)	0.8	13.4
Valuation Allowance	(198.4)	0.4	0.7
Other	(0.7)	(0.4)	(11.3)
<b>Effective income tax rate</b>	<b>(181.3) %</b>	<b>18.8 %</b>	<b>115.2 %</b>

Our tax rate is affected primarily by the recognition of a valuation allowance during the year ended December 31, 2020 and the portion of income and expense allocated to the noncontrolling interest. It is also affected by discrete items that may occur in any given year such as stock based compensation, but are not consistent from year to year.



As a result of the IPO and reorganization transactions, the Company has recorded deferred tax assets and liabilities based on the differences between the book value of assets and liabilities for financial reporting purposes and those amounts applicable for income tax purposes. Deferred tax assets have been recorded for the basis differences resulting from the purchase of LLC Interests from existing members and newly issued LLC Interests acquired directly from Holdco. The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2020 and 2019 are as follows:

<i>\$'s in 000's</i>	2020	2019
<b>Deferred tax assets</b>		
Investment in partnership	\$ 53,294	\$ 53,303
Fixed assets	32	29
Net operating loss carryforwards and tax credits	18,001	6,775
Other accruals and reversals	9	5
Subtotal	71,336	60,112
Less: valuation allowance	(71,161)	(143)
Net deferred tax assets	175	59,969
<b>Deferred tax liabilities</b>		
Intangible assets	\$ (447)	\$ (293)
Other	(6)	(5)
Net deferred tax liabilities	\$ (453)	\$ (298)

At December 31, 2020, the Company has federal net operating loss (“NOL”) carryforwards of \$66.0 million, of which \$1.9 million, generated in 2017 and prior, will expire in 2037, the remaining NOLs do not expire. The NOL generated in 2018 and after of \$64.1 million will have an indefinite carryforward period but can generally only be used to offset 80% of taxable income in any particular year. The Company has a federal business interest expense carryover totaling \$6.1 million as of December 31, 2020, which has an indefinite carryforward period but is limited in any particular year based on certain provisions. As of December 31, 2020, the Company has charitable contribution carryforwards of \$1.0 million, which if unused will expire between 2021 and 2025. The Company has state NOL carryforwards of \$384.7 million (tax effected \$2.8 million) as of December 31, 2020 which expire between 2022 and 2038 and others that have an indefinite carryforward period. At December 31, 2020 the Company had foreign NOL carryforwards of \$0.8 million which do not expire.

The Company has assessed the realizability of the net deferred tax assets as of December 31, 2020 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 the recorded deferred tax assets will not be realized. The Company has recorded a valuation allowance for deferred tax assets of \$71.2 million and \$0.1 million as of December 31, 2020 and 2019, 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.

The Company has not recognized any uncertain tax positions, penalties or interest as we have concluded that no such positions exist. Accordingly, no unrecognized tax benefit would impact the effective tax rate. If interest and penalties were accrued, we would recognize interest and penalties as income tax expense. We are subject to taxation in the United States and various states and foreign jurisdictions. As of December 31, 2020, tax years from 2017 to present are subject to examination by the tax authorities.

On March 27, 2020, the U.S. government enacted the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) which includes temporary changes regarding the prior and future utilization of net operating losses, temporary changes to the prior and future limitations on interest deductions, temporary suspension of certain payment requirements for the employer portion of Social Security taxes, technical corrections from prior tax legislation for tax depreciation of certain qualified improvement property, and the creation of certain refundable employee retention credits. The Company will benefit from the Employee Retention Credits and the payroll tax deferral.

**Note 8 – Loss 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.

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

<i>(in 000's, except for per share amounts)</i>	Year ended December 31,		
	2020	2019	2018
<b>Numerator:</b>			
Net (loss) income	\$ (81,022)	\$ (14,302)	\$ 87
Less: net (loss) income attributable to non-controlling interests	(3,548)	(2,849)	869
Net loss attributable to PetIQ, Inc. — basic and diluted	(77,474)	(11,453)	(782)
<b>Denominator:</b>			
Weighted-average shares of Class A common stock outstanding -- basic	24,629	22,652	17,216
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	24,629	22,652	17,216
Loss per share of Class A common stock — basic	\$ (3.15)	\$ (0.51)	\$ (0.05)
Loss per share of Class A common stock — diluted	\$ (3.15)	\$ (0.51)	\$ (0.05)

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.

Shares of the Company's Class B common stock as well as all stock options and restricted stock units have not been included in the diluted loss per share calculation as they have been determined to be anti-dilutive under the if-converted method and treasury stock method, respectively.

Additionally, all stock options and restricted stock units and convertible Notes have not been included in the diluted earnings per share calculation for the years ended December 31, 2020, 2019 and 2018, as they have been determined to be anti-dilutive under the treasury stock method.

