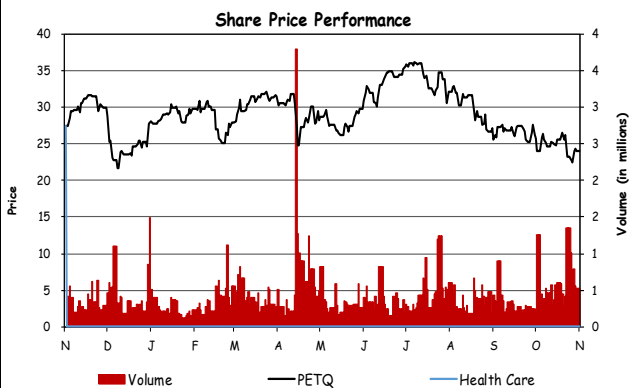


PetIQ, Inc.	Symbol: PETQ
Analyst	Alexandros Giannakitsidis
Buy below	\$22.03
Sell above	\$33.07
Probability of Price Increase	94%
Last Price	\$24.02
Intrinsic Value	\$25.44
Target Dividends	\$0.00
Target Price	\$28.64



Description	
PetIQ, Inc. operates as a pet health and wellness company.	
Sector	Health Care
Industry	Health Care Providers and Services
Last Guidance	December 11, 2018
Next earnings date	March 9, 2020

#### People

Christensen, McCord, Chairman of the Board & CEO
Sholtis, Susan, President
Newland, John, Chief Financial Officer
Herrman, Robert, General Counsel & Secretary
Smith, Michael, Executive Vice President of Products Division
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#### Top Competitors

PetMed Express, Inc.	Apollo Medical Holdings, Inc.
Freshpet, Inc.	Hanger, Inc.
Owens & Minor, Inc.	Cross Country Healthcare, Inc.
The Pennant Group, Inc.	The Providence Service Corporation
Triple-S Management Corporation	RadNet, Inc.

#### Market Statistics

Market Capitalization (mil)	\$562.55
Last Price per share	\$24.02
52 week high	\$36.33
52-week low	\$21.28
Volatility	0.00%
Daily volume (mil)	0.53
Short interest	20.67%
Days to cover short interest	11.46
Beta	2.29

#### Financials

Profitability	PETQ (LTM)	PETQ Historical	Peers' Median (LTM)
Return on Capital	1.6%	0.58%	6.77%
Adjusted EBITDA Margin	2.9%	-0.70%	6.26%
Return on Equity	-0.9%		13.8%
Adjusted Net margin	-0.4%		2.7%
Invested Funds	PETQ (LTM)	PETQ Historical	Peers' Median (LTM)
Cash/Capital	11.0%	1.3%	5.5%
NWC/Capital	16.7%	15.8%	5.2%
Operating Assets/Capital	33.2%	80.8%	42.4%
Goodwill/Capital	39.2%	2.2%	27.7%
Capital Structure	PETQ (LTM)	PETQ Historical	Peers' Median (LTM)
Total Debt/(Market Cap.+ Other Claims on Capital)	0.31	0.08	0.20
Minority Interest/(Market Cap.+ Other Claims on Capital)	9.2%	5.1%	0.0%
Preferred Equity/(Market Cap.+ Other Claims on Capital)	0.0%	0.0%	0.0%
CGFS Credit Rating	D		C
Credit Rating Model	b+ to bb-		b+ to bb-
Probability of Default Model	d to ccc+		bb to bb+
Likely Current Cost of Debt	5.34%		6.06%
Likely Current Cost of Equity (Cost of Debt + MRP)	11.31%		12.04%
Likely Current WACC	9.64%		10.8%

#### Investment Thesis

##### UNIQUE LONG TERM GROWTH POTENTIAL AND EXPANSION

I am initiating **Buy** coverage of PetIQ, Inc (PETQ) with a BUY at \$22 and a \$28.64 price target. I view PETQ as a leading seller to the retail channel of pet products that were previously only available through veterinary clinics. I view PETQ as a unique value proposition to consumers who wish to purchase veterinarian services or veterinarian-grade pet products, including prescription medications, over-the-counter preventatives and health and wellness products for pets. PETQ is still an early stage business and has all the qualities of becoming a leader in the market of healthcare distribution for pets. PETQ benefits from the how households views their pets and people wanting to provide the best quality products to maintain the health of these pets. Through the acquisition of Community Veterinary Clinics, LLC (VIP), PETQ is able to further expansion of veterinary services and distribution of products as VIP has a comprehensive suite of services at community clinics and wellness centers hosted as pet retailers across 31 states. PETQ is showing characteristics of a growing company with ability to further increase revenue and expansion, but at the same time they have generated meaningful free cash flow. I believe PETQ is a unique up-start with an attractive value proposition with favorable industry dynamics and an opportunity for top line growth potential.

