Chewy, Inc. (NYSE:CHWY) Q4 2024 Earnings Conference Call March 26, 2025 8:00 AM ET

Company Participants

David Reeder - CFO
Sumit Singh - CEO

Conference Call Participants

David Bellinger - Mizuho
Doug Anmuth - JPMorgan
Eric Sheridan - Goldman Sachs
Steven Zaccone - Citigroup
Curtis Nagle - Bank of America
Trevor Young - Barclays
Dylan Carden - William Blair

Operator

Hello, everyone, and welcome to the Chewy Fourth Quarter 2024 Earnings Call. My name is Emily. I'll be coordinating your call today.

[Operator Instructions] I will now hand the call over to our host, David Reeder, Chewy's CFO to begin. Please go ahead, David.

David Reeder

Thank you for joining us on the call today to discuss our fourth quarter and full year results for fiscal year 2024. Joining me today is Chewy's CEO, Sumit Singh. Our earnings release, which was filed with the SEC earlier today has been posted to the Investor Relations section of our website. In addition to the earnings release, a presentation summarizing our results is also available on our website at investor.

chewy. com. On our call today, we will be making forward-looking statements, including statements concerning Chewy's financial results and performance, industry trends, strategic initiatives, share repurchase program and the environment in which we operate.

Such statements are considered forward-looking statements under the Private Securities Litigation Reform Act of 1995 and are subject to certain risks, uncertainties and other factors described in the section titled risk factors in our annual report on Form 10-K for fiscal year 2024 filed earlier today and in our other filings with the SEC, which could cause actual results to differ materially from those contemplated by our forward-looking statements. Reported results should not be considered an indication of future performance. Also note that the forward-looking statements on this call are based on information available to us as of today's date.

We assume no obligation to update any forward-looking statements, except as required by law. Also, during this call, we will discuss certain non-GAAP financial measures. Reconciliation of these non-GAAP items to the most directly comparable GAAP financial measures are provided on our Investor Relations website and in our earnings release.

These non-GAAP measures are not intended as a substitute for GAAP results. Additionally, unless otherwise stated, all comparisons discussed on today's call will be against the comparable period of fiscal year 2023. Finally, this call in its entirety is being webcast on our Investor Relations website. A replay of the audio webcast will also be available on our Investor Relations website shortly.

And with that, I'd like to turn the call over to Sumit.

Sumit Singh

Thanks, Dave, and thank you all for joining us on today's call. Our fourth quarter results mark a strong conclusion to the year. Our team's execution enabled us to successfully deliver on the strategic and financial goals that we outlined at the start of this year.

Additionally, the durability and power of our highly predictable business model shined and led to another year of market share gains. We innovated at pace, made smart investment decisions and maintained operating discipline throughout the year, allowing us to deliver both results that exceeded expectations and compelling returns to our shareholders. Now let's review our Q4 and full year 2024 results.

We ended the year on a high note. Top line growth exceeded the high end of our guidance ranges for both the fourth quarter and full year 2024. Q4 net sales increased approximately 15% year-over-year to $3.25% billion, resulting in full year 2024 net sales of $11.86% billion, representing 6% year-over-year growth.

Fourth quarter net sales performance was underpinned by strong active customer growth, a modest return to growth for our hard goods merchandise and compelling Autoship customer loyalty across consumables and health and wellness categories. Our Autoship program represented 80.6% of Q4 net sales, delivering best-in-class service to our customers, while also providing predictable subscription like recurring revenue streams to Chewy. Growth in Autoship customer sales meaningfully outpaced overall top line growth, increasing by 21% in the fourth quarter and nearly 11% for the full year 2024.

On the topic of active customers, I am pleased to report that our active customer performance in the fourth quarter maintained the strong momentum from the previous quarter. We ended fiscal year 2024 with 20.5% million active customers, marking our first year-over-year growth in eight quarters. Our efforts to expand and refresh assortment, enhance on-site and mobile app experiences and refine our marketing strategy continue to drive outperformance across all areas of the active customer equation.

Looking ahead, we believe that we have reached an inflection point with respect to active customer growth and expect to deliver active customer growth in 2025. Regarding profitability, our adjusted EBITDA margin for fiscal year 2024 reached 4.8%, the upper end of the guidance range we set last quarter and reflecting year-over-year expansion of approximately 150 basis points. This margin improvement was driven by both strong gross margin and continued operating expense leverage as we scale.

