



PetMed Express, Inc. (PETS)

Updated June 7th, 2021 by Felix Martinez

Key Metrics

Current Price:	\$32	5 Year CAGR Estimate:	10.7%	Market Cap:	\$657.6 M
Fair Value Price:	\$31	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	07/30/21 ¹
% Fair Value:	103%	5 Year Valuation Multiple Estimate:	-0.7%	Dividend Payment Date:	08/07/21
Dividend Yield:	3.8%	5 Year Price Target	\$45	Years Of Dividend Growth:	13
Dividend Risk Score:	C	Retirement Suitability Score:	B	Last Dividend Increase:	7.1%

Overview & Current Events

PetMed Express was founded in 1996 by Marc Puleo. PETS originally grew through word of mouth, television commercials, and its catalogs. Now, the Company is America's Most Trusted Pet Pharmacy, delivering prescription and non-prescription pet medications and other health products for dogs, cats, and horses at competitive prices direct to the consumer through its toll-free number and on the Internet through its website. The Company's headquarter is in Delray Beach, Florida. PetMed Express, Inc. trades hands in the Nasdaq using the ticker symbol PETS. PETS has been growing its dividend for over thirteen years and made \$309 million in sales for Fiscal Year (FY) 2021. Currently, PetMed Express has a market cap of \$657.6 million.

On May 3rd, 2021, PetMed Express reported fourth-quarter and Fiscal Year-end for 2021 results. The Company fiscal year ends on the last day of March every year. Sales were down (3.5)% for the quarter when compared to the fourth quarter of FY2020. However, the Company grew sales by 8.8% for the entire year, from \$284 million in FY2020 to now \$309 million. Full-year sales growth was driven by a 9.7% increase in reorder sales. The Company acquired approximately 443,000 new customers in the year compared to 421,000 new customers in the prior year. Net income was down for the quarter year over year from \$7 million in 4Q20 to now \$6.8 million, which is a decline of (2.9)%. However, PetMed was profitable for the year with a profit of \$30.6 million, which is up 18.6% compared to the \$25.8 million in profit for the entire year of 2020. On a per-share basis, PETS earned \$1.52 per share for FY2021 vs. \$1.29 per share it made in FY2020, which is an increase of 17.8% year over year.

PetsMed's board of directors declared an increased quarterly dividend from \$0.28 to \$0.30 per share on its common stock. This represents a dividend increase of 7.1%.

We expect PetMed to make \$1.72 per share for FY2022. This would represent an increase of 13.2% compared to the entire fiscal year of 2021.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$0.80	\$0.86	\$0.90	\$0.92	\$1.02	\$1.17	\$1.82	\$1.84	\$1.29	\$1.52	\$1.72	\$2.53
DPS	\$0.53	\$0.60	\$0.66	\$0.68	\$0.72	\$0.76	\$0.85	\$1.06	\$1.08	\$1.14	\$1.20	\$1.76
Shares²	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0

The most significant growth prospects for PedMed Express are through online advertising and continuing to grow reorder sales as it did for FY2021. Ecommerce demand increased due to COVID-19, so the management team is hopeful that this will continue to expand its reorder sales. We expect an 8% earnings growth for the next five years as eCommerce continues to grow and more people have pets as family members. This growth rate is right in line with its ten-year average of 7.4%. The Company, throughout the years, has not repurchased shares to help earnings growth. Revenue has been steadily growing from 2.9% ten-year CAGR to 8.8% year over year. Net Margin is also up year over

¹ Ex-Dividend Date and Dividend Payment Date are estimates

² Share count is in millions.

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year to 9.9%. Over the last ten years, PETS has been growing its dividend at a 9.4% CAGR and 12% CAGR over the past three years.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	13.1	18.7	15.7	17.2	20.4	27.5	12.7	16.5	21.9	23.1	18.6	18.0
Avg. Yld.	4.2%	4.5%	4.9%	4.1%	4.0%	3.8%	2.0%	4.7%	3.8%	3.4%	3.8%	3.9%

PetMed has a PE ratio of 18.6 based on FY2022 expected earnings of \$1.72 per share. This is slightly below the Company owns ten-year PE average of 18.7x earnings. As a base case, we think a fair multiple of 18x earnings would be fair value for the current expected future earnings growth. Thus, the Company looks to be fairly valued at the current price. The current dividend yield is attractive for dividend growth investors. Combining a yield of 3.8% and expecting the Company to continue to grow its dividend by 8% for the next five years would mean that PetMed would pay out a \$1.76 dividend a year by 2027.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	66.3%	69.8%	73.3%	73.9%	70.6%	65.0%	46.7%	57.6%	83.7%	75.0%	70%	70%

PetMed does not have a substantial competitive advantage today. We think the Company has a narrow moat currently. The Company is an online business that is easy for competitors to get into. However, The Company does have a slight advantage as it has been in business since 1996, and PetMed Express is a very well-known company with pet lovers.

