

WESTPEAK RESEARCH ASSOCIATION

PetMed Express (NASDAQ: PETS)

Consumer Discretionary (Primary) – Online Pet Food and Pet Supplies

PetMed Express Will Impress

April 29, 2020

PetMed Express, Inc. and its subsidiaries operate under the trade name, 1-800-PetMed (the "Company"). PetMed Express is the largest online pet pharmacy in the United States and provides both prescription and non-prescription pet medications, health products, as well as other products for dogs, cats, and horses. As a direct-to-consumer business, the company competes with traditional retailers of pet medications and vets to offer consumers an alternative method of obtaining pet medications.

Thesis

PetMed Express is a leading online pet pharmacy with a strong brand image. The company has underperformed in 2020 relative to previous years, resulting in a share price decline. Nonetheless, PetMed Express is taking initiatives to strengthen its marketing tactics and customer retention strategy to maintain its positioning in the industry. We believe these initiatives will allow PetMed Express to capitalize on the growing e-commerce industry, which will lead to strong revenue growth in the coming years.

Drivers

Main external drivers include an increase in per capita disposable income, the trend towards more e-commerce shopping, and an increase in pet ownership. Coupling these trends with its refreshed website, mobile app, and rewards program, PetMed Express will significantly increase their customer retention rate, thus driving profits.

Valuation

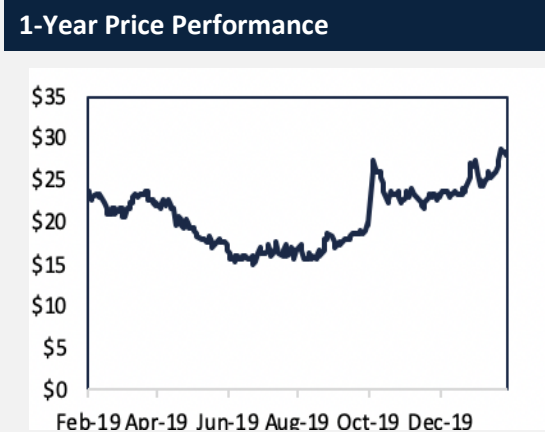
We utilized a DCF and a comparable company analysis – weighted at 80% and 20% respectively – to determine a one-year target share price of \$58.59. We assign a **BUY** rating on PetMed Express with an implied upside of 44.0%.

Analyst: Irene Liu, BCom. '22
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Equity Research		US
Price Target		USD\$ 58.59
Rating		Buy
Share Price (Apr.29 Close)		CAD\$ 40.96
Total Return		45.1%

Key Statistics	
52 Week H/L	\$41.59/\$15.00
Market Capitalization	\$818M
Average Daily Trading Volume	0.71M
Net Debt	\$(92.4M)
Enterprise Value	\$723M
Net Debt/EBITDA	N/A
Diluted Shares Outstanding	20.17M
Free Float	96%
Dividend Yield	2.05%

WestPeak's Forecast			
	2018A	2019A	2020E
Revenue	\$273M	\$283M	\$274M
EBITDA	\$54M	\$48M	\$30M
Net Income	\$37M	\$38M	\$23M
EPS	\$1.83	\$1.84	\$1.15
P/E	22.4x	22.2x	35.7x
EV/EBITDA	13.3x	14.9x	23.9x



Business Overview/Fundamentals

Company Overview

PetMed Express, Inc. and its subsidiaries operate under the trade name, 1-800-PetMed. Founded in 1996 and based in Florida, PetMed Express is the largest online pet pharmacy in the United States. It provides both prescription and non-prescription pet medications as well as other products for dogs, cats, and horses. The company's target market consists of both retail customers and veterinarians. The value proposition of the company lies in offering customers a more convenient method of obtaining pet medication at an attractive price.

Products

PetMed Express carries approximately 3000 SKUs of pet medications, health products, and supplies. The company sells both branded and generic products at prices that are in line with or lower than most veterinarians and retails.

Prescription Medications

PetMed Express' selection of prescription medications consist of heartworm, flea and tick preventatives, arthritis, diabetes, pain medications and more.

Non-Prescription Medications

Non-Prescription (or over the counter) medications include flea and tick control, bone and joint care products, vitamins, treats, nutritional substitutes and hygiene products.

