

PetMed Express Inc.

NASDAQ:PETS

Analyst: Florent Polito

Sector: Consumer Disc.

SHORT

Price Target: \$8.48

Key Statistics as of 05/7/2016

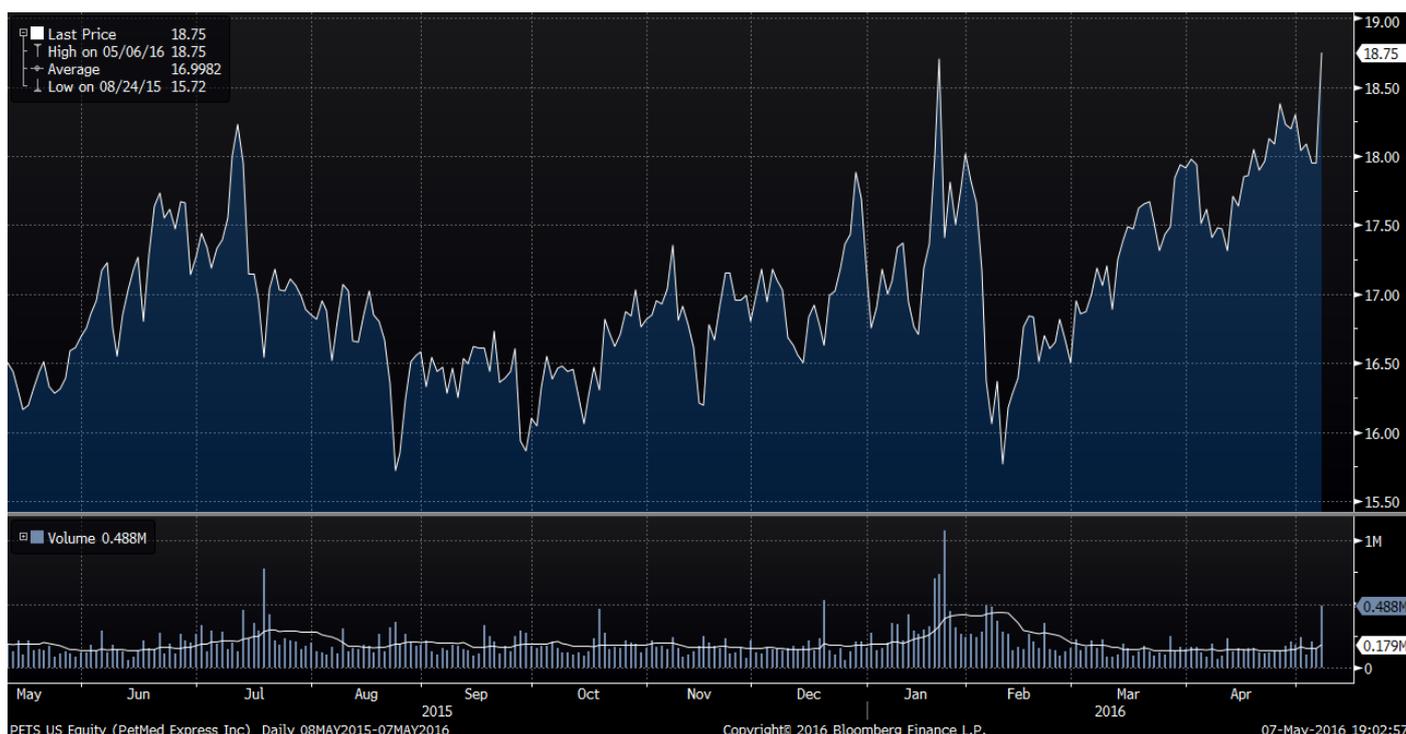
Market Price:	\$18.75
Industry:	Internet and Catalog Retail
Market Cap:	\$0.378B
52-Week Range:	\$15.72-\$18.75
Beta:	0.87

Thesis Points:

- No opportunity growth
- Management is ineffective in reducing costs and increasing revenues

Company Description:

PetMed Express Inc is a pet pharmacy which provides non-prescription and prescription medications, and pet supplies for cats, dogs and horses. PETS who is also known as 1800PetMeds sells its products primarily to retail customers in the United States.