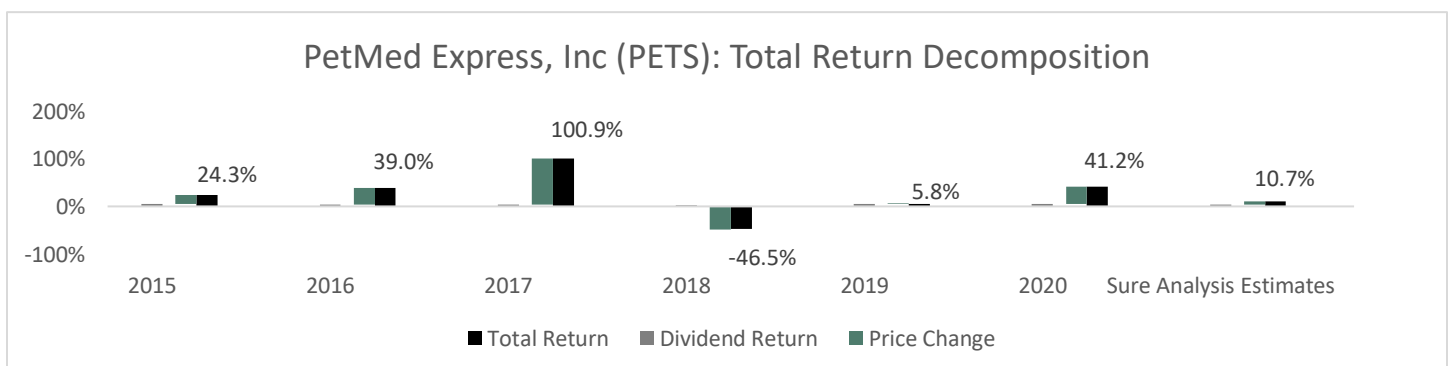
During the Great Recession of 2008-2009, the Company continued to grow its earnings from \$0.82 per share in FY2008 to \$0.98 per share in FY2009. Coming out of the Great Recession, PetMed made \$1.14 per share in FY2010. Thus, the Company looks to be resilient during both the Great Recession and during the COVID-19 pandemic.

The Company has an outstanding balance sheet. The only debt PetMed has is accounts payable of \$39 million. This gives the Company an asset to liabilities ratio of 2.5. The dividend payout ratio is high but not of concerning considering the Company does not have debt.

Final Thoughts & Recommendation

PetMed is a solid company with many things to like. The outstanding balance sheet is top-rated. Also, the Company has had Free Cash Flow growth year in and year out. The only risk we see is that it has a narrow moat and accessible for a competitor to get into the pet medication business. We expect the stock to make 10.7% annually for the next five years. Thus, we rate PetMed as a buy at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	238	228	233	229	235	249	274	283	284	309
Gross Profit	80	77	78	76	76	79	98	95	81	90
Gross Margin	33.6%	33.9%	33.3%	33.2%	32.5%	31.8%	35.7%	33.6%	28.6%	29.1%
SG&A Exp.	53	49	49	46	43	40	44	47	48	50
D&A Exp.	1	1	1	1	1	1	2	2	2	2
Operating Profit	26	27	28	29	32	37	52	46	31	38
Operating Margin	10.9%	11.9%	12.1%	12.8%	13.8%	15.0%	19.0%	16.3%	10.9%	12.2%
Net Profit	17	17	18	17	21	24	37	38	26	31
Net Margin	7.0%	7.5%	7.7%	7.6%	8.8%	9.6%	13.6%	13.3%	9.1%	9.9%
Free Cash Flow	20	13	13	31	1	37	37	45	37	38
Income Tax	10	10	10	10	12	14	17	11	8	9

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	91	73	78	83	90	113	135	154	155	187
Cash & Equivalents	47	18	18	36	38	59	78	101	104	119
Accounts Receivable	2	1	2	2	2	2	2	3	4	3
Inventories	26	32	36	25	26	20	23	21	18	34
Goodwill & Int. Ass.	1	1	1	1	1	1	1	1	1	1
Total Liabilities	10	9	8	7	7	19	19	20	25	46
Accounts Payable	7	6	6	5	5	15	15	16	20	40
Long-Term Debt	-	-	-	-	-	-	-	-	-	-
Shareholder's Equity	81	64	70	75	83	93	116	135	130	141
D/E Ratio	-	-	-	-	-	-	-	-	-	-

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	16.9%	20.9%	23.7%	21.7%	23.8%	23.5%	30.1%	26.1%	16.7%	17.9%
Return on Equity	18.7%	23.6%	26.8%	24.0%	25.9%	27.0%	35.7%	30.1%	19.5%	22.6%
ROIC	18.7%	23.6%	26.8%	24.0%	25.9%	27.0%	35.7%	30.1%	19.5%	22.6%
Shares Out.	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Revenue/Share	11.51	11.36	11.64	11.39	11.59	12.23	13.40	13.83	14.17	15.37
FCF/Share	0.95	0.63	0.67	1.55	0.05	1.80	1.79	2.17	1.82	1.87

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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