**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 December 31, 2020 and 2019, 1,293 thousand and 2,017 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 December 31, 2020, 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. Expense recognized totaled \$6.5 million and \$6.2 million for the years ended December 31, 2020, and 2019, 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:

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Expected term (years) <sup>(1)</sup>	6.25	6.25
Expected volatility <sup>(2)</sup>	33.91 %	35.00 %
Risk-free interest rate <sup>(3)</sup>	0.37 %	2.37 %
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.

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The weighted average grant date fair value of stock options granted during the period ended December 31, 2020 and 2019 was \$11.88 and \$10.63, respectively, per option. The following table summarizes the activity of the Company's unvested stock options for the period ended December 31, 2020:

	Stock Options (in 000's)	Weighted Average Exercise Price	Aggregate Intrinsic Value (in 000's)	Weighted Average Remaining Contractual Life (years)
Outstanding at December 31, 2017	599	\$ 16.00	\$ 3,496	9.5
Granted	1,617	25.74		
Exercised	(76)	18.83		
Forfeited	(195)	21.37		
Cancelled/Expired	—	—		
Outstanding at December 31, 2018	1,945	\$ 23.45	\$ 5,527	9.1
Granted	423	27.54		
Exercised	(119)	19.51		
Forfeited	(168)	21.92		
Cancelled/Expired	(9)	25.70		
Outstanding at December 31, 2019	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
Options exercisable at December 31, 2020	831		\$ 11,778	5.9

At December 31, 2020, 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 approximately 2.2 years.

#### 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 generally 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 December 31, 2020, total unrecognized compensation cost related to unvested RSUs was \$5.8 million and is expected to vest over a weighted average of 2.8 years.

The fair value of these equity awards is amortized to equity based compensation expense over the vesting period, which totaled \$2.6 million and \$1.1 million for the years ended December 31, 2020 and 2019, 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 December 31, 2020:

	<b>Number of Shares (in 000's)</b>	<b>Weighted Average Grant Date Fair Value</b>
Outstanding at December 31, 2018	51	\$ 33.16
Granted	123	27.61
Settled	(25)	30.43
Forfeited	(15)	30.58
Outstanding at December 31, 2019	133	\$ 28.85
Granted	271	20.73
Settled	(70)	25.65
Forfeited	(17)	23.34
Nonvested RSUs at December 31, 2020	317	\$ 22.91

The total equity based compensation expense for these plans over the vesting period totaled \$9.2 million, \$7.4 million, and \$3.8 million for the years ended December 31, 2020, 2019, and 2018, respectively. The total income tax benefit recognized in the income statement for share-based compensation arrangements was \$0.0 million, \$1.4 million and \$0.5 million for the years ended December 31, 2020, 2019, and 2018, respectively.

#### **Note 10 - Stockholders' Equity**

##### Certificate of Incorporation

The Company's amended and restated certificate of incorporation, among other things, provides for the (i) authorization of 125,000,000 shares of Class A common stock with a par value of \$0.001 per share; (ii) authorization of 100,000,000 shares of Class B common stock with a par value of \$0.001 per share; (iii) authorization of 12,500,000 shares of blank check preferred stock; and (iv) establishment of a classified board of directors, divided into three classes, each of whose members will serve for staggered three-year terms.

Each share of the Company's Class A common stock and Class B common stock entitles its holders to one vote per share on all matters presented to the Company's stockholders generally.

Holders of the Company's Class B common stock are not entitled to receive dividends and will not be entitled to receive any distributions upon the liquidation, dissolution or winding up of the Company. Shares of Class B common stock may only be issued to the extent necessary to maintain the one-to-one ratio between the number of LLC interests of HoldCo held by Continuing LLC Owners. Shares of Class B common stock are transferable only together with an equal number of LLC Interests. Shares of Class B common stock will be canceled on a one-for-one basis upon the redemption or exchange any of the outstanding LLC Interests held by the Continuing LLC Owners.

The Company must, at all times, maintain a one-to-one ratio between the number of outstanding shares of Class A common stock and the number of LLC Interests owned by PetIQ (subject to certain exceptions for treasury shares and shares underlying certain convertible or exchangeable securities).

##### 2018 Public Offering

On October 1, 2018, the Company closed an underwritten public offering of 5,750 thousand shares of Class A common stock. The Company sold 2,000 thousand newly issued shares of Class A common stock and received net proceeds of approximately \$73.9 million after deducting underwriting discounts and commissions and offering expenses. The remaining 3,750 thousand shares of Class A common stock were sold by selling stockholders and the Company did not receive any proceeds with respect hereto. In conjunction with the 2018 Public Offering, a number of holders of Class B common stock exchanged LLC Interests and corresponding Class B common shares for Class A common stock. The

impact on non-controlling interest is shown along with other exchanges during the year in Note 11 – Non-Controlling Interests.

