



PetMed Express, Inc. (PETS)

Updated July 31st, 2022 by Felix Martinez

Key Metrics

Current Price:	\$22	5 Year CAGR Estimate:	3.9%	Market Cap:	\$441.2 M
Fair Value Price:	\$16	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	08/11/22
% Fair Value:	139%	5 Year Valuation Multiple Estimate:	-6.4%	Dividend Payment Date:	08/19/22
Dividend Yield:	5.5%	5 Year Price Target	\$20	Years Of Dividend Growth:	13
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Hold

Overview & Current Events

PetMed Express was founded in 1996 by Marc Puleo. PETS originally grew through word of mouth, television commercials, and 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 headquarters 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 \$273.4 million in sales for Fiscal Year (FY) 2022. Currently, PetMed Express has a market cap of \$441.2 million.

On July 25, 2022, PetMed Express reported first-quarter results for the Fiscal Year 2023. The company fiscal year ends on the last day of March every year. Sales were down (11.5)% for the quarter compared to the first quarter of FY2022. For the quarter, the company generated sales of \$70.2 million, lower than the total sales of \$79.3 million in 1Q2022. Net income was \$2.8 million, or \$0.14 diluted per share, for the quarter, compared to net income of \$4.4 million, or \$0.22 diluted per share, for 1Q2022, a 36.4% decrease year-over-year. Overall, the management team is disappointed with the quarterly sales results. The lower sales were due to the delay in the company's seasonally sensitive flea and tick business. However, the company did see business strengthen throughout the quarter, including a recovery in its business later in the quarter with improving new and returning customers. The company also partnered with Vetster and is pleased with how quickly they could execute and launch the integration with this key strategic initiative in pet telemedicine.

We expect PetMed to make \$0.98 per share for FY2023. This would represent a decrease of (5.8)% compared to the entire fiscal year of 2022.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$0.86	\$0.90	\$0.92	\$1.02	\$1.17	\$1.82	\$1.84	\$1.29	\$1.52	\$1.04	\$0.98	\$1.25
DPS	\$0.60	\$0.66	\$0.68	\$0.72	\$0.76	\$0.85	\$1.06	\$1.08	\$1.14	\$1.20	\$1.20	\$1.32
Shares¹	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20,3	20.3	20.4

The most significant growth prospects for PedMed Express are through online advertising and continuing to grow to 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 a 5% earnings growth for the next five years as eCommerce grows and more people have pets as family members. This growth rate is slightly lower than 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. Net Margin is also up year over year to 9.9%. Over the last five years, PETS has been increasing its dividend at a 7.1% compound annual growth rate.

¹ Share count is in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	18.7	15.7	17.2	20.4	27.5	12.7	16.5	21.9	23.14	25.7	22.3	16.0
Avg. Yld.	4.5%	4.9%	4.1%	4.0%	3.8%	2.0%	4.7%	3.8%	3.4%	4.7%	5.5%	6.6%

PetMed has a PE ratio of 22.3x based on FY2023 expected earnings of \$0.98 per share. This is higher than the company's ten-year PE average of 19.9x earnings. As a base case, we think a fair multiple of 16x earnings would be fair value for the current expected future earnings growth. Thus, the company looks to be overvalued at the current price. The current dividend yield is attractive for dividend growth investors and income investors. Combining a yield of 5.5% and expecting the company to continue to grow its dividend by 2% for the next five years would mean that PetMed would pay out a \$1.32 per share in dividend a year for 2028. However, the dividend payout ratio is high and a concern.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	69.8%	73.3%	73.9%	70.6%	65.0%	46.7%	57.6%	83.7%	75.0%	115%	122%	106%

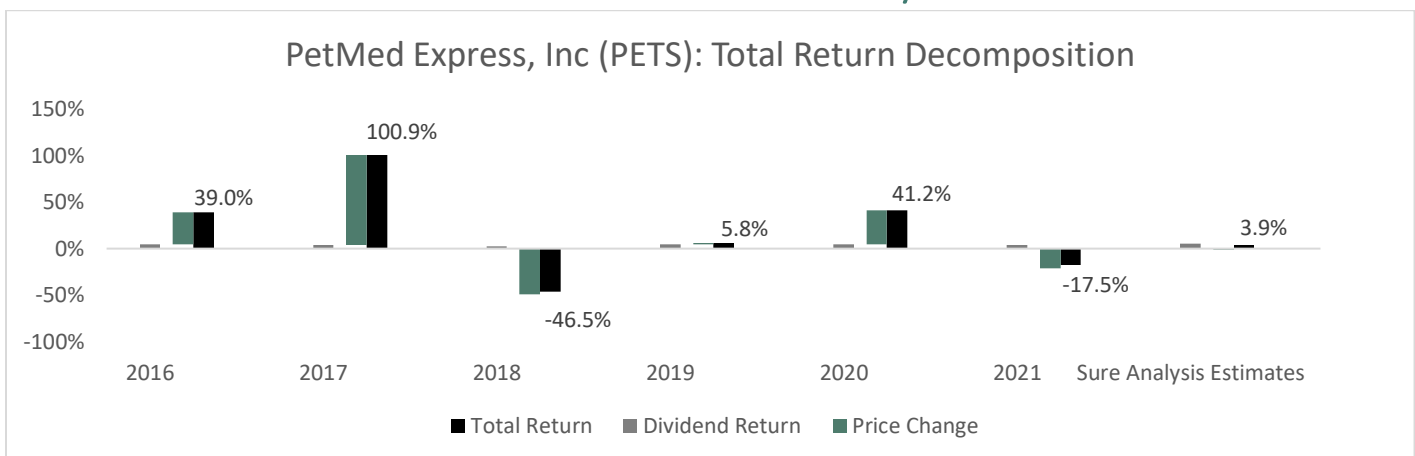
PetMed does not have a substantial competitive advantage today. We think the company has a narrow moat currently. The company is an online business that is easy for competitors to get into. However, The company does have a slight advantage as it has been in business since 1996, and PetMed Express is a very well-known company among 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 resilient during the Great Recession and the COVID-19 pandemic.

The company has an outstanding balance sheet. The only debt PetMed has is \$24.5 million. This gives the company an asset to liabilities ratio of 5.2. The dividend payout ratio is high but concerning.

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 is accessible for competitors to get into the pet medication business. We expect the stock to make 3.9% annually for the next five years. Thus, we rate PetMed as a Hold at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
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	0	0	0	0	0	0	0	0	0	0
Shareholder's Equity	81.2	64.0	70.2	75.4	83.2	93.4	115.7	134.7	130.0	141.3
D/E Ratio	0	0	0	0	0	0	0	0	0	0

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
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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