



PetMed Express, Inc. (PETS)

Updated February 7th, 2023 by Felix Martinez

Key Metrics

| | | | | | |
|-----------------------------|------|--|--------|----------------------------------|------------|
| Current Price: | \$20 | 5 Year CAGR Estimate: | -10.4% | Market Cap: | \$416.25 M |
| Fair Value Price: | \$7 | 5 Year Growth Estimate: | 5.0% | Ex-Dividend Date: | 02/16/23 |
| % Fair Value: | 279% | 5 Year Valuation Multiple Estimate: | -18.5% | Dividend Payment Date: | 02/27/23 |
| Dividend Yield: | 6.1% | 5 Year Price Target | \$9 | Years Of Dividend Growth: | 13 |
| Dividend Risk Score: | F | Retirement Suitability Score: | D | Rating: | Sell |

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 \$416.25 million.

On February 6th, 2023, PetMed Express reported third-quarter results for the Fiscal Year 2023. The company fiscal year ends on the last day of March every year. Sales were down (2.9)% for the quarter compared to the third quarter of FY2022. For the quarter, the company generated sales of \$58.9 million, lower than the total sales of \$60.7 million in 3Q2022. Net income was a loss of \$19 thousands, or \$0.0 diluted per share, for the quarter, compared to net income of \$4.3 million, or \$0.21 diluted per share, for 3Q2022. The management team was pleased to see the first year over year increase in customers for PetMeds in the last ten quarters. For the nine months, sales decreased (6.3)% year-over-year. Net income also saw a decreased of (69.5)%.

We expect PetMed to make \$0.44 per share for FY2023. This would represent a decrease of (57.7)% compared to the entire fiscal year of 2022. This is mostly due to lower sales and an increase in operating expenses. The decrease in sales are due to lower volume year over year. This can be seen in the last three quarterly reports. Thus, net income and earnings has taken a significant hit year-over-year. However, for FY2024, we expect the company to start to grow its earnings.

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 | \$0.44 | \$0.56 |
| DPS | \$0.60 | \$0.66 | \$0.68 | \$0.72 | \$0.76 | \$0.85 | \$1.06 | \$1.08 | \$1.14 | \$1.20 | \$1.20 | \$0.20 |
| 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. However, we do not think this will last.

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 | 44.6 | 16.0 |
| Avg. Yld. | 4.5% | 4.9% | 4.1% | 4.0% | 3.8% | 2.0% | 4.7% | 3.8% | 3.4% | 4.7% | 6.1% | 2.2 % |

PetMed has a PE ratio of 44.6x based on FY2023 expected earnings of \$0.44 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 6.1%. We do not expect the company to continue to increase the dividend. However, the dividend payout ratio is high and a concern. In fact, we expect a dividend cut in the near future.