**Note 11 - Non-Controlling Interests**

The Company reports a non-controlling interest representing the LLC interests of HoldCo held by Continuing LLC Owners. Changes in PetIQ’s ownership interest in HoldCo while PetIQ retains its controlling interest in HoldCo will be accounted for as equity transactions. As such, future redemptions or direct exchanges of LLC interests of HoldCo by the Continuing LLC Owners will result in a change in ownership and reduce or increase the amount recorded as non-controlling interest and increase or decrease additional paid-in capital when HoldCo has positive or negative net assets, respectively. The Company is also required to make tax distributions based on the LLC Agreement to Continuing LLC Members on a regular basis, these distributions will reduce the non-controlling interest.

As of December 31, 2020, there were 28,751 thousand LLC Interests outstanding, of which PetIQ owned 25,711 thousand, representing an 89.4% ownership interest in HoldCo. Exchange and other equity activity during the years ended December 31, 2020 and 2019 resulted in weighted average ownership of HoldCo by PetIQ of 86.4% and 80.2%, respectively.

\$'s in 000's	LLC Interests held			% of Total	
	LLC			LLC	
	Owners	PetIQ, Inc.	Total	Owners	PetIQ, Inc.
As of January 1, 2019	6,547	21,620	28,167	23.2%	76.8%
Stock based compensation adjustments	—	140	140		
Exchange transactions	(1,794)	1,794	—		
As of December 31, 2019	4,752	23,554	28,306	16.8%	83.2%
Stock based compensation adjustments	—	445	445		
Exchange transactions	(1,712)	1,712	—		
As of December 31, 2020	3,040	25,711	28,751	10.6%	89.4%

**Note 12 - Customer Concentration**

The Company has significant exposure to customer concentration. During each of the years ended December 31, 2020, 2019, and 2018, two, two, and one customers, respectively, accounted for more than 10% of sales individually and in aggregate accounted for 42%, 35%, and 18% of net sales, respectively.

At December 31, 2020, one Products segment customer individually accounted for more than 10% of outstanding trade receivables, and accounted for 52% of outstanding trade receivables, net. At December 31, 2019 two Products segment customers individually accounted for more than 10% of outstanding trade receivables, and accounted for 61% of outstanding trade receivables, net. All of our customer concentration exists in our Products segment.

**Note 13 - Commitments and Contingencies**

**Litigation Contingencies**

During the years ended December 31, 2020 and 2019, the Company recorded liabilities of \$7.8 million and \$1.0 million, respectively, for contract termination costs, related to settlements for alleged breach of contract. The expense is included within General and Administrative expenses for the years ended December 31, 2020 and 2019.

On April 4, 2018, Med Vets, Inc. and Bay Medical Solutions Inc. (collectively “Plaintiffs”) filed suit in the United States District Court for the Northern District of California against PetIQ and VIP Petcare Holdings, Inc. for alleged unlawful merger and other antitrust violations. On June 29, 2020, the 9<sup>th</sup> Circuit Court of Appeals issued an opinion affirming the dismissal of Med Vets’ merger challenge. On July 13, 2020, the Plaintiffs filed for an *en banc* hearing in the 9<sup>th</sup> Circuit Court of Appeals which was unanimously denied on August 7, 2020. The Plaintiffs time period to petition the Supreme Court for certiorari has passed, therefore the matter is considered resolved. As no impact to the Company is considered probable or estimable, no litigation reserve has been accrued.

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 has not accrued for any contingency, at December 31, 2020 as the Company does not consider any contingency to be probable or estimable. The Company expenses legal costs as incurred within general and administrative expenses on the consolidated statements of operations.

#### 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 years ended:

<i>\$'s in 000's</i>			<b>Unallocated</b>	
<b>December 31, 2020</b>	<b>Products</b>	<b>Services</b>	<b>Corporate</b>	<b>Consolidated</b>
Net Sales	\$ 725,705	\$ 54,346	\$ —	\$ 780,051
Adjusted EBITDA	117,216	3,387	(52,811)	67,792
Depreciation expense	4,810	3,775	3,497	12,082
Capital expenditures	13,394	7,373	1,625	22,392

<i>\$'s in 000's</i>			<b>Unallocated</b>	
<b>December 31, 2019</b>	<b>Products</b>	<b>Services</b>	<b>Corporate</b>	<b>Consolidated</b>
Net Sales	\$ 617,118	\$ 92,313	\$ —	\$ 709,431
Adjusted EBITDA	73,537	20,045	(32,907)	60,675
Depreciation expense	3,552	3,170	2,417	9,139
Capital expenditures	1,297	6,409	2,570	10,276

<i>\$'s in 000's</i>			<b>Unallocated</b>	
<b>December 31, 2018</b>	<b>Products</b>	<b>Services</b>	<b>Corporate</b>	<b>Consolidated</b>
Net Sales	\$ 450,229	\$ 78,385	\$ —	\$ 528,614
Adjusted EBITDA	52,185	15,246	(25,892)	41,539
Depreciation expense	2,343	2,326	1,988	6,657
Capital expenditures	1,339	3,440	2,399	7,178

The following table reconciles Segment Adjusted EBITDA to Net (Loss) income for the periods presented.