Thesis

PETS is presently stuck in a market where it has had no growth during the 5 past years, and forecasts are similar to this trend. Moreover the management has not been able to reduce COGS which are increasing leading to lower and lower margins years after years.

Industry Outlook

In 2015, \$60.28 billion was spent on our pets in the USA, with a segmentation of \$23.05 billion in food, \$14.28 billion in supplies and OTC medicines, \$15.42 billion in vet care, \$2.12 billion in live animal purchases and \$5.41 billion in pet services. It is expected that the Pet Industry Expenditures will increase from \$60.28 billion in 2015 to \$62.75 billion in 2016. Globally the Supplies and Medicines segment is expected to grow at a 5% rate for the incoming year, which should therefore lead to the same growth for PETS in theory. On the contrary, while this industry has grown from \$48.35 billion in 2010 to \$60.28 billion in 2015, PETS has not had any increase in its revenue during this period.

Products

PETS sells non-prescription products such as flea and tick control products, bone and joint product, vitamins, treats, hygiene products and nutritional supplements. PETS also offer to sale prescription products including heartworm preventatives, arthritis, thyroid, diabetes, pain medications, antibiotics, and generic substitutes. The company also sells pet supplies such as food, beds, crates, stairs, and strollers.

Some of these products make PETS dependent on seasons and weather, spring and summer will impact on an upward trend the sales of flea and tick related products compared to fall and winter.

Financials

Since 2010, PETS has not had any sales growth, revenue in 2010 totaled \$238.3 million while the 2015 sales amount for \$229.4. What can be noticed in the trend meanwhile is the increase in the cost of revenue from \$146.4 million to \$153.7 million within those 5 years; as a result the gross profit margins has decreased over the past years sliding from 38.6% to 33.2% recently. At the same time the EBITDA margin has increased between 2012 and 2015 from 11.5% to 13.1% and the Net Income margin has subsequently increased from 7% to 8.1% during this timeframe, mostly due to a reduction of the SGA from \$50 million in 2010 to \$46.2 million in 2015. On a ratio basis, Return on Common Equity has decreased from 26.78% in 2014 to 23.97%, and the ROA has decreased from 23.72% to 21.65%.

On the segmented part of the revenue, prescription medications have increased over the last years going from \$83.4 million to \$114.7 million, at the same time the non-prescription medication has decreased from \$152.5 million in 2010 to \$114.7 million in 2015. The point to notice is that Retail Reorder has not changed between 2014 and 2015 while the Retail New Orders segment has decreased from \$42.2 million to \$39.7 million, being then the main cause of the slight decrease of PETS's revenue between 2014 and 2015.

Valuation

Through a valuation of the company with discounting future cash flows, PETS has an intrinsic value of \$5.59 with a 1-year target price of \$8.48 which means an expected return of -54.77%.

Conclusion

PETS's expectations to show an increase in revenues are numb, and the company who only attempts to reduce its SGA costs has a limited margin at which point it will no longer be able to display an increase in its bottom margins. I recommend a short on this company because it has shown over the last years it is unable to grow on the long term.

PetMed Express, Inc. (pets)

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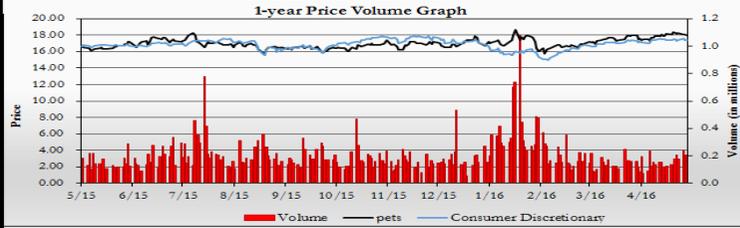
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Analysis by Florent POLITO
5/7/2016

