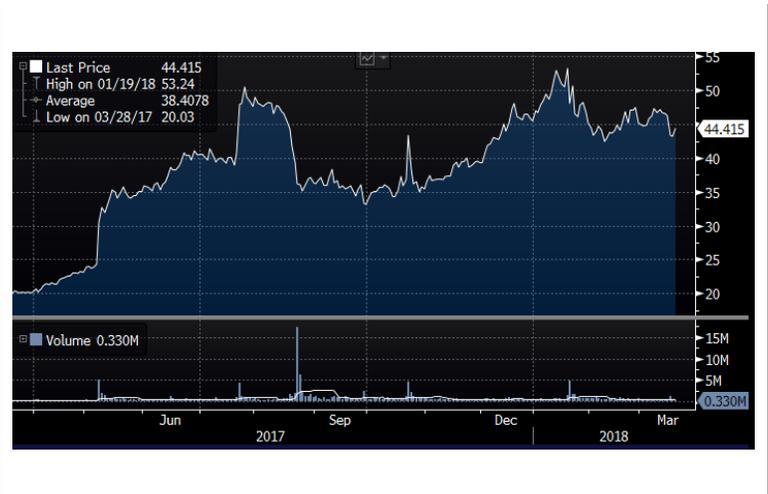


Company Description: PetMed Express, also known as 1-800-PetMeds, is the largest pet pharmacy in the United States founded in 1996. The company sells non-prescription and prescription pet medications, health products, and supplies for cats and dogs to retail customers. It markets through Internet, telephone contact center, and direct mail.

BUY

Current Price:	\$44.46
Target Price:	\$52.30
Market Cap:	965 Mill
WACC:	9%
EBITA Margin:	14%
ROIC:	74.6%



Thesis: As the trend continues in the United States for society to use e-commerce as the way of retail, PetMed Express will continue to increase their revenues and expand as a company. The company has a competitive advantage being the channel leader in the pet pharmacy industry as well as selling and offering a wide variety of supplies and information. PetMed Express has demonstrated continuous growth in the past and project to continue their profitable growth in the upcoming years.

Catalysts:

- Short Term(within the year): Increasing revenue from the effect of the shift from low margin topicals to next-generation medication in conjunction with the new tax law
- Mid Term(1-2 years): Acquiring new customers
- Long Term(3+): Direct relationship with manufacturers along with continuing trend for e-commerce

Business Description:



PetMed Express is America's largest pet pharmacy founded in 1996 with its headquarters located in Delray Beach, Florida. They are licensed pharmacy to dispense prescription medications in all 50 states, though 50% of their customers are from New York, California, Georgia, Texas, Pennsylvania, North Carolina, and Virginia. They sell non-

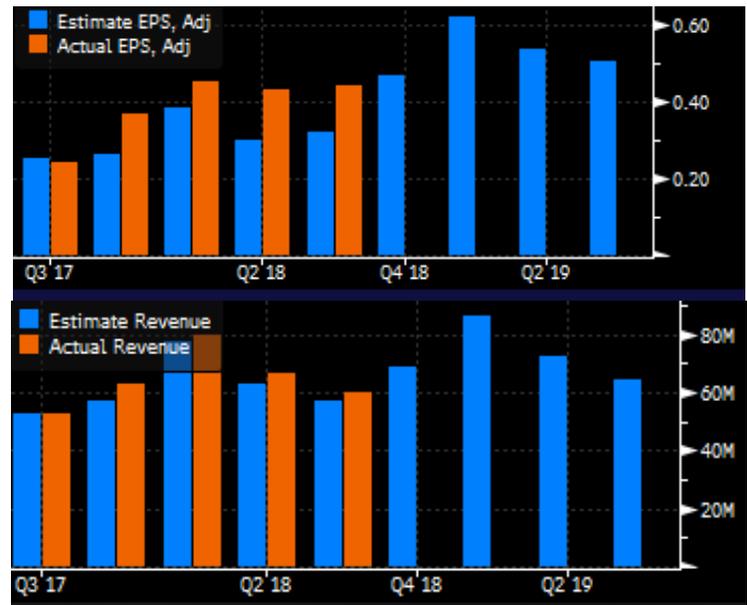
prescription products including flea and tick control, bone and joint care, vitamins, treats, nutritional supplements, and hygiene products. They also offer prescription drugs including heartworm preventatives, flea and tick preventatives, arthritis, thyroid, diabetes, pain medications, antibiotics, and other