<i>\$'s in 000's</i>	<b>For the years ended</b>		
	<b>December 31, 2020</b>	<b>December 31, 2019</b>	<b>December 31, 2018</b>
<b>Adjusted EBITDA:</b>			
Product	\$ 117,216	\$ 73,537	\$ 52,185
Services	3,387	20,045	15,246
Unallocated Corporate	(52,811)	(32,907)	(25,892)
<b>Total Consolidated</b>	<b>67,792</b>	<b>60,675</b>	<b>41,539</b>
<b>Adjustments:</b>			
Depreciation	(12,082)	(9,139)	(6,657)
Amortization	(12,815)	(5,994)	(5,210)
Interest	(26,299)	(14,495)	(8,022)
Acquisition costs <sup>(1)</sup>	(2,620)	(6,147)	(3,787)
Stock based compensation expense	(9,170)	(7,355)	(3,812)
Purchase accounting adjustment to inventory <sup>(2)</sup>	—	(4,805)	(2,149)
Non same-store revenue <sup>(3)</sup>	8,987	8,088	3,967
Non same-store costs <sup>(3)</sup>	(22,256)	(19,553)	(10,345)
Fair value adjustment of contingent note	—	(7,320)	(3,280)
Integration costs and costs of discontinued clinics <sup>(4)</sup>	(9,776)	(3,788)	(998)
Clinic launch expenses <sup>(5)</sup>	(3,085)	(767)	(1,380)
Non-recurring royalty settlement <sup>(6)</sup>	—	—	(440)
SKU Rationalization <sup>(7)</sup>	—	(6,482)	—
Litigation expenses	(1,006)	(529)	—
COVID-19 related costs <sup>(8)</sup>	(6,476)	—	—
<b>Pretax net loss</b>	<b>\$ (28,806)</b>	<b>\$ (17,611)</b>	<b>\$ (574)</b>
Income tax benefit (expense)	(52,216)	3,309	661
<b>Net (loss) income</b>	<b>\$ (81,022)</b>	<b>\$ (14,302)</b>	<b>\$ 87</b>

- (1) Acquisition costs include legal, accounting, banking, consulting, diligence, and other out-of-pocket costs related to completed and contemplated acquisitions.
- (2) Purchase accounting adjustment to inventory represents the portion of costs of sales related to the fair value of inventory adjusted as part of the purchase price allocation. During 2019 the amounts relate to the Perrigo Animal Health Acquisition and are part of the Products segment. During 2018 the costs relate to the VIP Acquisition which are part of the Services Segment and the HBH Acquisition, which is part of the Products Segment.
- (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 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.
- (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) Non-recurring royalty settlement represents a settlement paid to a supplier related to a royalty agreement in place since 2013.
- (7) SKU rationalization relates to the disposal of or reserve to estimated net realizable value for inventory that will either no longer be sold, or will be de-emphasized, as the Company aligns brands between Legacy PetIQ brands and brands acquired as part of the Perrigo Animal Health Acquisition. All costs are included in the Products segment gross margin.



- (8) Costs related to maintaining service segment infrastructure, staffing, and overhead related to 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.

		Year ended December 31, 2020		
<i>\$'s in 000's</i>		U.S.	Foreign	Total
Product sales	\$	719,282 \$	6,423 \$	725,705
Service revenue		54,346	—	54,346
Total net sales	\$	773,628 \$	6,423 \$	780,051

		Year ended December 31, 2019		
<i>\$'s in 000's</i>		U.S.	Foreign	Total
Product sales	\$	610,986 \$	6,132 \$	617,118
Service revenue		92,313	—	92,313
Total net sales	\$	703,299 \$	6,132 \$	709,431

		Year ended December 31, 2018		
<i>\$'s in 000's</i>		U.S.	Foreign	Total
Product sales	\$	444,364 \$	5,865 \$	450,229
Service revenue		78,385	—	78,385
Total net sales	\$	522,749 \$	5,865 \$	528,614

The net book value of property plant and equipment, by geographic location was as follows as of:

	December 31, 2020	December 31, 2019
United States	\$ 61,807	\$ 51,397
Europe	1,339	1,128
Total	\$ 63,146	\$ 52,525

#### Note 15 - Related Parties

As discussed in Note 7– Income taxes, the Company has accrued tax distributions that are payable to Continuing LLC Owners to facilitate the Continuing LLC Owners periodic estimated tax obligations. At December 31, 2020 and 2019, the Company had paid \$0.03 million in advance on required tax distributions and accrued \$0.4 million, respectively, for estimated tax distributions, which are included in accounts payable on the consolidated balance sheets.