We converted approximately 80% of our adjusted EBITDA in the year to free cash flow, resulting in a record $452.5% million of free cash flow in fiscal year 2024. Our increasing profitability and compelling free cash flow generation enabled us to not only invest in our strategic growth initiatives, but also return meaningful capital to shareholders as reflected by the $943 million that we deployed to shareholders in fiscal year 2024. Now, I would like to share some updates on a few priorities at Chewy.

Our sponsored ads business scaled meaningfully this year, reaching approximately 1% of net sales for full year 2024, in line with our expectations and was the largest contributor to year-over-year gross margin improvement. As planned, we completed our 1P platform migration, which going forward will enable us to enhance the supplier experience, expand our ad portfolio, including offside and explore additional content formats such as video. Looking ahead, we continue to believe that the upper limit of our long-term entitlement for Chewy's sponsored ads business is up to 3% of total enterprise net sales over time.

Turning to Chewy Vet Care Clinics or CVC. We successfully opened eight CVC locations reaching the upper end of our target range for the year of four to eight openings. Our clinic network continues to exceed expectations in both utilization and overall ecosystem benefits, serving as both a strong customer acquisition channel and an engagement flywheel.

As a result, both new and existing customers are deepening their engagement with Chewy. In fiscal year 2025, we plan to open eight to 10 new clinics, further expanding our presence in the approximately $25 billion vet services market. We are excited about the opportunities ahead and look forward to sharing our progress.

Let me wrap up my section with the following comments. We believe that 2024 was an extraordinary year for Chewy, and our strong performance underscores the team's ability to successfully navigate through a period of normalization for the industry. Our entire team at Chewy, including and especially, our fulfillment and customer care team members, worked incredibly hard, and I thank them for their dedication and commitment.

As we move into 2025, the momentum in the business has remained strong. The team remains steadfast in executing Chewy's strategic priorities and delivering yet another year of share gaining growth. Further, on the dimension of profitability, we are increasingly confident in our ability to reach our long-term adjusted EBITDA margin target of 10%. 2024 marks another year of strong progress towards this long-term goal and looking ahead, we expect to expand adjusted EBITDA margin once again in 2025.

Overall, we remain optimistic about the opportunity ahead for Chewy and look forward to a productive year ahead. With that, I will turn the call over to Dave.

David Reeder

Thank you, Sumit, and thank you all for joining us today. Our strong year end results showcase the power of Chewy's business model and our ability to deliver increasing levels of profitability and free cash flow, while simultaneously investing in the business to deliver attractive returns for our shareholders. Fourth quarter net sales grew 14.9% year-over-year to $3.25% billion, bringing our full year 2024 net sales to $11.86% billion, representing 6.4% growth year-over-year and exceeding the high end of the fiscal year guidance ranges we provided last quarter. Fiscal year 2024 included a 53rd week, which added approximately $227 million of net sales to the fourth quarter and the full year. Excluding the impact of the 53rd week, fourth quarter and full year 2024 net sales grew approximately 6.9% and 4.4%, respectively.

We returned to year-over-year active customer growth in fiscal year 2024 with 20.5% million active customers, reflecting a year-over-year increase of approximately 2.1%. We believe we have reached an inflection point in this area and once again outperformed across all elements of the active customer equation. New customers and reactivations grew year-over-year, while gross churn improved over the same period.

Autoship customer sales increased by 21.2% to $2.62% billion in Q4 and 10.6% to $9.39% billion for the year. Growth in Autoship customer sales outpaced overall top line growth by approximately 630 basis points in Q4 and by 420 basis points in full year 2024. Autoship customer sales as a percentage of total net sales represented 80.6% and 79.2% of our total net sales in Q4 and full year 2024, respectively.

NSPAC reached $578 as of Q4 2024, representing an increase of 4.1% year-over-year. Q4 2024 included an extra week of operations, which added approximately $11 of benefit to NSPAC in the quarter. As a reminder, net sales per active customer equals the aggregate net sales for the preceding four fiscal quarters, divided by the total number of active customers at the end of that period.

As such, you can expect our reported NSPAC for the first three quarters of fiscal 2025 to include the benefit of the extra week in Q4 2024. Moving to profitability. We reported fourth quarter gross margin of 28.5% and full year 2024 gross margin of 29.2%, representing 80 basis points of margin expansion for the year, which is double the amount of gross margin expansion we delivered in 2023.

Sponsored ad was the largest driver of gross margin improvement in the year, followed by product mix shift into premium categories, including consumables and health and wellness. Shifting to operating expenses. Please note that my discussion of SG&A excludes share-based compensation expense and related taxes.

