



PetMed Express, Inc. (PETS)

Updated May 23rd, 2023 by Felix Martinez

Key Metrics

Current Price:	\$16	5 Year CAGR Estimate:	0.1%	Market Cap:	\$308.5M
Fair Value Price:	\$11	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	06/05/23
% Fair Value:	149%	5 Year Valuation Multiple Estimate:	-7.6%	Dividend Payment Date:	06/12/23
Dividend Yield:	7.9%	5 Year Price Target	\$13	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 \$256.9 million in sales for Fiscal Year (FY) 2023. Currently, PetMed Express has a market cap of \$308.5 million.

On May22nd, 2023, PetMed Express reported fourth-quarter and full year results for the Fiscal Year 2023. The company fiscal year ends on the last day of March every year. In the fourth quarter, net sales amounted to \$62.4 million, showing a decline of (5.4)% compared to the previous year's fourth quarter, which recorded \$66.0 million in net sales. This decrease highlights the challenges faced during the quarter. The company experienced a positive trend in new customer acquisition, with a 12% increase year over year for quarter. This growth marks the second consecutive quarter of quarterly year-over-year new customer expansion. This achievement is noteworthy as it comes after a period of 2 ½ years without such growth. However, despite the efforts in expanding the customer base, the company reported a net loss of \$(5.1) million, or \$(0.25) diluted earnings per share, for 4Q2023. This net loss includes items amounting to \$7.9 million, or \$0.29 per diluted share, which management believes are not indicative of the ongoing operations. In comparison, the company recorded a net income of \$6.1 million, or \$0.30 diluted earnings per share, for the same quarter in the previous year.

For the Fiscal Year, the company reported net sales of \$256.9 million, reflecting a decrease of (6.1)% compared to the previous year's figure of \$273.4 million. This decline in net sales indicates a challenging business environment during the fiscal year. The company reported a net income of \$233.0 thousand, or \$0.01 diluted earnings per share for the year. However, it's important to note that this net income includes \$9.7 million, or \$0.36 per diluted share, which management believes are not indicative of the ongoing operations. In comparison, the net income for the prior fiscal year, was \$21.1 million, or \$1.04 diluted earnings per share. The significant difference in net income highlights the challenges faced during the year. Adjusted EBITDA, was \$19.8 million for the year, representing a decrease of (41.9)% compared to the 2022, which recorded Adjusted EBITDA of \$34.0 million.

We expect PetMed to make \$0.66 per share for FY2023. This would represent a decrease of (57.7)% compared to the entire fiscal year of 2022.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$0.90	\$0.92	\$1.02	\$1.17	\$1.82	\$1.84	\$1.29	\$1.52	\$1.04	\$0.01	\$0.66	\$0.84
DPS	\$0.66	\$0.68	\$0.72	\$0.76	\$0.85	\$1.06	\$1.08	\$1.14	\$1.20	\$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

¹ Share count is in millions.

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The most significant growth prospects for PetMed Express are through online advertising and continuing to grow to reorder sales as it did for FY2021. 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 2.5% compound annual growth rate. However, we do not think this will last.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	15.7	17.2	20.4	27.5	12.7	16.5	21.9	23.14	25.7	---	23.8	16.0
Avg. Yld.	4.9%	4.1%	4.0%	3.8%	2.0%	4.7%	3.8%	3.4%	4.7%	7.4%	7.9%	1.5%

PetMed has a PE ratio of 23.86x based on FY2024 expected earnings of \$0.66 per share. This is higher than the company's ten-year PE average of 20.6x 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 7.9%. 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	73.3%	73.9%	70.6%	65.0%	46.7%	57.6%	83.7%	75.0%	115%	---	182%	24%

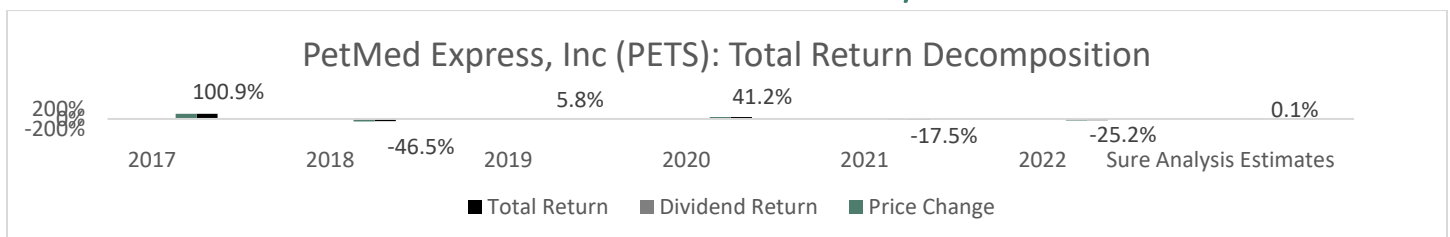
PetMed does not have a substantial competitive advantage today. We think the company has a narrow moat currently. The company is an online business that is easy for competitors to get into. However, The company does have a slight advantage as it has been in business since 1996, and PetMed Express is 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 \$36.5 million with \$131 million in assets. 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 return 0.1% 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	233	229	235	249	274	283	284	309	273	257
Gross Profit	78	76	76	79	98	95	81	90	78	71
Gross Margin	33.3%	33.2%	32.5%	31.8%	35.7%	33.6%	28.6%	29.1%	28.6%	27.6%
SG&A Exp.	49	46	43	40	44	47	48	50	50	69
D&A Exp.	1	1	1	1	2	2	2	2	3	4
Operating Profit	28	29	32	37	52	46	31	38	26	-1
Operating Margin	12.1%	12.8%	13.8%	15.0%	19.0%	16.3%	10.9%	12.2%	9.4%	
Net Profit	18	17	21	24	37	38	26	31	21	0.2
Net Margin	7.7%	7.6%	8.8%	9.6%	13.6%	13.3%	9.1%	9.9%	7.7%	0.0%
Free Cash Flow	13	31	1	37	37	45	37	38	17	23
Income Tax	10	10	12	14	17	11	8	9	6	1

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	78	83	90	113	135	154	155	187	176	164
Cash & Equivalents	18	36	38	59	78	101	104	119	111	104
Accounts Receivable	2	2	2	2	2	3	4	3	2	2
Inventories	36	25	26	20	23	21	18	34	32	19
Goodwill & Int. Ass.	1	1	1	1	1	1	1	1	1	6
Total Liabilities	8	7	7	19	19	20	25	46	34	40
Accounts Payable	6	5	5	15	15	16	20	40	28	25
Long-Term Debt	0	0	0	0	0	0	0	0	0	0
Shareholder's Equity	70.2	75.4	83.2	93.4	115.7	134.7	130.0	141.3	142.2	123.8
D/E Ratio	0	0	0	0	0	0	0	0	0	0

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	23.7%	21.7%	23.8%	23.5%	30.1%	26.1%	16.7%	17.9%	11.6%	0.14%
Return on Equity	26.8%	24.0%	25.9%	27.0%	35.7%	30.1%	19.5%	22.6%	14.9%	0.18%
ROIC	26.8%	24.0%	25.9%	27.0%	35.7%	30.1%	19.5%	22.6%	14.9%	0.18%
Shares Out.	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.4	20.3
Revenue/Share	11.64	11.39	11.59	12.23	13.40	13.83	14.17	15.37	13.43	12.63
FCF/Share	0.67	1.55	0.05	1.80	1.79	2.17	1.82	1.87	0.82	1.11

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

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