As discussed in Note 5– Debt, the Company has notes payable to the Sellers of VIP, who are significant shareholders of the Company, of \$27.5 million. The Company had \$0.5 million and \$0.3 million of accrued interest on these notes as of December 31, 2020, and 2019, respectively. The Company paid \$1.7 million and \$1.3 million of interest for the years ended December 31, 2020 and 2019, respectively, and paid no interest for the year ended December 31, 2018. Will Santana, a former owner of VIP and board member of PetIQ until July 1, 2020, was one of the main beneficiaries of the VIP Notes. Mr. Santana has sold a sizable portion of his ownership in PetIQ and resigned from the board during 2020, as such he will no longer be considered a related party.

The Company leases office and warehouse space from a company under common control of the sellers of VIP, commencing on January 17, 2018. The Company incurred rent expenses of \$0.4 million in each of the years ending December 31, 2020, 2019, and 2018, respectively. The lease ended January 5, 2021.

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 annual premium

expense, paid to Moreton and subsequently transferred to insurance providers, was \$2.8 million, \$2.3 million and \$1.5 million in 2020, 2019 and 2018, respectively. Mr. Christensen was paid a commission of approximately \$0.1 million in each of the years ending December 31, 2020, 2019, and 2018, respectively, by Moreton for the sale of such insurance policies to the Company.

In April 2020, the Company purchased a parcel of land for \$2.5 million. The broker for the Company was Colliers International, and the agent was Mike Christensen, the brother of CEO McCord Christensen. Total commission paid to Colliers was approximately \$75 thousand.

#### **Note 16 – Employee Benefit Plans**

The Company sponsors 401(k) defined contribution plans at certain subsidiaries. Participants may elect to defer up to 100% of compensation. The Company makes matching contributions of 100% of the employee deferrals up to 3% of compensation. The Company may also make discretionary profit sharing contributions each year, which are allocated to each eligible participant based on compensation. The Company made matching contributions of \$0.9 million, \$0.6 million, and \$0.3 million, respectively, for the years ended December 31, 2020, 2019 and 2018.

#### **Item 9 – Changes in and Disagreements With Accountants on Accounting and Financial Disclosure**

None.

#### **Item 9A – Controls and Procedures**

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

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this annual report. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures (a) were effective to ensure that information that we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission (“SEC”) rules and forms and (b) include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

##### **Management’s Annual Report on Internal Control Over Financial Reporting**

We are responsible for establishing and maintaining internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Internal control over financial reporting is designed 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. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2020. In making this assessment, our management used the *Internal Control – Integrated Framework (2013)* as issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on this assessment, management concluded that our internal control over financial reporting was effective as of December 31, 2020.

The Company’s registered independent accounting firm, KPMG LLP, has audited the effectiveness of our internal controls over financial reporting as of December 31, 2020, as stated in their report which appears on the next page.

## Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during our fiscal quarter ended, December 31, 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



KPMG LLP  
Suite 600  
205 North 10th Street  
Boise, ID 83702-5798

## Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors  
PetIQ, Inc.:

### *Opinion on Internal Control Over Financial Reporting*

We have audited PetIQ, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive loss, consolidated stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes (collectively, the consolidated financial statements), and our report dated February 26, 2021 expressed an unqualified opinion on those consolidated financial statements.

### *Basis for Opinion*

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### *Definition and Limitations of Internal Control Over Financial Reporting*

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Boise, Idaho  
February 26, 2021

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

This Annual Report on Form 10-K 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 and 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” section of this annual report on Form 10-K.

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.

#### **Item 9B - Other Information**

None.

### **PART III**

#### **Item 10 – Directors and Executive Officers of the Registrant**

We intend to file with the Securities and Exchange Commission, not later than 120 days after the close of our fiscal year ended December 31, 2020, a definitive proxy statement or an amendment to this report filed under cover of Form 10-K/A containing the information required by this Item.

#### **Item 11 – Executive Compensation**

We intend to file with the Securities and Exchange Commission, not later than 120 days after the close of our fiscal year ended December 31, 2020, a definitive proxy statement or an amendment to this report filed under cover of Form 10-K/A containing the information required by this Item.

#### **Item 12 – Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

We intend to file with the Securities and Exchange Commission, not later than 120 days after the close of our fiscal year ended December 31, 2020, a definitive proxy statement or an amendment to this report filed under cover of Form 10-K/A containing the information required by this Item.