We continue to demonstrate operating expense leverage in the fourth quarter with SG&A of $601 million or 18.5% of net sales, representing 150 basis points of improvement on a year-over-year basis. For the full year 2024, SG&A represented 18.7% of net sales, reflecting 100 basis points of improvement year-over-year. We continue to deliver SG&A leverage driven by at-scale fixed cost infrastructure and ongoing discipline and efficiency with respect to corporate payroll.

Fourth quarter advertising and marketing expense was $235 million, bringing full year 2024 A&M expense to $804.1% million or 6.8% of 2024 net sales, consistent with our previously stated expectation of coming in at the high end of our 6% to 7% of net sales target range. Fourth quarter adjusted net income was $120 million, and full year 2024 adjusted net income came in at $446.8% million, which translated into $0.28% and $1.04% adjusted diluted earnings per share for the fourth quarter and full year 2024, respectively. Fourth quarter adjusted EBITDA came in at $124.5% million, bringing full year 2024 adjusted EBITDA to $570.5% million, representing a 4.8% adjusted EBITDA margin for the year, reflecting 150 basis points of year-over-year margin expansion.

We are proud of the meaningful margin expansion we delivered this year driven by the improvements in gross margin and SG&A leverage described earlier. In the fourth quarter, we reported free cash flow of $156.6% million. And in fiscal year 2024, we generated a record high $452.5% million of free cash flow. Our full year 2024 free cash flow reflects $596.3% million of net cash provided by operating activities and $143.8% million of capital expenditures.

In 2025, we continue to expect approximately 80% of adjusted EBITDA to convert into free cash flow and that CapEx will be between 1.5% and 2% of net sales. Our ability to generate increasing levels of free cash flow and our disciplined approach to capital spending have allowed us to not only reinvest back into the business, but also return meaningful capital to shareholders this year. Recall, in Q1 2024, we announced the authorization of Chewy's first-ever share repurchase program of up to $500 million.

Over the course of the year, we executed a number of share repurchase transactions, including open market repurchases made under this program, as well as repurchasing additional shares directly from BC Partners, our largest shareholder. In 2024, we repurchased approximately 29.4% million shares directly from BC Partners, reducing their overall ownership position in Chewy by approximately 16%. We also repurchased approximately 3.4% million shares of Class A common stock, spending approximately $93.3% million under our $500 million share repurchase program. At the end of the fourth quarter, we had approximately $406.7% million of remaining capacity under our existing share repurchase program for future repurchases.

Collectively, the company repurchased and retired a total of 32.8% million shares in 2024. We ended the year with approximately $597 million in cash, cash equivalents and marketable securities, and we remain debt free with an overall liquidity position of approximately $1.4% billion. Now I'd like to discuss our first quarter and full year 2025 outlook.

We have an increasingly high degree of confidence in our ability to deliver on our strategic road map and the long-term financial model the team outlined at Chewy's Capital Markets Day in December 2023. We made tremendous progress in 2024 towards those strategic and financial goals and believe against the backdrop of a normalizing pet industry, we are poised to continue to deliver share gaining growth and margin expansion in the coming year. Before we dive into our guidance details, I would also like to acknowledge that the company's increasing profitability profile has resulted in growing interest from the investment community regarding earnings per share metrics for Chewy.

As such, we will be providing some supplemental information regarding adjusted diluted earnings per share expectations. With that, let's discuss the specifics of our 2025 guidance. We anticipate first quarter 2025 net sales of between $3.06% billion and $3.09% billion or approximately 6% to 7% year-over-year growth, and full year 2025 net sales of between $12.3% billion and $12.45% billion or approximately 6% to 7% year-over-year growth when adjusted to exclude the impact of the 53rd week in fiscal year 2024.

We expect our net sales growth to be driven by a combination of active customer growth, NSPAC growth and minimal price inflation. Based on the current environment we see today, we remain confident in our ability to deliver year-over-year active customer growth in the low-single digit range with the level of net additions broadly consistent throughout the course of the year. Moving to profitability guidance.

We anticipate full year 2025 adjusted EBITDA margin in the range of 5.4% to 5.7%. Furthermore, we expect 2025's quarterly profile of adjusted EBITDA margin to broadly follow the same trend observed in 2024 with modest sequential declines throughout the year due to typical seasonality and the timing of investments. Additionally, we expect first quarter adjusted diluted earnings per share in the range of $0.30% to $0.35%.

For the full year 2025, we also anticipate share-based compensation expense, including related taxes to be approximately $315 million, and weighted average diluted shares outstanding of approximately 430 million. We expect 2025 net interest income of approximately $25 million to $30 million and our effective tax rate to be in the range of 20% to 22%. And finally, embedded in our guidance is minimal expected impact from tariffs.