Current Price: **\$18.75**
Divident Yield: **0.0%**

Intrinsic Value: **\$5.59**
Target Price: **\$8.48**

Target 1 year Return: **-54.77%**
Probability of Price Increase: **0%**

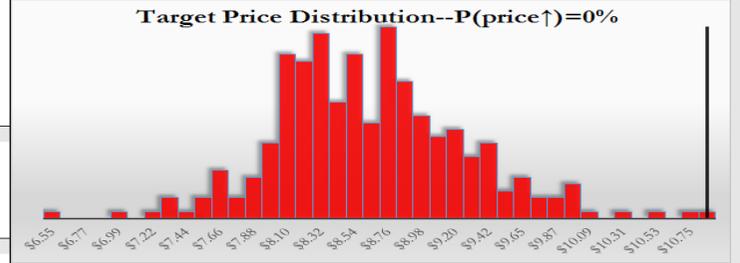


Description	
PetMed Express, Inc. and its subsidiaries, doing business as 1-800-PetMeds, operates as a pet pharmacy in the United States.	
General Information	
Sector	Consumer Discretionary
Industry	Internet and Catalog Retail
Last Guidance	November 3, 2015
Next earnings date	May 9, 2016
Estimated Country Risk Premium	9.60%
Effective Tax rate	40%
Effective Operating Tax rate	40%

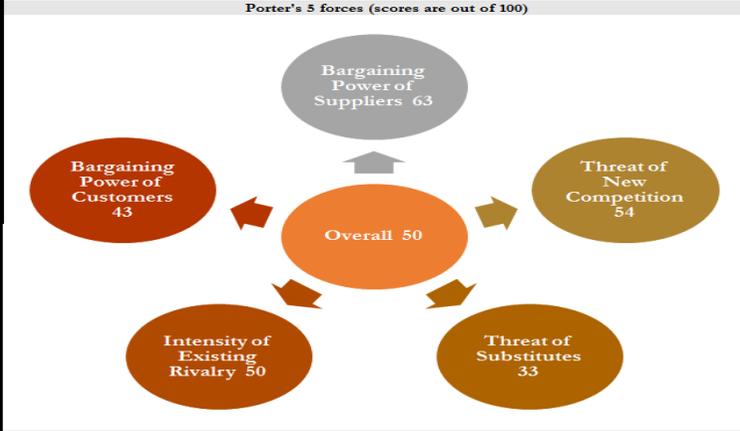
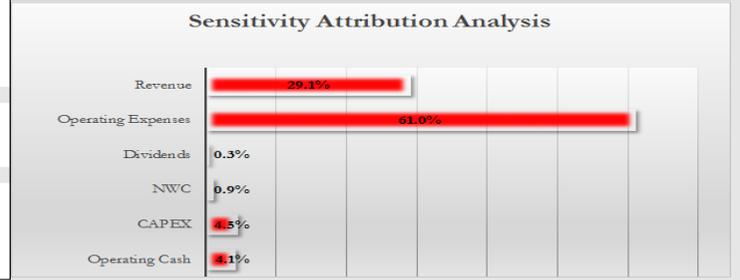
Market Data	
Market Capitalization	\$377.72
Daily volume (mil)	0.49
Shares outstanding (mil)	20.15
Diluted shares outstanding (mil)	20.21
% shares held by institutions	55%
% shares held by investments Managers	64%
% shares held by hedge funds	12%
% shares held by insiders	4.84%
Short interest	20.80%
Days to cover short interest	25.19
52 week high	\$18.95
52-week low	\$14.53
Levered Beta	1.19
Volatility	29.40%

Past Earning Surprises	
Quarter ending	Revenue
12/31/2014	0.04%
3/31/2015	1.68%
6/30/2015	-2.04%
9/30/2015	-2.77%
12/31/2015	3.36%
Mean	0.05%
Standard error	1.1%
Management	
Aldag, Menderes	Chief Executive Officer, Pre
Rosenbloom, Bruce	Chief Financial Officer, Pri
Berges, Alison	Corporate Secretary and Gene
	0
	0
	0

EBITDA		Peers	
Abaxis, Inc.	9.54%	Nutrisystem, Inc.	-22.16% per annum over 6y
Duluth Holdings Inc.	6.42%	Duluth Holdings Inc.	0.73% per annum over 6y
U.S. Auto Parts Network, Inc.	7.29%	N/M	N/M
IDEXX Laboratories, Inc.	4.39%	N/M	N/M
VCA Inc.	-2.60%	N/M	N/M
	5.01%	N/M	N/M
	2.1%		
Total compensations growth		Total return to shareholders	
	-22.16% per annum over 6y		-5.42% per annum over 6y
	0.73% per annum over 6y		-5.42% per annum over 6y