#### **Item 13 – Certain Relationships and Related Transactions**

We intend to file with the Securities and Exchange Commission, not later than 120 days after the close of our fiscal year ended December 31, 2020, a definitive proxy statement or an amendment to this report filed under cover of Form 10-K/A containing the information required by this Item.

#### **Item 14 – Principal Accountant Fees and Services**

We intend to file with the Securities and Exchange Commission, not later than 120 days after the close of our fiscal year ended December 31, 2020, a definitive proxy statement or an amendment to this report filed under cover of Form 10-K/A containing the information required by this Item.

**PART IV**

**Item 15. Exhibits, Financial Statement Schedules**

See "Index to Consolidated Financial Statements" in Part II, Item 8 of this Annual Report on Form 10-K. Financial statement schedules have been omitted because they are not required or are not applicable or because the information required in those schedules either is not material or is included in the consolidated financial statements or the accompanying notes.

<b>Exhibit No.</b>	<b>Exhibit Description</b>	<b>Form</b>	<b>File No.</b>	<b>Exhibit</b>	<b>Filing Date</b>
2.1	<a href="#">Purchase and Sale Agreement, dated May 8, 2019, by and among PetIQ, LLC, L. Perrigo Company, Perrigo Company plc and PetIQ, Inc.</a>	8-K	001-38163	2.1	5/8/2019
2.2	<a href="#">Amended and Restated Asset Purchase Agreement, dated June 21, 2020, by and between Elanco US Inc., PetIQ, LLC and PetIQ, Inc.</a>	10-Q	001-38163	2.1	8/10/2020
3.1	<a href="#">Amended and Restated Certificate of Incorporation of PetIQ, Inc.</a>	S-1/A	333-218955	3.1	7/11/2017
3.2	<a href="#">Amended and Restated Bylaws of PetIQ, Inc.</a>	8-K	001-38163	3.1	2/23/2021
3.3	<a href="#">Certificate of Amendment to Amended and Restated Certificate of Incorporation</a>	8-K	001-38163	3.1	6/1/2018
4.1	<a href="#">Specimen Stock Certificate evidencing the shares of Class A common stock</a>	S-1/A	333-218955	4.1	7/17/2017
4.2	<a href="#">Registration Rights Agreement, dated July 20, 2017, among PetIQ, Inc. the Continuing LLC owners and the C-Corp LLC Parents</a>	S-3	333-227186	4.1	9/4/2018
4.3	<a href="#">Registration Rights Agreement, dated January 17, 2018, between PetIQ, Inc. and each VIP Petcare Owner</a>	S-3	333-227186	4.2	9/4/2018
4.4	<a href="#">Description of PetIQ, Inc.'s Securities</a>	10-K	001-38163	4.4	3/11/2020
4.5	<a href="#">Indenture, dated May 14, 2020, among PetIQ, Inc. and Wells Fargo, National Association, as trustee</a>	8-K	001-38163	4.1	5/20/2020
10.1	<a href="#">PetIQ Holdings, LLC Sixth Amended and Restated Limited Liability Company Agreement</a>	S-1/A	333-218955	10.4	7/6/2017
10.2	<a href="#">First Amendment to PetIQ Holdings, LLC Sixth Amended and Restated Limited Liability Company Agreement</a>	10-K	001-38163	10.1	3/12/2019
10.3	<a href="#">A&amp;R Credit Agreement dated as of January 17, 2018 among PetIQ, LLC, as a Borrower Representative, the other credit parties party thereto, East West Bank and the other lenders party thereto, and East West Bank, as Administrative Agent, L/C Issuer and Swingline Lender</a>	8-K	001-38163	10.2	1/23/2018
10.4	<a href="#">First Amendment and Joinder, dated as of August 9, 2018, to Credit Agreement dated as January 17, 2018</a>	10-Q	001-38163	10.1	8/14/2018
10.5	<a href="#">Second Amendment to Amended and Restated Credit Agreement, dated March 25, 2019, by and among PetIQ, LLC, the other credit parties party thereto, the lenders party thereto and East West Bank</a>	10-Q	001-38163	10.1	8/8/2019
10.6	<a href="#">Third Amendment to Amended and Restated Revolving Credit Agreement, dated July 8, 2019, by and among PetIQ, LLC, East West Bank and the lenders party thereto</a>	8-K	001-38163	10.2	7/9/2019
10.7	<a href="#">Third Amendment to Amended and Restated Credit Agreement, dated July 9, 2020, by and among PetIQ, LLC, East West Bank and the lenders party thereto</a>	10-Q	001-38163	10.2	8/10/2020
10.8	<a href="#">Fourth Amendment to Amended and Restated Credit Agreement, dated May 14, 2020, by and among PetIQ, LLC, East West Bank and the lenders party thereto</a>	8-K	001-38163	10.2	5/14/2020