In closing, I'd like to thank all of our Chewy team members for their disciplined and record setting execution in 2024. I believe Chewy is better equipped than ever to execute against our strategic road map, delivering compelling financial results and increasing shareholder value. With that, I will turn the call over to the operator for questions.

Operator

Thank you. We will now begin the question-and-answer session. [Operator Instructions] Our first question today comes from David Bellinger with Mizuho.

Please go ahead, David.

David Bellinger

Hey, everyone. Good morning, and excellent results here. Just two questions from us.

I want to start on the net actives. A big sequential jump Q3 to Q4. Can you unpack what's driving that change in a little more detail.

How much is a function of a better pet spending environment and how much is Chewy specific in share gaining with all the initiatives in place like the app adjustments in Vet Care. And I've got a follow-up as well. Thanks.

Sumit Singh

Sure. Hey, David. This is Sumit.

Good morning. I'll start with that one. So the short version is that the momentum that we talked about from last quarter continued into Q4, resulting in our return to year-over-year active customer growth for the first time in eight quarters.

As we spoke about on the call, the increases that we saw happened across the board for the customer equation, new customers were up, reactivations were up and churn was better from a year-over-year point of view. And then finally, let me just reiterate that these results in our -- the purview that we're looking through and in our belief system, these are predominantly driven by execution and strength in the model relative -- versus the market meaningfully changing in any particular direction. Let me elaborate about some specifics that kind of talk to the evolution of marketing strategy and some of the tactics that we put in place that drove the results.

So as I mentioned last quarter in Q3, I talked about our focus on connecting the marketing funnel to give us an expanded reach. So we continued that effort through Q4 and are now optimized and ready going into 2025. Last quarter, I also talked about the ability to having a sharper ability to identify and target customer spend on our platform to drive higher conversion, right.

In addition to that, as we paid through Q4, right, we had a chance to put what I would call a completely rebuilt internal bidding model into perspective. And so what that -- so this -- these internal bidding models that we've built, right, are further driving a higher lift on campaigns while also optimizing for a cumulative contribution profit, or CCP, which is the guardrail of the ROI that we kind of put in place to make sure that our campaigns are running optimally in the ROI. So all of this allowed us to lean into the stronger demand signals that we were picking in coming into Q3 -- coming into and out of Q3 that we talked about in the previous earnings call and invest heavier in Q4, while simultaneously driving efficiencies across our investments and driving higher net adds as a result of that.

So if you infer from the numbers specifically, we invested approximately 15% higher in Q4 marketing spend. And yet, our cost per gross adds increased less than 2%. And we added, right, as we declared, over 400,000 customers in Q4.

So we're pretty pleased with the way the marketing engine is coming. Now I should also add to the fact that Q4 is generally a quarter where there is incremental interest and the customer has a shopping intent. So while we expect the momentum to absolutely continue and these changes that we put in place, I haven't talked about the app and the improvement in experiences so we can talk about that separately.

But these experience, these improvements are durable yet they're subject to normal seasonality and that occurs in the marketplace. So from that point of view, we might have gotten the benefit of -- we leaned in and took benefit of Q4 seasonality, but we expect the returns to be durable and continue through 2025, which is why we said we expect active customer growth in '25.

David Bellinger

That's very helpful. Yeah. I just want to ask about gross margins in Q4.

So up about 30 basis points year-on-year, but a little light versus expectations and sort of a slowdown versus the past several quarters. Can you help us understand the momentum on the gross margin side. Anything specific to call out for Q4 that held margins back in some way.

Just how do we think about the expansion opportunity in 2025.

David Reeder

Thanks for the question. Let me maybe broaden it out a bit and then specifically get to your question. We expanded EBITDA margin 150 bps on a year-over-year basis '24 versus '23.

Of that 150 bps, about 60% of that was driven by improvements in gross margin underpinned by the growth in sponsored ads, product mix accretion as well as the normal efficiencies that you expect through the gross margin line, freight and packaging, et cetera. So when you look at 2025 in the context of fourth quarter, I would say fourth quarter was very much what we expected it to be, not a lot of surprises for us with respect to either gross margin or EBITDA margin for fourth quarter. And so from that perspective, it played out pretty much almost exactly as we expected it to.

For 2025, as you kind of project that into the future, we expect, again, the EBITDA margin growth in '25 versus '24 kind of 75 bps at midpoint, and we expect a similar growth profile in terms of contribution from gross margin as well as the other lines of OpEx. So fourth quarter, as expected, and we expect the trends that we saw in â€˜24 to extend into â€˜25.

David Bellinger

Got it. Thank you very much.

David Reeder

Thanks, David.