Pet Supplies

PetMd Express offers a wide selection of pet supplies on its website. These products are drop shipped to customers by a third party. Drop shipping allows PetMed Express to sell these products without keeping an inventory in stock. This results in a lower overhead cost and the ability to test the success of various products. Supplies consist of food and dental care, beds, crates, stairs, strollers, and more. PetMed Express is continuously researching and regularly refining its list of products by selecting new products or updating existing products in response to the ever-changing consumer spending habits.

Pet Medications Categories

Can't decide? [Learn More](#)



Allergy Relief



Antibiotics



Antifungal



Anxiety



Arthritis



Asthma



Compound Medications



Cough Relief

Pet Supplies Categories

Can't decide? [Learn More](#)



Beds



Bowls & Automatic Feeders



Carriers



Car Seats & Seat Covers



Cat Furniture



Crates & Kennels



First Aid



Furniture Covers

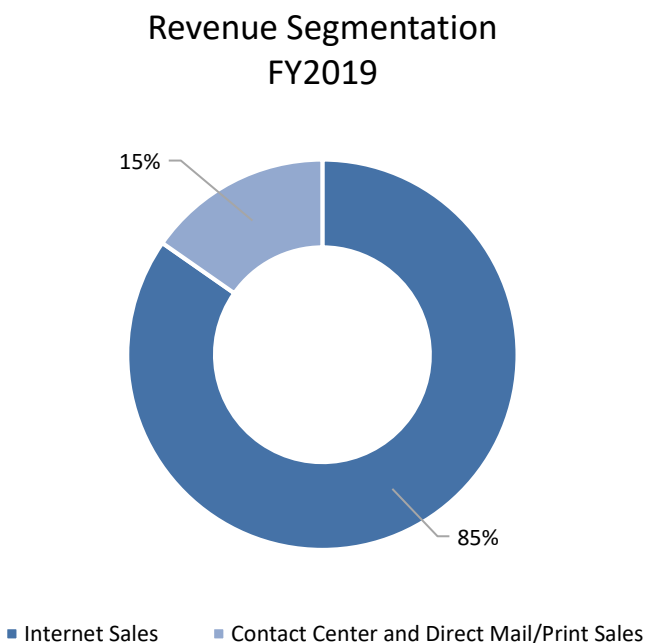
Revenue Segmentation

Online

Internet sales are conducted through PetMed Express' website, mobile site, and mobile application (app). The company's website is designed to provide an experience that is convenient and informative by providing customers with pet's health information spanning behaviour and illnesses to natural and pharmaceutical remedies for specific health problems. This content is regularly updated with the most recent research. The app also provides additional pet health information on behaviour, illnesses, as well as natural and pharmaceutical remedies to assist pet owners with shopping. The mobile app features a live veterinarian web chat where customers can have their questions answered immediately. To promote repeat purchases and customer retention, the app provides refill reminders, a local veterinarian "finder", and an express checkout option. During the FY 2019, the internet segment had over 30 million website visitors; 10% of those visitors placed orders, which generated 84.7% of PetMed Express' total sales of \$283 million.

Telephone Contact Center

PetMed Express operates a telephone contact center with a toll-free number. Customer service process calls that are received, facilitate live web chats that are conducted on the mobile app, and process emails. The company seeks to maximize efficiency through pop-up screens and call blending features. For FY 2019, contact center sales (including direct mail/print sales) contributed to 15.3% of sales or \$43 million.



Trademarks

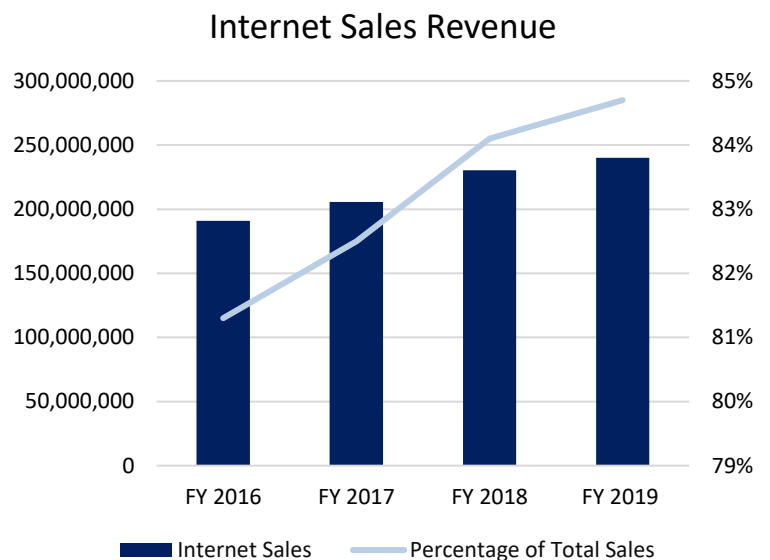
Since PetMed Express operates under the trade name “1-800-PetMed” it is crucial for it to protect this name as it is a key aspect of the brand and an important marketing factor. PetMed Express currently has trademarks protecting its trade name, which consist of the terms: PetMed and PetMeds in any form.