specialty medications, as well as generic substitutes. They will contact the customer’s vet in order to make sure the animal needs the medication as well as getting the proper dosage. PetMed Express is always offering discounts as well as offering free shipping with orders that are above \$50. They offer a wide variety of productions, including over 3,000 SKUs. The company regularly researches new products to distribute as well as always offering the latest generation of existing products. In March of 2010, they started offering supplies for cats and dogs which includes crates, foods, beds, stairs, strollers, and other supplies offered on their website. They also offer all different kinds of videos and articles with veterinarians that provide a wide range of knowledge on all different sorts of information. Their main source of business is through internet sales but they also generate sales through their telephone center as well as through direct mail. They have recently created a mobile app for people to easily and quickly order and are currently in the stage of creating and launching the second generation of the mobile app.

Earnings Performance:

The earnings performance for the fiscal Quarter 3 in 2017 increased greatly from the prior’s years. Mendo Akdag, CEO and President, commented “We are very pleased with our third quarter results, achieving double digits increases in both new order and reorder sales, along with an accelerated increase to operating income for the fourth consecutive quarter.” Net sales increased 13.7% from the prior year with 60.1 million from 52.9 million. The increase in sales were due to increases in both new order and reorder sales. New order sales and reorder sales increased by 15.5% and 13.4% respectively from the prior year. For the year, PetMed Express increased their online sales by 15%. The top graph on the right shows that for the next quarters actual earnings per share outperformed the estimates, and for the upcoming quarters, there is much more growth forecast. The bottom graph on the right shows the estimates and the actual revenue the company obtained for the quarters and the projections for the continuing quarters. These graphs show that this company is going to continue to generate revenue growth. There is some seasonality for the company and that is why some quarters are lower than others. They expect both revenues and profits to increase greatly for the spring and summer seasons.



Profitability:

PetMed Express has continuously increased their profitability margins throughout the years and are projected to continue this trend. The table shown below shows their annual growth and margins from 2014 to present and their estimated figures through 2019. The gross profit margin increased 35.3% from the prior year due to

increasing the profit margin. This is mainly due to the shift in sales from low-margin topicals to higher margin next-generation flea and tick products. They have continued to see this trend throughout the past 3 quarters and expect it to continue. As the tick and flea populations are growing within the U.S. these products are becoming high in demand. This table shows that this company is highly profitable and will continue to generate profits in the upcoming year.

Revenue, Adj	233.4	229.4	234.7	249.2	269.5	275.0	298.3
Growth %, YoY	2.4	-1.7	2.3	6.2	11.6	10.4	8.5
Gross Profit, Adj	77.6	76.3	76.3	79.3	95.0	97.7	108.3
Margin %	33.3	33.2	32.5	31.8	35.3	35.5	36.3
EBITDA, Adj	29.1	30.0	33.2	38.9	51.9	53.8	59.3
Margin %	12.5	13.1	14.1	15.6	19.3	19.6	19.9
Net Income, Adj	18.0	18.6	20.6	23.8	32.9	36.8	44.6
Margin %	7.7	8.1	8.8	9.6	12.2	13.4	15.0
EPS, Adj	0.90	0.93	1.02	1.17	1.61	1.80	2.22
Growth %, YoY	4.7	3.0	10.3	14.4	50.0	53.4	23.4

MACRO Outlook:

There has been increasing numbers in both the pet industry as well as e-commerce, and it is projected that both numbers will continue to increase for the foreseeable future. The table to the right shows the number of U.S. households that own a pet and which kind of pet they own. Dogs and cats are the top two animals owned in households. Similarly, the table shown to the left, the total U.S pet industry expenditures have steadily increased throughout the years. This data includes food, supplies, over-the-counter medicine, veterinarian care, live animal purchases, and along with grooming and boarding. PetMed Express offers

NUMBER OF U.S. HOUSEHOLDS THAT OWN A PET, BY TYPE OF ANIMAL

(millions)

Pet	Number
Dog	60.2
Cat	47.1
Freshwater fish	12.5
Bird	7.9
Small animal	6.7
Reptile	4.7
Horse	2.6
Saltwater fish	2.5

Source: American Pet Products Association's 2017-2018 National Pet Owners Survey.