Operator

Our next question comes from Doug Anmuth with JPMorgan. Please go ahead.

Doug Anmuth

Hi. Thanks for taking questions. I was hoping you could talk a little bit more about automation, just I think you're around 50% of volume currently.

Can you just update us there. And then perhaps talk about kind of the bridge to the 70% to 80% that's expected over time. And then, also just on gross margins, the sponsored ads being the largest contributor to improvement with the 1P platform migration complete, can you just help us understand some of the opportunities that, that opens up for you and the path to 3% over time.

Thanks.

David Reeder

Yeah. So with respect to automation, I think what -- if you were to kind of go back through time, you've seen us increase the amount of volume that is flow through the automated facilities or the more automated facilities from kind of 30% approaching 40%. And as we sit today, we're north of 40%, not yet quite at the number that you've referenced, but north of 40%.

You didn't ask a question about utilization, but the utilization of the network does remain very similar to what we quoted in Q3, which is around that 70%, 75% utilization range. With respect to the bridge to the future for ramping more volume through the automated facilities, we have started to ramp more volume, for example, through our Houston facility. The Dallas facility still remains very important to us, particularly from a fulfillment perspective on the pharmacy side, but you have seen us start to ramp that Houston facility in a more meaningful way in the fourth quarter and then throughout 2025.

From a gross margin perspective, the second part of your question.

Sumit Singh

One thing, sorry. On the automation, so the numbers that Dave is mentioning are all purely 2G numbers. If we consider overall automation that we've put in since the time we've met, that volume is over 50% of the volume.

So your recall is correct there. And we continue to make improvements as you can see reflected in the overall OpEx scaling that we're bringing forward. So that, plus the Houston enablement, should actually continue to make this stronger as we move forward and bridge closer to the 70% to 80%.

So we're not talking years out, but we are talking over the near to medium term out. Back to Dave on sponsored ads.

David Reeder

Thank you for that, Sumit. From a gross margin perspective, sponsored ads was the largest contributor to gross margin in 2024, as you referenced. We did talk about throughout 2024 how we were on a third-party software platform, that didn't really give us all of the capabilities that we would like to bring to our offering on sponsored ads.

We did rebuild or we did our first kind of custom build of our first-party software through 2024. We did not launch it in 2024, but it has subsequently been launched now. So we are on first-party software today.

That first-party software allows us to provide new media content. So we're able to provide video in a more meaningful way today. We're also able -- or vendors are able to onboard their content and much more self-service fashion as well as utilize other content that they develop for other channels and be able to onboard that in a pretty seamless way to our platform now. And then as well as the helping both the ease of use as well as providing new media content, we're also able to take advantage of off-site ads in addition to our historical on-site ads that we offered in '24.

So very excited about the first-party software stack. It has been launched. It is operating largely as we expected it to.

And so full speed ahead on first-party software sponsored ads.

Sumit Singh

Doug, it opens up the funnel up top. So long-term entitlement, we would expect online to offline mix or offsite -- on-site to offsite ads mix, a standard in the industry, somewhere in the tune of 70-30, 65-35 range. And the margin profile will be appropriately adjusted.

Obviously, on-site is much higher flow through. Offsite is slightly more diluted. But it opens up the TAM upfront to be able to achieve up to the 3%.

And underneath of that, the capabilities that Dave is mentioning around video and branded campaigns and higher and more precise measurement plus not paying kind of the commission that used to go through to the third-party. So there is multiple benefits of owning this ecosystem for us.

Doug Anmuth

Got it. Thank you, both. Appreciate it.

Sumit Singh

Thank you, Doug.

Operator

Our next question comes from Eric Sheridan with Goldman Sachs. Please go ahead, Eric.

Eric Sheridan

Thank you so much. Maybe two, if I can. First, in terms of thinking through the growth investments as a stimulant for 2025, could you delineate between what you see as the landscape for net new customer growth as

opposed to potentially stimulating more levels of reactivations across the base as potential driver of growth.

And then in terms of the broader consumer landscape, you're looking across either the ages of your cohorts or the income level of your cohorts. Are you seeing any differences in behavior, either in the forms of strengths or weaknesses versus expectations maybe you had 90 days ago. Thanks so much.

Sumit Singh

Sure. I can start. Dave, can jump in.

So in terms of, if you think about net new investments, CVC is a net new investment that is a completely new channel that's bringing in a much higher proportion of new customers than we forecasted. So we're very pleased with that. Obviously, CVC is at a smaller scale.

And so that will take its time to ramp up. When you look at existing strengths, but our focus improving in certain areas, yeah, so the specialty category is one where we're continuing to attract more and more customers. The mix is higher relative to where it was a year ago, and we feel we have headroom to continue to double down and grow this particular space.