Company Strategy

Increase Customer Retention and Build Brand Recognition

PetMed Express is the leader in an estimated \$5 billion industry of online pet pharmacies where the primary focus is on retail customers. With 84.7% of total sales being generated online, the company continues to vitalize this channel as it has developed competitive strengths with its brand name, licensed and pharmacy-verified website, and exceptional customer support. It synergizes these factors through pairing products with pet health information on its website to provide customers with a convenient shopping experience where information regarding medications is easily retrieved. To further provide a personalized shopping experience, PetMed Express provides superior customer service with objectives of being fast, easy, and helpful. Since many customers do not have hard copies of their required prescription, PetMed Express attains these for them to increase shopping convenience.



Moving forward, PetMed Express looks to increase customer retention by providing a rewards program. This program will reward customers with higher purchase amounts additional discounts, as well as other benefits such as free treats, free returns and educational articles. As a result of these initiatives, customer traffic, loyalty, and order size may all increase, leading to additional reorders and an increase in incremental revenue opportunities. [According to a study done by KPMG, customer loyalty programs are proven strategies for growing and maintaining market share.](#) In FY2019, reorder sales increased 2.2% from \$227.5 million to \$241.8 million, which can be attributed to the implementation of the rewards program.

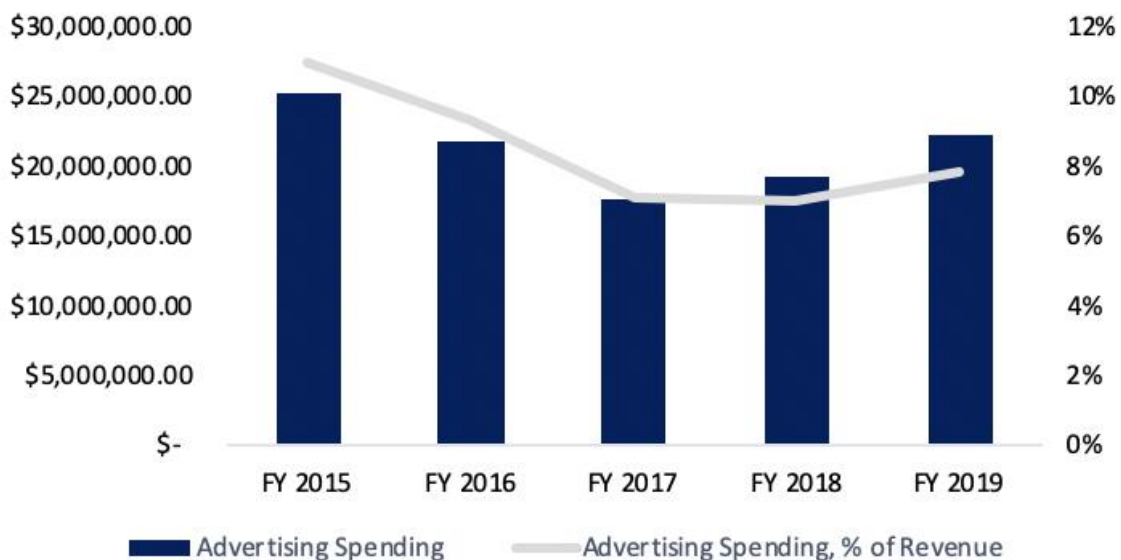
Competitive Pricing

PetMed Express is able to provide competitive pricing because of its efficiency as an online retailer. In recent years, they have leveraged their superior cost structure to create an aggressive pricing scheme that makes them even more affordable than their direct competitors. Driving this decision is the assumption that pricing will remain as the top consideration of pet owners looking to buy medications and supplies. To further strengthen this area, PetMed Express signed a contract with Zoetis in October 2019 to develop direct relationships with major manufacturers.