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10.9	<a href="#">Sixth Amendment to Amended and Restated Credit Agreement, dated July 28, 2020, by and among PetIQ, LLC, East West Bank and the lenders party thereto</a>	8-K	001-38163	10.2	8/3/2020
10.10	<a href="#">Amended and Restructured Term Loan Credit Agreement, dated July 8, 2019, by and among PetIQ, LLC, Ares Capital Corporation and the Lenders party thereto</a>	8-K	001-38163	10.3	7/9/2019
10.11	<a href="#">Second Amendment to Term Loan Credit Agreement, dated July 9, 2020, by and among PetIQ, LLC, Ares Capital Corporation and the Lenders party thereto</a>	8-K	001-38163	10.1	5/14/2020
10.12	<a href="#">Third Amendment to Term Loan Credit Agreement, dated July 9, 2020, by and among PetIQ, LLC, the guarantors party thereto, Ares Corporation and the other Lenders party thereto</a>	8-K	001-38163	10.2	8/10/2020
10.13	<a href="#">Fourth Amendment to Term Loan Credit Agreement, dated July 28, 2020, by and among PetIQ, LLC, the guarantors party thereto, Ares Corporation and the other Lenders party thereto</a>	8-K	001-38163	10.1	8/3/2020
10.14	<a href="#">Letter Agreement, dated January 17, 2018, by and among PetIQ, Inc., PetIQ Holdings, LLC, PetIQ, LLC, Community Veterinary Clinics, LLC, VIP Petcare Holdings, Inc., Will Santana, Kenneth Pecoraro, and the Equity Support Holders party thereto</a>	8-K	001-38163	10.1	1/23/2018
10.15*	<a href="#">PetIQ Inc. Amended and Restated 2017 Omnibus Incentive Plan</a>	8-K	333-218955	10.1	5/31/2019
10.16*	<a href="#">Form of Indemnification Agreement</a>	S-1/A	333-218955	10.13	7/20/2017
10.17*	<a href="#">PetIQ, Inc. 2017 Omnibus Incentive Plan Form of Nonqualified Stock Option Agreement</a>	10-Q	001-38163	10.2	11/14/2018
10.18*	<a href="#">Amended and Restated Employment and Non-Competition Agreement between PetIQ, LLC and McCord Christensen</a>	10-Q	001-38163	10.1	5/9/2019
10.19*	<a href="#">Employment and Non-Competition Agreement, dated September 17, 2018, between PetIQ, LLC and Susan Sholtis</a>	8-K	001-38163	10.1	9/20/2018
10.20*	<a href="#">Employment and Non-Competition Agreement, dated as of May 28, 2019, between PetIQ, LLC and Michael Smith</a>	8-K	001-38163	10.5	7/9/2019
10.21*	<a href="#">Employment and Non-Competition Agreement between PetIQ, LLC and John Newland</a>	10-Q	001-38163	10.2	5/9/2019
10.22*	<a href="#">Employment and Non-Competition Agreement between PetIQ, LLC and R. Michael Herrman</a>	10-Q	001-38163	10.3	5/9/2019
10.23*	<a href="#">PetIQ, Inc. 2017 Omnibus Incentive Plan Restricted Stock Unit Agreement</a>	10-Q	001-38163	10.3	11/14/2018
10.24*	<a href="#">PetIQ, Inc. 2017 Omnibus Incentive Plan Form of Restricted Stock Unit Agreement for Non-Employee Directors</a>	10-Q	333-218955	10.4	11/14/2018
10.25*	<a href="#">PetIQ, Inc. Amended and Restated 2018 Inducement and Retention Stock Plan for CVC Employees</a>	S-8	333-223635	4.3	3/13/2018
10.26	<a href="#">First Amendment to Purchase and Sale Agreement, dated July 7, 2019, by and among PetIQ, LLC, L. Perrigo Company, Perrigo Company plc, and PetIQ, Inc.</a>	8-K	001-38163	10.1	7/9/2019
10.27	<a href="#">Transition Services Agreement, dated July 8, 2019, by and between PetIQ, LLC and L. Perrigo Company</a>	8-K	001-38163	10.4	7/9/2019
10.28	<a href="#">Form of Base Capped Call Transaction Confirmation</a>	8-K	001-38163	10.1	5/20/2020
10.29	<a href="#">Form of Additional Capped Call Transaction Confirmation</a>	8-K	001-38163	10.2	5/20/2020
21.1**	<a href="#">List of Subsidiaries of PetIQ Inc.</a>				
23.1**	<a href="#">Consent of KPMG LLP</a>				
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\*\*** [Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)

**32.2\*\*** [Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)

**101.INS** [XBRL Instance Document](#)

**101.SCH** [XBRL Schema Documents](#)

**101.CAL** [XBRL Calculation Linkbase Document](#)

**101.DEF** [XBRL Definition Linkbase Document](#)

**101.LAB** [XBRL Labels Linkbase Document](#)

**101.PRE** [XBRL Presentation Linkbase Document](#)

**101.DEF** [XBRL Definition Linkbase Document](#)

\* Indicates management contract or compensatory plan or arrangement.