##### For the long:

###### 1. Attractive Pet Industry Trends:

Approximately 63.4 million U.S. households owned a dog or cat and with changing demographic trends in pet ownership and changing attitudes towards pets support the continued growth of PETQ. According to a study by Packaged Facts, in the U.S. an estimated 79% of dog and 77% of cat owners view their pets as family members and say they behave like "pet parents". Consumers are more concerned about the health of their pets and as a result there is an increase in spending on veterinary care as well as purchases of veterinarian-grade pet products and supplies. There is an increase in pet age and incidents of pet diseases. The longer pets live the more there is a need for spending on medical needs. An increasing market also benefits PETQ as in 2017 there was \$80 billion spent on pets with the likelihood of this increasing in the future.

###### 2. Growth of Pet Medication Purchases from Retail Channel:

The Market for pet medication and health and wellness products in the retail channel is likely to outpace growth in the broader pet industry. More consumers will migrate from purchasing these goods only at veterinary clinics to purchasing them from their local retail store as this provides more convenience to the consumer and substantial costs savings. With PETQ increasing their product penetration in retail increasing, this provides potential upside and growth for the company.

###### 3. Expansion Through Acquisitions like VIP:

As a result of the acquisition of VIP, PETQ has increased the size of their business significantly and entered a new line of business in veterinary services. The acquisition provides a comprehensive suite of services at community clinics and wellness centers hosted at pet retailers across 31 states. These services include diagnostic tests, vaccinations, prescription medications, microchipping and wellness checks. With the addition of VIP, PETQ is able to serve more than 40 retail partners representing more than 60,000 locations.

##### For the short:

###### 1. Industry Pressure in a Highly Competitive Market:

The pet and wellness industry is highly competitive. PETQ competes directly with distributors and manufacturers. Compete with companies like Perrigo, Unicharm company, and Central Garden and Pet Company, all of which have more financial resources. If PETQ fails to identify and adapt to changes in consumer preferences more quickly than their competitors then they will fail over the long term. Other factors include ability to successfully marketing their products or competing with cost pressures from competitors.

###### 2. Decrease in Spending on Pet Due to Economic Climate:

If there were to be an economic decline or recession this could negatively impact consumer spending on pets and households will have less disposable income to spend and as a result may decrease their spending on their pets. This will greatly affect the revenue of PETQ.

##### Key Catalysts for price change

- Favorable trends in the pet industry
- Growth of pet medication purchases from the retail channel
- Expansion through acquisitions

##### Valuation

My \$28.64 price target is derived from 50% Discounted Levered Free Cash Flow estimates and 50% EV/Rev Multiple.

#### Ownership

Ownership	Change in Ownership (over the past 12 months)
Shares outstanding (mil)	23.42
Weighted Diluted shares outstanding (mil)	22.12
Options and Warrants (Shares equivalent)	0.00
% shares held by institutions	109%
% shares held by investments Managers	89%
% shares held by hedge funds	16.68%
% shares held by VC/PE firms	15.246%
% shares held by insiders	1.12%
Poison Pill and Type	NONE

#### Quarterly Earning Surprises (Actual/Median Estimates)

Revenue	Last 5 quarters
9/30/2018	\$525.528 (5.1%)
12/31/2018	\$444.096 (13.7%)
3/31/2019	\$593.744 (6.1%)
6/30/2019	\$882.536 (13.3%)
9/30/2019	\$744.1 (8.4%)
History:	Last 2 years
Mean Surprise	7.92%
99th percentile "surprise" range	-8% to 23%
EBITDA	Last 5 quarters
9/30/2018	\$39.016 (-29.1%)
12/31/2018	\$-18.82 (-167.2%)
3/31/2019	\$28.684 (-6.9%)
6/30/2019	\$64.4 (-10.3%)
9/30/2019	\$52.008 (-32.6%)
History:	Last 2 years
Mean Surprise	-26.97%
99th percentile "surprise" range	-209% to 155%