Optimize Marketing with More Efficient Advertisement Spending

Currently, PetMed Express' marketing campaign consists of television, online, direct mail/print and email. The majority of established companies spend between 6% to 12% of gross revenue on marketing. PetMed Express spends on average 8% of revenues on advertising, placing them in the lower range of marketing spending. However, as PetMed Express operates in a niche industry with few established competitors outside of traditional retail pet stores, the company looks to increasing advertising expenses to solidify brand image and build industry connections. PetMed Express has recently increased advertising spending to strengthen its brand among cost-conscious consumers by promoting its competitive prices. In FY 2019, its marketing budget was increased by 10% to pursue this goal more aggressively. Management has stated that marketing can be optimized through increased efficiency in advertising, which will be pursued with a lower number of television advertisements. With consumer entertainment habits shifting online, Management has expressed that PetMed Express will focus mainly on digital advertising instead of television advertising where it has proven to not generate sufficient returns due to lower customer television engagement in recent years. Alongside digital advertising, the company will be advertising more aggressively during peak seasons (Q1 and Q4) as pet medications will be in higher demand due to the seasonality diseases.

Advertising Spending



Industry Analysis

Overview

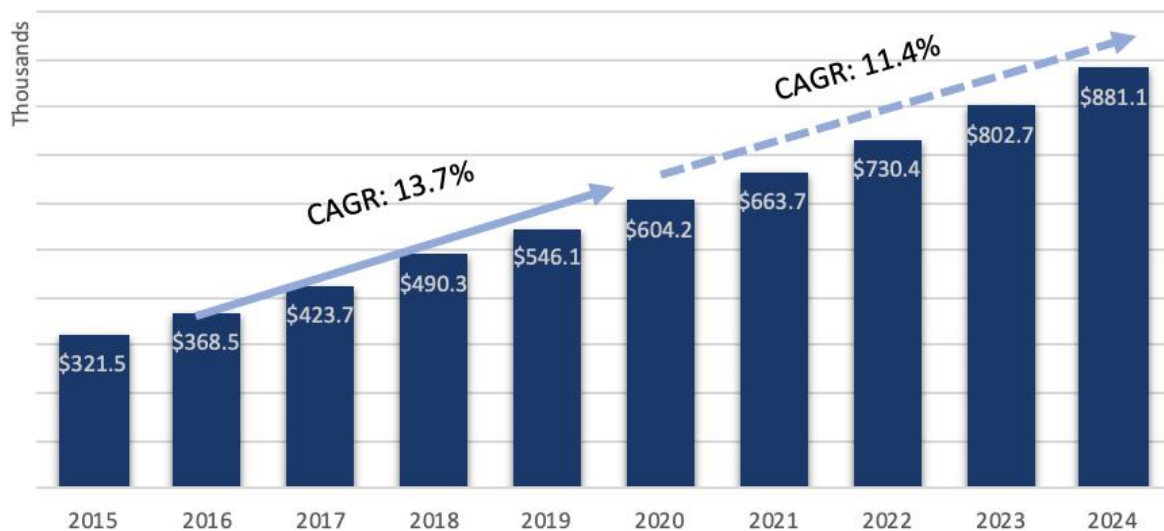
PetMed Express operates in the online pet food and pet supply sales industry but is affected by a number of other industries, in which its consumers and competitors operate in, such as e-commerce and pets. In 2019, the online pet food and pet supply sales industry had a value of \$8.1 billion US. From 2014 to 2019, the industry has grown at an annualized rate of 12%; this growth was primarily driven by the increased popularity of e-commerce. As a result of key economic drivers, such as an increase in consumer internet access and an increase in pet ownership, the industry is projected to continue growing at a 5.8% CAGR over from 2019 to 2024

Overall pet spending in the US has increased 4.4% to \$72.6 billion US dollars in 2018; pet supplies were 25% of that \$72.6 billion. The pet medication market is also valued at \$5 billion and veterinarians currently hold a majority of the market share.

Increase in E-Commerce

E-commerce sales have grown at an annualized 13.7% from 2014 to 2019 and are projected to grow at 11.4% from 2020 to 2024. Since 1998, e-commerce sales have grown every year due to its advantages over brick-and-mortar shopping. E-commerce offers customers a variety of advantages, such as the ability to easily find desired products, a wider selection of products, and convenient delivery. Additionally, the proliferation of mobile devices that support internet access has further supported this increase in e-commerce sales. These factors have ultimately increased the popularity of e-commerce which has driven the online pet food and pet supply industry's revenue growth.