TOTAL U.S. PET INDUSTRY EXPENDITURES, 2007-2017 (1)

(\$ billions)

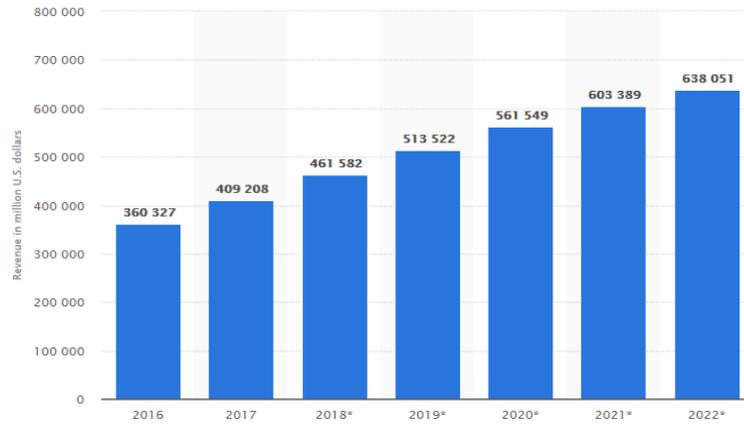
Year	Expenditure
2007	\$41.2
2008	43.2
2009	45.5
2010	48.4
2011	51.0
2012	53.3
2013	55.7
2014	58.0
2015	60.3
2016	66.8
2017	69.4 (2)

(1) Includes food, supplies and over-the-counter medicine, veterinarian care, live animal purchases and grooming and boarding.
(2) Estimate.

Source: American Pet Products Association's 2017-2018 National Pet Owners Survey.

supplies, food, medicine, veterinarian care as well as grooming products for both dogs and cats, indicating there will be more of a demand for all of the products that PetMed Express has to offer. A factor that runs parallel to these numbers and which is crucial for this company, is the e-commerce projections. The graph below shows the revenue in millions of U.S. dollars from the years of 2016 and 2017 and then projects until 2022. These numbers show that there will be a big increase within the industry. Along with rising numbers in pets in the U.S. this will only make PetMed Express more desirable and profitable.

E-Commerce projected
from 2016-2022



© Statista 2018

Ownership:

The PetMed Express ownership table is shown below. This table represents the amount of interest that each of the different types of shareholders have. This shows that 75.94% of the float is owned by investment advisors as well as 15.87% of the float is owned by hedge fund managers. Having investment advisors and hedge fund managers be interested in this company solidifies that they believe this company will generate above average returns. The table also represents the change in ownership interest within the last year. This shows that there has been an increase in interest for PetMed Express by hedge fund managers confirming that they have increased positive expectations for their financial performance.

Top Ownership Type (%)			
54) Ownership Type	03/19/17	Curr	Change
41) Investment Advisor	77.45	75.94	-1.51
42) Hedge Fund Manager	12.25	15.87	+3.62
43) Pension Fund	2.49	3.35	+0.86
44) Individual	5.22	2.94	-2.28
45) Insurance Company	0.79	0.81	+0.02
46) Bank	0.64	0.41	-0.23
47) Brokerage	0.73	0.33	-0.40
48) Government	0.30	0.19	-0.11
49) Holding Company		0.06	

Growth Potential:

PetMed Express has continued to grow throughout the years, but grew most significantly within the last year. Approximately 2.3 million customers have purchased from them throughout the last two years. They obtained about 514,000 customers in 2017 meanwhile 489,000 customers in 2016 as well as the average order value increased from \$81 to \$86. They have increased their advertising costs from 3.2 million in 2016 to 4.1 million in 2017 because they want to stimulate new order sales. As stated before, they have increased their gross profit margins therefore it gives them more room to be able to increase their advertising costs. PetMed Express used to advertise using T.V commercials, but now they have shifted to primarily advertising online.