CENTER FOR GLOBAL FINANCIAL STUDIES			PETQ	Sunday, November 17, 2019			Page 2
PetIQ, Inc.	Symbol: PETQ		Cost of Capital Estimates				
Analyst	Alexandros Giannakitsidis			CGFS Credit Rating	Credit Rating Model	Probability of Default ModelModel	
Buy below	\$22.03		Implied Cost of Borrowing (PETQ)	7.8%	5.8%	7.8%	
Sell above	\$33.07		Implied Cost of Borrowing (Peers)	6.5%	6.2%	5.9%	
Probability of Price Increase	94%			Base Year	Explicit Period (15 years)	Continuing Period	
Last Price	\$24.02		Cost of New Debt Estimate	6.14%		6.18%	
Intrinsic Value	\$25.44		Country Risk Premium Estimate	5.97%		5.97%	
Target Dividends	\$0.00		Cost of Equity Estimate	12.11%		12.15%	
Target Price	\$28.64		WACC Estimate	9.85%		9.88%	
Forecast Assumptions							
Fiscal Year	Revenue Growth	EBITDA Margin	CAPEX/Revenue	DPR/CAPEX	Other		
Base Year (Actual)	93.39%	3.5%	1.4%	1.65	SBC/Revenue 0.88%		
year 1	20.00%	5.0%	1.1%	1.92	Constant/same as LTM		
year 2	17.00%	9.1%	2.0%	0.94	Lease term 10		
year 3	13.00%	10.3%	2.0%	0.90	Rent Expense/Revenue 0.97%		
year 4	12.00%	10.0%	1.9%	0.91	Tappers off to historical average		
year 5	11.21%	9.8%	1.8%	0.91	R&D life 10		
year 6	10.00%	9.5%	1.7%	0.92	R&D Expense/Revenue 0.04%		
year 7	9.25%	9.3%	1.5%	0.93	Constant/same as LTM		
year 8	8.00%	9.0%	1.4%	0.94	LIFO Reserve Tappers off to zero		
year 9	7.31%	8.8%	1.3%	0.94	Non-operating pension costs Tappers off to zero		
year 10	6.62%	8.5%	1.2%	0.95	Net financing pensions costs Tappers off to zero		
year 11	5.94%	8.3%	1.1%	0.96	Overfunded pension plans Tappers off to zero		
year 12	5.25%	8.0%	1.0%	0.97	Capitalized interests Constant/same as LTM		
year 13	4.56%	7.8%	0.8%	0.98	Dividends/Revenue 0.00%		
year 14	3.87%	7.5%	0.7%	0.98	Tax Rate 19.40%		
year 15	3.19%	7.0%	0.6%	0.99			
Continuing Period	2.50%	7.0%	1%	1.00			
Simulation Assumptions							
Random Variables	Distribution Assumption	MAX	Likely	MIN	Sensitivity: Price Variance Attribution Analysis		
Deviations in annual Revenue Growth--Expl. Per.	Triangular	14.08%	0%	-18.12%	1.05%	Revenue growth	
Deviations in annual Revenue Growth --Cont. Per.	Normal	1.41%	0%	-1.41%	4.59%	EBITDA Margin	
Deviations from EBITDA Margin base annual estimates	Triangular	2.19%	0%	-5.50%		CAPEX/Rev	
Deviations from CAPEX/Revenue base annual estimates	Triangular	1.39%	0%	0.97%	85.26%		
Deviations from Kd base annual estimates	Triangular	2.47%	0%	-2.24%	7.31%	Discount Rate	
Deviations from CRP base annual estimates	Triangular	1.36%	0%	-2.38%	0.05%	TEV/Rev	
Deviations from TEV/Revenue base estimate	Triangular	5.96	0%	-1.11	0.00%	TEV/EBITDA	
Deviations from TEV/Revenue base estimate	Triangular	30.05	0%	-3.24	0.00%	P/BV	
Change in P/BV (TTM)	Triangular	13.32	0%	-2.30	0.00%	P/E	
Change in P/E (FW)	Triangular	83.68	0%	-14.13	0.00%		
Recovery Rate	Triangular	10.00%	0%	-10%	0.00%	Asset Recovery Rate	
Valuation							
DCF Valuation			Intrinsic Value Distribution--Probability (Upside)=93.6%				
	Base	Explicit Period (Average)	Continuing Period				
Revenues	\$666.12	\$1,613.95	\$2,503.79				
Net Margin	0%	5%	5%				
LFCF	\$2.78	\$72.39	\$120.51				
Ke	12.11%	12.15%	12.15%				
ROE	-0.90%	15.52%	18.56%				
Relative Valuation							
	Median Justified Multiple	Basis	Implied Equity Value				
EV/Rev (FW)	1.2x	\$819.40	\$601.76				
EV/EBITDA (FW)	11.3x	\$46.04	\$123.39				
P/BV (TTM)	2.8x	\$291.05	\$813.55				
P/E (FW)	22.6x	\$10.27	\$232.37				
Asset Based Valuation			Valuation Summary				
Recovery Rate	60%		Intrinsic Value		Target Price Model Weight		
Capital	\$1,032.65		DCF Valuation \$ 28.20 \$ 31.92		50%		
Intangibles	\$353.49		EV/Rev (FW) \$ 27.20 \$ 29.88		50%		
Claims	\$378.90		EV/EBITDA (FW) \$ 5.58 \$ 6.13		0%		
Implied Equity Value	\$28.61		P/BV (TTM) \$ 36.77 \$ 40.39		0%		
			P/E (FW) \$ 10.50 \$ 11.54		0%		
			Asset Based Valuation \$ 1.29 \$ 1.42		0%		
			Price per Share \$ 27.70 \$ 30.90		100%		