Profitability		pets (LTM)		pets (5 years historical average)		Industry (LTM)	
ROIC	27.7%	24.63%	27.7%	7.13%	24.63%	8.1%	7.13%
NOPAT Margin	9%	8.05%	9%	8.1%	8.05%	0.88	8.1%
Revenue/Invested Capital	3.11	3.06	3.11	3.06	3.11	7.52%	3.06
ROE	23.5%	20.52%	23.5%	20.52%	23.5%	7.1%	23.5%
Adjusted net margin	9%	8.03%	9%	8.03%	9%	1.05	8.03%
Revenue/Adjusted Book Value	2.65	2.55	2.65	2.55	2.65	37%	2.55
Invested Funds		pets (LTM)		pets (5 years historical average)		Industry (LTM)	
Total Cash/Total Capital	66.1%	55.6%	66.1%	55.6%	66.1%	N/A	55.6%
Estimated Operating Cash/Total Capital	49.7%	38.7%	49.7%	38.7%	49.7%	-23%	38.7%
Non-cash working Capital/Total Capital	16.8%	27.3%	16.8%	27.3%	16.8%	67%	27.3%
Invested Capital/Total Capital	84.5%	83.9%	84.5%	83.9%	84.5%	0.08	83.9%
Capital Structure		pets (LTM)		pets (5 years historical average)		Industry (LTM)	
Total Debt/Common Equity (LTM)	0.02	0.02	0.02	0.02	0.02	4.36%	0.02
Cost of Existing Debt	1.38%	1.38%	1.38%	1.38%	1.38%	4.37%	1.38%
Estimated Cost of new Borrowing	1.38%	1.38%	1.38%	1.38%	1.38%	B	1.38%
CGFS Risk Rating	1.38%	AAA	1.38%	AAA	1.38%	1.43	1.38%
Unlevered Beta (LTM)	0.00%	0.89	0.00%	0.89	0.00%	1.43	0.89
WACC	14.19%	10.75%	14.19%	10.75%	14.19%	16.40%	10.75%



Revenue growth		Invested Capital	
Period	Revenue growth	Period	Invested Capital
Base Year	0.5%	Base Year	\$82.59
12/31/2016	0.3%	12/31/2016	\$80.44
12/31/2017	2.0%	12/31/2017	\$59.19
12/31/2018	3.8%	12/31/2018	\$66.38
12/31/2019	2.9%	12/31/2019	\$73.62
12/31/2020	3.0%	12/31/2020	\$80.18
12/31/2021	2.5%	12/31/2021	\$92.02
12/31/2022	2.6%	12/31/2022	\$94.70
12/31/2023	2.0%	12/31/2023	\$98.88
12/31/2024	1.5%	12/31/2024	\$102.58
12/31/2025	2.6%	12/31/2025	\$106.46
Continuing Period	3.0%	Continuing Period	

NOPAT margin		ROIC/WACC	
Period	NOPAT margin	Period	ROIC/WACC
Base Year	8.9%	Base Year	1.95
12/31/2016	9.0%	12/31/2016	1.79
12/31/2017	9.0%	12/31/2017	1.57
12/31/2018	9.1%	12/31/2018	1.58
12/31/2019	9.2%	12/31/2019	1.55
12/31/2020	9.3%	12/31/2020	1.52
12/31/2021	9.3%	12/31/2021	1.49
12/31/2022	9.3%	12/31/2022	1.45
12/31/2023	9.3%	12/31/2023	1.42
12/31/2024	9.2%	12/31/2024	1.37
12/31/2025	9.2%	12/31/2025	1.37
Continuing Period	8.9%	Continuing Period	1.30
Net Claims		Price per share	
Period	Net Claims	Period	Price per share
Base Year	-\$7.58	Base Year	\$6.65
12/31/2016	-\$26.80	12/31/2016	\$8.07
12/31/2017	-\$56.28	12/31/2017	\$9.60
12/31/2018	-\$85.01	12/31/2018	\$11.14
12/31/2019	-\$114.89	12/31/2019	\$12.71
12/31/2020	-\$145.20	12/31/2020	\$14.29
12/31/2021	-\$176.26	12/31/2021	\$15.89
12/31/2022	-\$207.63	12/31/2022	\$17.51
12/31/2023	-\$239.75	12/31/2023	\$19.13
12/31/2024	-\$272.21	12/31/2024	\$20.77
12/31/2025	-\$284.87	12/31/2025	\$22.41