They make their brand name available to all internet users by having them appear in search engines such as Google, Bing, and Yahoo. They also include internet displays as well as videos on social media, comparison shopping, and other affiliated websites. As well as direct mail/E-mail, to acquire new customers and remind existing customers, but that is not as significant. They are going to continue to spend more money on advertising to continue to acquire more customers, which is their main goal. On the supply side of the



company, they currently inventory their products and fill most customer orders from their headquarters. They have an in-house fulfillment and distribution operation with a variety of shipping methods for the customer. Their goal is to ship the same day the order is received. PetMed Express purchases their products from a variety of sources, such as certain manufacturers, wholesalers, and domestic distributors. They have very strong relationships with these manufacturers as well as always have availability of the product. According to their CEO, Mendo Akdag, within the next year or so they are looking to have direct relationships with the manufacturers so that

the manufacturers would be able to ship the product directly to the customer's house. Another upside for this company is the new tax law put into place. As stated before, they operate only in U.S so they were a full 35% federal taxpayer. So after their fiscal year ends in March 31, 2018 they will apply for their full year of fiscal 2019 a 21% federal tax rate. Which turns out to be 24% for their blended effective tax rate. This would cut costs for the company tremendously. Along with cutting costs, seeing a shift in the products that are costlier will create growth for this company along with the shift in using e-commerce as a dominant way of customers obtaining their needs.

Competition:

Competition for PetMed Express consists of veterinarians and online and traditional retailers for pet medications. There is a risk factor that customers will choose to go to their veterinarians to have face-to-face contact with them in all circumstances. But PetMed Express have a very large product selection and availability with having all of the top leading brands meanwhile vets mainly only have a small selection. They are very reliable and timely while always offering personal discounts on all products. Their pricing is competitive with both traditional vets and other online retailers, as well as having quality website content. It is very easy for customers to use their website and mobile app. PetMed Express is a channel leader in an estimated 4.3-billion-dollar industry. It's brand recognition with being 1-800-PetMeds is very appealing to customers. It is a licensed pharmacy in all 50 states and awarded Veterinary Verified Internet Pharmacy Practice Site by National Association Boards of Pharmacy and all while having exceptional customer care and support.



Conclusion:

PetMed Express is a company that has a lot of growth potential. It has shown that it has grown over the years, but there is still much growth potential in this vast market. It is an online retailing company, which is a high growth segment. The company has enough cash on hand to invest in new opportunities. They are planning on using some of their assets in order to acquire new customers and increase their reorder sales. They have all leading brand name products with competitive prices as well as always offering discounts therefore making their company attractive to customers. They offer a wide variety of information to their customers and spectacular customer care service. They will increase their revenues by continuing to acquire many more customers as well as in the near future have direct relationships with their manufacturers to cut costs drastically for them. The macro data analysis indicates that this industry and this company will continue to generate above average returns. PetMed Express is a strong buy.

PetMed Express, Inc. (PETS)

CENTER FOR GLOBAL FINANCIAL STUDIES

BULLISH

Analysis by Al Capone
3/22/2018

Current Price: **\$47.37**
Dividend Yield: **2.2%**

Intrinsic Value: **\$50.78**
Target Price: **\$59.04**

Target 1 year Return: 26.79%
Probability of Price Increase: 100%



Description	
PetMed Express, Inc. and its subsidiaries, doing business as 1-800-PetMed, operator of a pet pharmacy in the United States.	
General Information	
Sector	Consumer Discretionary
Industry	Internet and Direct Marketing Retail
Last Guidance	February 12, 2018
Next earnings date	April 30, 2018
Market Assumptions	
Estimated Equity Risk Premium	5.08%
Effective Tax rate	21%