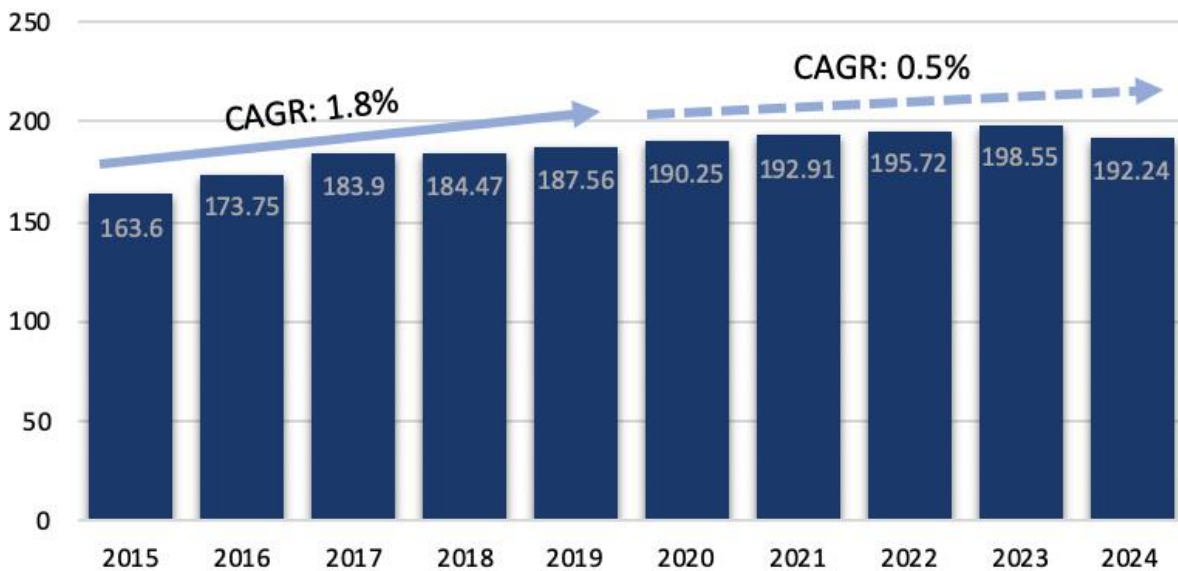
E-Commerce Revenue in US



Increase in Pet Ownership

From the years 2014 to 2019, dog and cat ownership has grown at an annualized rate of 2.4%, resulting in a pet population in the US of 192.7 million, with 68% of households having a pet. This increase was due to the increase in per capita disposable income of US households, individuals spending more time on leisure and sports, and the adoption of the “pet parent” mentality. Pet parents treat their pets more like family members and are willing to spend more money on their pets. The pet parent mindset has allowed for a 2.1% annualized increase in per capita disposable income being spent in this industry. Additionally, because US per capita disposable income has consistently grown over time, consumers are able to buy premium priced goods for their pets, further increasing the growth of the industry. The pet industry is currently in the growth stage of its life cycle, and with low revenue volatility, low barriers to entry, and low industry globalization, we believe that it will continue to grow.

Pet Population in US



Competition

There are 2,206 businesses operating in the pet industry; however, the major players are PetSmart, Amazon, and Petco Animal Supplies. As more companies are entering the industry, incumbent companies are looking to position themselves as specialized retailers and investing heavily in advertising budgets to differentiate themselves.

Although PetMed Express is currently operating in a niche market, veterinarians as well as other online and traditional retailers must also be considered when evaluating competition. A large number of pet owners prefer the convenience of purchasing from veterinarians during their visits as it allows for the convenient “one-stop”. To compete with these veterinarians, PetMed Express must continue to adequately educate pet owners about its services, convenience, and the savings it offers.

Principle competitive factors in the industry are product selection and availability, reliability, delivery speed, and price. All of which PetMed Express is currently competitive with and must continue developing to maintain a competitive edge. However, with the growth of e-commerce comes increased competition. To succeed in this competitive environment, companies must be able to differentiate themselves. A key factor to a strong competitive advantage is operating in a very niche market, which PetMed Express has done as the leader in the online pet medications industry.