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% | 273% | 36% |

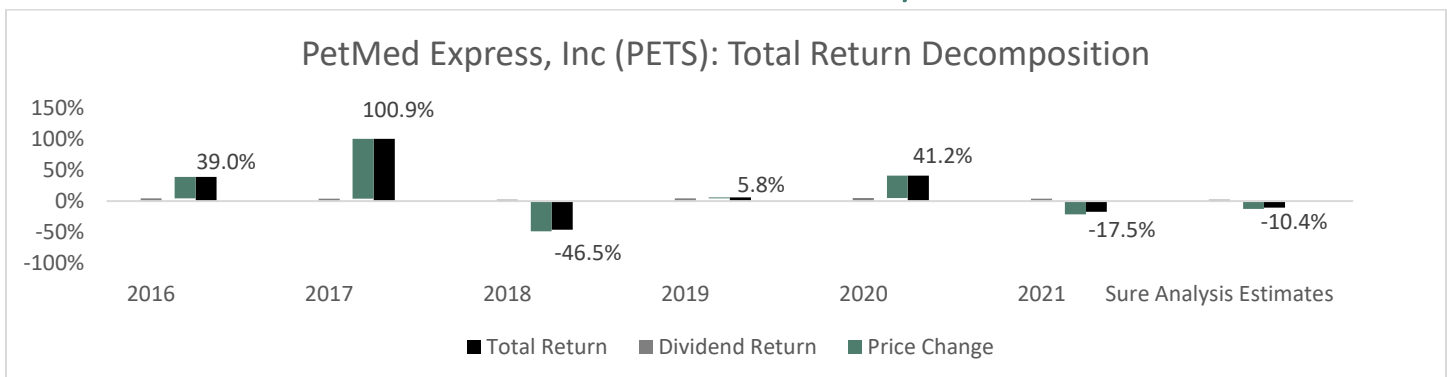
PetMed does not have a substantial competitive advantage today. We think the company has a narrow moat currently. The company is an online business that is easy for competitors to get into. However, The company does have a slight advantage as it has been in business since 1996, and PetMed Express is 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 \$31.5 million with \$165 million in assets. This gives the company an asset to liabilities ratio of 5.2. The current dividend payout ratio is high and 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 lose (10.4)% annually for the next five years. Thus, we rate PetMed as a sell at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue | 228 | 233 | 229 | 235 | 249 | 274 | 283 | 284 | 309 | 273 |
| Gross Profit | 77 | 78 | 76 | 76 | 79 | 98 | 95 | 81 | 90 | 78 |
| Gross Margin | 33.9% | 33.3% | 33.2% | 32.5% | 31.8% | 35.7% | 33.6% | 28.6% | 29.1% | 28.6% |
| SG&A Exp. | 49 | 49 | 46 | 43 | 40 | 44 | 47 | 48 | 50 | 50 |
| D&A Exp. | 1 | 1 | 1 | 1 | 1 | 2 | 2 | 2 | 2 | 3 |
| Operating Profit | 27 | 28 | 29 | 32 | 37 | 52 | 46 | 31 | 38 | 26 |
| Operating Margin | 11.9% | 12.1% | 12.8% | 13.8% | 15.0% | 19.0% | 16.3% | 10.9% | 12.2% | 9.4% |
| Net Profit | 17 | 18 | 17 | 21 | 24 | 37 | 38 | 26 | 31 | 21 |
| Net Margin | 7.5% | 7.7% | 7.6% | 8.8% | 9.6% | 13.6% | 13.3% | 9.1% | 9.9% | 7.7% |
| Free Cash Flow | 13 | 13 | 31 | 1 | 37 | 37 | 45 | 37 | 38 | 17 |
| Income Tax | 10 | 10 | 10 | 12 | 14 | 17 | 11 | 8 | 9 | 6 |

Balance Sheet Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|----------------------|------|------|------|------|------|-------|-------|-------|-------|-------|
| Total Assets | 73 | 78 | 83 | 90 | 113 | 135 | 154 | 155 | 187 | 176 |
| Cash & Equivalents | 18 | 18 | 36 | 38 | 59 | 78 | 101 | 104 | 119 | 111 |
| Accounts Receivable | 1 | 2 | 2 | 2 | 2 | 2 | 3 | 4 | 3 | 2 |
| Inventories | 32 | 36 | 25 | 26 | 20 | 23 | 21 | 18 | 34 | 32 |
| Goodwill & Int. Ass. | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Total Liabilities | 9 | 8 | 7 | 7 | 19 | 19 | 20 | 25 | 46 | 34 |
| Accounts Payable | 6 | 6 | 5 | 5 | 15 | 15 | 16 | 20 | 40 | 28 |
| Long-Term Debt | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Shareholder's Equity | 64.0 | 70.2 | 75.4 | 83.2 | 93.4 | 115.7 | 134.7 | 130.0 | 141.3 | 142.2 |
| D/E Ratio | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

Profitability & Per Share Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 20.9% | 23.7% | 21.7% | 23.8% | 23.5% | 30.1% | 26.1% | 16.7% | 17.9% | 11.6% |
| Return on Equity | 23.6% | 26.8% | 24.0% | 25.9% | 27.0% | 35.7% | 30.1% | 19.5% | 22.6% | 14.9% |
| ROIC | 23.6% | 26.8% | 24.0% | 25.9% | 27.0% | 35.7% | 30.1% | 19.5% | 22.6% | 14.9% |
| Shares Out. | 20.0 | 20.0 | 20.0 | 20.0 | 20.0 | 20.0 | 20.0 | 20.0 | 20.0 | 20.4 |
| Revenue/Share | 11.36 | 11.64 | 11.39 | 11.59 | 12.23 | 13.40 | 13.83 | 14.17 | 15.37 | 13.43 |
| FCF/Share | 0.63 | 0.67 | 1.55 | 0.05 | 1.80 | 1.79 | 2.17 | 1.82 | 1.87 | 0.82 |

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

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