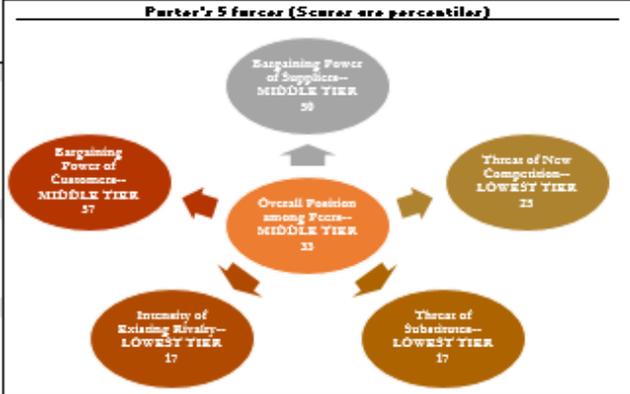
Market Data	
Market Capitalization	\$964.83
Daily volume (mil)	0.48
Shares outstanding (mil)	20.37
Diluted shares outstanding (mil)	20.43
% shares held by institutions	109%
% shares held by investment Managers	67%
% shares held by hedge funds	22%
% shares held by insiders	3.76%
Short interest	22.03%
Days to cover short interest	6.65
52 week high	\$57.80
52-week low	\$19.21
Volatility	33.43%

Part Earning Surprises		Market and Credit Scores	
Quarter ending	Revenue	EBITDA	Recommendation (STARS) Value--0
12/31/2016	0.40%	4.97%	Recommendation (STARS) Description--0
3/31/2017	10.76%	56.90%	Quality Ranking Value--B
6/30/2017	2.60%	62.87%	Quality Ranking Description--Below Average
9/30/2017	2.75%	51.09%	Short Score--4
12/31/2017	8.29%	51.61%	Market Signal Probability of Default % (Non-Rating)--0.185%
Mean	4.54%	47.49%	Credit Model Score (Non-Rating)--N/A
Standard error	1.0%	6.4%	
Management		Total Compensation Growth	
Al Capone, Founder	Chief Executive Officer, President & Director	3.56% per annum over 5y	Stock Price Growth During Tenure
Rosenblum, Bruce	COO, Principal Accounting Officer & Treasurer	5.81% per annum over 5y	2.64% per annum over 5y
Borger, Aliran	Corporate Secretary & General Counsel		2.64% per annum over 5y

Industry and Segment Information	
LTM Revenue by Geographic Segm	LTM Revenue by Business Segment
United States--100%	Online Retailers--100%
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--	--
--	--

Profitability		PETS (LTM)		PETS Historical		Peer's Median (LTM)	
Return on Capital (GAAP)	74.6%	74.6%	37.69%	37.69%	83.25%		
Operating Margin	14%	14%	9.14%	9.14%	12.63%		
Revenue/Capital (GAAP)	5.36	5.36	4.12	4.12	6.59		
ROE (GAAP)	35.3%	35.3%	32.1%	32.1%	72.2%		
Net margin	11.9%	11.9%	10.2%	10.2%	9.8%		
Revenue/Book Value (GAAP)	2.97	2.97	3.15	3.15	7.37		
Invested Funds		PETS (LTM)		PETS Historical		Peer's Median (LTM)	
Capx/Capital	76.0%	76.0%	42.9%	42.9%	32.4%		
NWC/Capital	-1.8%	-1.8%	25.7%	25.7%	10.9%		
Operating Assets/Capital	25.9%	25.9%	31.4%	31.4%	56.7%		
Goodwill/Capital	0.0%	0.0%	0.0%	0.0%	0.0%		
Capital Structure		PETS (LTM)		PETS Historical		Peer's Median (LTM)	
Total Debt/Market Capitalization	0.02	0.02	0.04	0.04	0.06		
Cost of Debt	3.9%	3.9%	3.9%	3.9%	4.9%		
CGFS Rating (F-rates, Z-rates, and default Probability)	A						
WACC	9.0%	9.0%	9.0%	9.0%	9.0%		

Peers	
--	Nutritionix, Inc.
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Forecast Assumptions		Explicit Period (15 years)		Continuing Period	
Revenue Growth CAGR	7%	7%	2%	2%	2%
Average Operating Margin	19%	19%	16%	16%	16%
Average Net Margin	15%	15%	12%	12%	12%
Growth in Capital CAGR	14%	14%	2%	2%	2%
Growth in Claims CAGR	-11%	-11%	2%	2%	2%
Average Return on Capital	21%	21%	12%	12%	12%
Average Return on Equity	22%	22%	12%	12%	12%
Average Cost of Capital	9%	9%	9%	9%	9%
Average Cost of Equity	9%	9%	9%	9%	9%