It's a highly attractive space that cuts across equine and farm and so forth and so on. Then you've got to consider programs like app and Chewy+, which are on-site products, but they cut across demographics and they cut across -- they reach customers in a wider manner and they allow for conversion at all sorts of income levels. So Chewy+, for example, the value that we're passing on to the Chewy+ program and the convenience that customers are associating themselves, attaching themselves with is allowing for a very high conversion of free. Remember, the Chewy+ program starts at a 30 day free trial period and then goes to a paid membership of $49 a year, which is an introductory fee that we've introduced now, right. So the conversion from free trial to paid is very high, higher than the expectations that we've modeled in, while keeping our overall kind of cost in line.

But it's driving a really healthy funnel of new customers that we perhaps wouldn't have attracted at first who perhaps would have thought that, hey, an e-com platform must provide sort of free shipping in their value prop. Well, with Chewy+, now you do get free shipping. The final one I would say is the app, right.

So when you look at the app, our app performance continues to strengthen. Let me just kind of quote you a few numbers. So app installs in Q4 grew 20% year-over-year, and the number of customers making their first app purchase grew by 34%.

And these are customers that we weren't essentially seeing. So these are customers that are not the typical leaned in e-com customer, right, but it's gravitating towards us due to the fact that we're kind of the brand that is expanding in multiple options, Chewy+ is expanding, Autoship provides the value that they're looking for. By the way, Chewy+ and Autoship are acting as flywheels into each other.

So both are supporting each other's sort of growth, which is obviously a very healthy metric that we wanted to test out and we're essentially starting to see that come through. So I would say, there's a lot of innovation internally that is customer facing, including some of the other ideas that are in the oven that we want to come out and talk about here as we move through 2025 because we're always looking for new and incremental ideas to offer to our customers. So I would say, that is probably a good perspective on innovation that's happening inside the company.

David Reeder

And to build on that and for the avoidance of doubt, other than perhaps a little bit of the mobile app and what Sumit mentioned with respect to CVC and Chewy+ were not any meaningful contributors to the performance in 2024. They're on a little bit longer timeline arc than perhaps even '25, but very encouraged by the results that we're seeing there. And then with respect to -- you asked a question about some of the cohorts, the users in those cohorts.

When we look at the cohort trends and profiles, they're quite strong. In fact, they look very similar to the cohort trends that we've seen since really the advent of Chewy. So we're quite pleased with how cohorts are aging, and as they're aging, they're consolidating share of wallet with Chewy.

And in fact, if you look at some of the newer cohorts that we are capturing, they're performing at or above even pre-COVID levels. So cohort trends remain strong, quite pleased with those trends. And we're optimistic about these new growth initiatives and how they contribute in the latter half of '25, '26 and beyond.

Operator

Thank you. Our next question comes from Steven Zaccone with Citigroup. Steven, please go ahead.

Your line is now open.

Steven Zaccone

Great. Good morning. Thanks very much for taking my question.

Congrats on the strong results. Sumit, I was curious for your assessment of pet industry landscape. I'll kind of asked two in one.

How are you thinking about pet adoption trends relative to the guidance you've provided. And then on the comment about guidance for the year, I think you mentioned minimal impact from pricing. So just kind of curious, what are you seeing from a promotional perspective out there in the pet landscape.

Sumit Singh

Sure. So let's start by just recalling. So we believe we grew share, right, at a premium to the overall pet industry in 2024.

It's supported by kind of the growth rates that Nielsen is reporting and other reporting sites are sharing. But the most indicative to us is Chewy's overall search performance was stronger than the market trend, right. So e-commerce grew relative to retail. And then within e-commerce, Chewy grew at a premium rate.

So we were happy about how Q4 performed. As we've gotten into Q1, not, right now, we're not seeing much different. In terms of the pet adoption space, it's a nuanced -- it's a bit of a nuanced answer.

We haven't seen much change there. Net adoptions are still up relative to out of the shelters and rescue community. Dog seems to be more flat and cat seems to be up, which is sort of what's driving a slight premium, but overall net adoptions are still up.

So we'll see how these trends evolve. As of right now, I think it's a bit of a wait-and-watch approach. But regardless of how the market performs, we expect to continue to take share in '25.

I think you had one more question.

David Reeder

Yeah. The second question was really with respect to pricing inflation. I would say, the promotional environment for fourth quarter was, again, very much as we expected.

The team continues to do a really good job to manage the promotional environment. As you know, a large portion of our portfolio is MAP protected or price protected. So that does provide some benefit to us as we kind of look at where pricing is and where pricing is going.