\*\* Filed herewith

#### **Item 16. Form 10-K Summary**

None.

#### **POWER OF ATTORNEY**

KNOWN BY ALL PERSONS BY THESE PRESENTS, that the individuals whose signatures appear below hereby constitute and appoint McCord Christensen and John Newland, and each of them severally, as his or her true and lawful attorneys-in-fact and agents with full power of substitution and resubstitution for him or her and in his or her name, place and stead in any and all capacities to sign any and all amendments to this Annual Report on Form 10-K and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, full power and authority to do or perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or of his substitute or substitutes, may lawfully do to cause to be done by virtue hereof. Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities indicated as of February 26, 2021.



SIGNATURE	TITLE
<u>/s/ McCord Christensen</u> McCord Christensen	Chief Executive Officer, President (principal executive officer) Officer and Chairman of the Board
<u>/s/ John Newland</u> John Newland	Chief Financial Officer (principal financial and accounting officer) Officer
<u>/s/ Mark First</u> Mark First	Director
<u>/s/ Ronald Kennedy</u> Ronald Kennedy	Director
<u>/s/ Scott Huff</u> Scott Huff	Director
<u>/s/ Larry Bird</u> Larry Bird	Director

**List of Subsidiaries of PetIQ Inc.**

Name of Subsidiary	State or Country of Incorporation or Organization
ECP IV TS Investor Co.	Delaware
PetIQ Holdings, LLC	Delaware
PetIQ, LLC	Idaho
PetIQ, LLC	Florida
TruRX, LLC	Idaho
Tru Prodigy, LLC	Texas
M&C USA, LLC	Delaware
Mark and Chappell Limited	United Kingdom
Mark and Chappell (Ireland) Limited	Ireland
Prodex D.O.O.	Slovenia
PetIQ MFG, LLC	Utah
Community Veterinary Clinics, LLC dba VIP Petcare	Delaware
Pet Services Operating, LLC	Delaware
Pawsplus Management, LLC	Delaware
VIP PetCare, LLC	California
Community Clinics, Inc.	California
Gentle Doctor (North Carolina) P.C.	North Carolina
Vicinus Vet Services, PLLC	Texas
Gentle Doctor (Tennessee) PLLC	Tennessee
Community Veterinary Clinics, PC	New Jersey
Community Veterinary Clinics Alabama LLC	Alabama
Civitas Vet Services Fleer PLLC	Arkansas
Sergeant's Pet Care Products, LLC	Michigan
SPC Trademarks, LLC	Texas
Meridian Animal Health, LLC	Nevada
Pet Logic, LLC	Delaware
Velcera, LLC	Delaware
Fidopharm, Inc.	Delaware
Loradochem, Inc.	Colorado
FidopharmBrands, Inc.	Delaware
Sergeant's Pet Care Products Mexico, S.R.L DE C.V.	Mexico
American Business Sergeant's Pet Care Products Trade (Shanghai) Co, Ltd.	China

**Consent of Independent Registered Public Accounting Firm**

The Board of Directors  
PetIQ, Inc.:

We consent to the incorporation by reference in the registration statements (No. 333-219455, 333-223635 and 333-231795) on Form S-8 and the registration statement (No. 333-227186) on Form S-3 of PetIQ, Inc. of our report dated February 26, 2021, with respect to the consolidated balance sheets of PetIQ, Inc. as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes, and the effectiveness of internal control over financial reporting as of December 31, 2020, which reports appears in the December 31, 2020 annual report on Form 10-K of PetIQ, Inc.

Our report on the consolidated financial statements refers to a change in the method of accounting for leases as of January 1, 2019 due to the adoption of Accounting Standard Update No. 2016-02 Leases (Topic 842), and related amendments.

/s/ KPMG LLP

Boise, Idaho  
February 26, 2021

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

I, McCord Christensen, certify that:

1. I have reviewed this Annual Report on Form 10-K 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: February 26, 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 Annual Report on Form 10-K 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: February 26, 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 Annual Report on Form 10-K of PetIQ, Inc. (the "Company") for the fiscal year ended December 31, 2020, 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: February 26, 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 Annual Report on Form 10-K of PetIQ, Inc. (the "Company") for the fiscal year ended December 31, 2020, 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

John Newland  
*Chief Financial Officer*

Date: February 26, 2021

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