We do have a large portion of the portfolio that is MAP protected. Specifically to kind of just inflationary trends in pet, as we went through 2024, we had kind of mid-single digit inflation in the first quarter. It moderated some more in the second quarter. It was essentially zero in the third quarter, and it was very low-single digits in the fourth quarter.

And so as we look out into 2025 and included in our forecast as noted, we're not seeing a lot of inflationary pressure at this point in time across pet into 2025.

Sumit Singh

And on the flip side, the conversations that we've had with our strategic partners and suppliers, right, we're not also expecting at this particular time a broad deflationary pressure. We might expect private branded portfolios to start gaining some momentum if the environment kind of remains a little bit motion led per se. But underneath of it, the strong MAP protection across the segment or the demographics is pretty much holding.

And we haven't seen any elevation on any abuse so far, either in incremental promos or in terms of pricing deflation, so far so good. And by the way, our -- the ranges that we provided, the low end of our range incorporates these kind of wide scenarios that we're talking about.

Steven Zaccone

Okay. Thanks for all that detail. Best of luck to share.

Sumit Singh

Sure.

David Reeder

Thanks, Steve.

Operator

The next question comes from Curtis Nagle with Bank of America. Curtis, please go ahead.

Curtis Nagle

Great. Thanks for taking the question. One, just in terms of â€“ for '25 expectations for marketing as a percentage of revenue for the year, assuming that will still be 6% to 7%, and should we expect any quarters through the year to be above 7%.

And then I'll have a quick follow-up.

David Reeder

Sure. Let me address that one and Sumit, if you have any comments, feel free to build on it. So for 2025, we're viewing advertising and marketing very much within the range of 6% to 7%.

If you were to look back at the last couple of years, 2023 was 6.7% of net sales for the year. 2024, as noted, was 6.8% advertising and marketing. Even if memory recalls, I think 2022 was very much at those similar levels, kind of the 6.7% level.

So as we roll into 2025, we're very much viewing it as kind of the 6% to 7% in total, and I would say very much in line with the trends that we saw in both '22, '23 and '24. With respect to any specific quarter, could we have a specific quarter above 7%. We really look at our advertising and marketing spend from a return perspective.

And so, while we don't have any specific target for a quarter, we do feel like for the year, we will be in line with where we have historically been. And then obviously, just based on the timing of certain campaigns, you may get a quarter that's slightly more or less than others. Did you have a follow-up.

Curtis Nagle

Yeah. A quick one. Just it looks like hard goods outperformed consumables in 4Q, I think you called that out.

I guess, what's that relating to. Is anything in terms of people buying new crates or beds or stuff like that for new pets or yeah, just what drove the outperformance for hard goods.

Sumit Singh

Yeah. It's a general combination of factors. We've talked about investing in improving site experiences on the site.

So as you're moving through the funnel, our ability to convert has been a focus, and hard goods, of course, is not exempt from that. The rise of app generally helps with attached driven like hard goods. It's easier to attach.

Our recommendations are tight and precise when you're in the app sector, so that definitely helps. Number three, the new customer file as increasing, right, also has a propensity to attach towards hard goods. So we benefited from the Q4 quarter and the really strong active customer file, some portion of that came in to buy gifts and hard goods.

Overall, we're seeing trends, not -- the trends are still relatively similar to how we were perceiving to it, they're not major surprises. Although, we're happy with the traffic that we're driving to the side because we know that traffic in the retail channels, including search intent, has remained down. So from that point of view, we're happy to take the traffic and convert them there on the platform.

David Reeder

In terms of was there any specific category that outperformed or underperformed versus others, it was pretty broad based in the fourth quarter in terms of year-over-year improvement. Leashes, collars, tag, beds, toys, I mean, we had categories kind of across the board that were all up on a year-over-year basis. And so that speaks to a lot of the hard work that the teams have been doing to increase selection, assortment, search.

And so quite pleased with the performance and very broad-based.

Curtis Nagle

Okay. Thank you.

Operator

The next question comes from Trevor Young with Barclays. Please go ahead, Trevor.

Trevor Young

Great. Thank you for the question. First one, Dave, just to your comments on net adds and low-single digit growth in '25, that implies maybe around 600,000 adds throughout the course of the year.

I also think you said fairly balanced throughout the year, so that would imply 150,000 Q-on-Q each quarter. Is that the right way to think about it. And then relatedly, why wouldn't it be stronger 1Q to 3Q, given the compares and then maybe a little bit softer in 4Q given the number you just put up.

David Reeder

Thanks for the question, Trevor. Without getting into a precedent where we're guiding each quarter of the year, I would characterize it, active customer growth in the low-single digits, quite pleased by that, actually. We do believe that we've inflected that we're going to have net adds and active customer growth in 2025.

We do think it will be somewhat consistent in terms of absolute numbers kind of being added throughout the course of the year. So from that perspective, we see it as being kind of broad-based and sustainable. So quite pleased by that as well.

And then with respect to any quarterly guidance on active customer growth, I'm going to steer away a little bit from that. Did you have a follow-up.

Trevor Young

Yeah. A follow-up to the earlier questions around kind of fulfillment utilization and so forth. I think the CapEx guide, the 1.5% at the low end, that would imply CapEx growth of upwards of 30% year-on-year after having a flattish year this last year.

Could you just help us understand what that incremental spend is going towards and how do you feel about FC capacity overall for the next, call it, couple of years.

David Reeder

So when we think about CapEx, 1.5%, 2%, we kind of guided -- as we got into 2024, we kind of guided that we thought we would be at the lower end of that range. We were indeed at the lower end of that range. We had CapEx of about $144 million for the year.

If you were to break down that CapEx, the kind of normal fulfillment center CapEx largely falls into the bucket of almost like maintenance and sustaining with some small automation projects that you would expect to refresh, automating a specific line, not a whole facility but a line. And so the lion's share is still related to fulfillment centers. The lion's share is still related to the automation and kind of productivity gains within those fulfillment centers, but I would characterize that as very stable and pretty flat.

Incremental CapEx, which we did have incremental CapEx in 2024, that's really related to both our improvements in health care, specifically related to satisfying the pharmacy demand. And then, of course, it's related to the vet clinics. And so as you think about kind of rolling that out or rolling it forward, I should say, into 2025, the low end of the range and roughly the number that you've quoted for 2025, that level of growth would primarily be associated with the growth in health care, both any incremental spend that's needed to satisfy pharmacy as well as the continued expansion of the vet clinics.

Trevor Young

Very helpful. Thank you.

David Reeder

Thanks, Trev.

Operator

Thank you. We have time for one more question. And so our final question comes from Dylan Carden with William Blair.

Please go ahead, Dylan.

Dylan Carden

Thanks a lot. Quick one here. End of '23, you gave a number that about a third of the industry, the pet industry was online. Do you have a sense a year in kind of where that number is.

And is it your understanding that, that kind of migration at this point, coming out of the pandemic, as normalized. Thanks.

Sumit Singh

Hey, Dylan. Yes, you're right. I think the number I quoted was 28% to 33%.

And I took out buy online pickup in store, which was a trend that was really shaping up. So our read of the industry was somewhere in that 28% to 30% on a normalized basis was online. Pharmacy was looking at -- or health categories where sort of mid-teens level penetrated.

And then food and supplies were sort of in that 30% to 35% penetrated to sort of make up the number that we're talking about. So with that sort of composition breakdown, yes, the migration has fully normalized. In fact, we believe the secular trend that was moving towards e-commerce, we certainly saw it pick up in Q4, and we're not forecasting at this point.

We're hoping that it continues in 2025. So as the year plays through, perhaps we can have another conversation on this topic. And then where this metric is, we believe we're still capturing roughly $0.40% to $0.50% of every dollar that is moving online, which is a metric that we kind of monitor internally, which we're happy about.

David Reeder

Did you have a follow-up, Dylan.

Dylan Carden

Excellent. Thank you very much. Not particularly.

I mean I guess the expectation at this point, I know there's been some chatter that people are focused on sort of adoptions and pet growth broadly. But does it stand in your view that as online migration normalizes that you kind of will continue to capture share beyond kind of what the general category does.

Sumit Singh

Our assumption is that, yes. If we -- actually, if we look in 2025, right, the market is expected to grow at roughly 3.5% to 4.5%. And based on our guide of 6% to 7%, you can tell we're growing at 2 times what the market expectation is.

So we are capturing incremental portion of share. The second thing is, as 2024 has normalized in our read, not all channels, right, where consumers shop, so e-com, independent retailers, so for the drug and mass, etc., not all channels have normalized equally, right. E-com has picked up a bigger share of that normalization and conversion relative to the other channels, which we believe will continue to strengthen as we move forward from here independently given the secular trend, but Chewy should benefit more given the investment, the focus and the differentiation that we bring to the platform.

Dylan Carden

Thank you.

Sumit Singh

Thank you, Dylan.

Operator

Thank you. Those are all the questions we have time for today. And so, this concludes our call.

Thank you, everyone for joining us. You may now disconnect your lines.