Catalysts

Cash Balances Reinvested in the Company

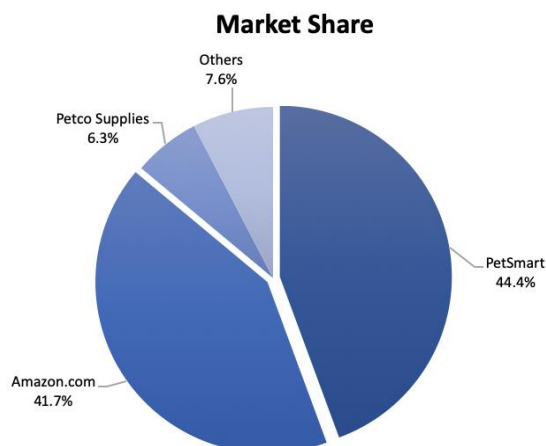
PetMed Express has no debt in its capital structure, which allows it to be more agile in its capital allocation decisions. In FY 2020, PetMed saw an 18.1% increase in CAPEX as a percentage of PP&E from Q2 to Q3. This increase can be attributed to the purchase of new property and equipment to accommodate an increase in capacity – with the majority being invested in PetMed’s e-commerce platform. With this increase in CAPEX, the company is setting itself up for future growth and revenue expansion. Management has expressed that it is currently investing in PetMed’s e-commerce platform to create a superior user experience for its customers and looking into potential acquisitions. These activities are funded by the company’s cash balances.

Stock Repurchases

Since the inception of its share repurchase plan in March 2019, approximately 5.6 million shares have been repurchased for \$69.8 million, reflecting an average price of \$12.52 per share. Subsequent to March 2019, PetMed has repurchased an additional 613,000 shares for approximately \$11.5 million, averaging a share price of \$18.76. PetMed has a remaining \$28.7 million under its share repurchase plan. PetMed has expressed that it plans on utilizing its cash balances on its share repurchase plan. Share repurchases signal that management believes the stock is undervalued at its current market price.

Increase in Year-Round Products

Historically, PetMed has had stronger sales in Quarters 1 and 2 due to the seasonality of many pet diseases, such as fleas and ticks, with their peak growth in the summer and fall months. As a result, sales are weaker in the winter months where issues regarding fleas and ticks are not as prominent. PetMed aims to develop their product line of supplies to increase year-round sales as these items are in constant demand by pet owners. Doing so decreases this fluctuation in sales and drives overall sales.



Coronavirus Pandemic (COVID-19)

COVID-19 is an ongoing pandemic due to a widespread virus caused by a coronavirus. The outbreak first began in Wuhan, China in December 2019 and was declared a pandemic in March 2020 by the World Health Organization (WHO). The virus is spread between individuals through close contact via droplets, commonly through coughing, sneezing, and talking. With close contact being the source of spread, the majority of impacted countries have placed “social-distancing” measures, insisting citizens self-quarantine at home and businesses to temporarily close and transition to e-commerce to reduce the spread of the virus. Many retail businesses have been affected by this transition due to a strong focus on brick-and-mortar services. However, we believe that PetMed Express will benefit from this transition as internet sales has been its main revenue segment, thus driving sales in 2020 as customers must shop from home.

Management Team

Menderes Akdag – Chief Executive Officer and Director

Akdag has been CEO of PetMed Express since 2001 and has been tenured in his position since 2005; additionally, he serves on the Board of Directors. Previously, Akdag was the CEO of International Cosmetics Marketing Co. and President of Lens Express. For FY 2019, Akdag’s total compensation was \$857,551, a 29.8% decrease from his FY 2018 total compensation of \$1,221,485. Of his FY 2019 compensation package, \$600,000 was base salary (70.0% of total compensation) and \$257,551 was non-equity incentive compensation (30.0% of total compensation). Akdag currently owns 510,000 shares of PetMed Express which is 2.53% of the company’s total shares valued at \$11,643,300 US. Prior to Akdag’s leadership, PetMed Express had been occurring net operating losses and an accumulated deficit; however, in FY 2019, Akdag led the company to earning annual sales of \$283.4 million. Based on our analysis, we believe that Akdag been a key factor in the development and implementation of PetMed Express’ business strategy and thus has the expertise necessary to drive strong shareholder returns.

Bruce S. Rosenbloom, CPA – Chief Financial Officer and Treasurer

Rosenbloom has been CFO, Chief Accounting Officer, and Treasurer of PetMed Express since 2011. Previously, he was the Finance Manager of Financial Reporting of the Cooker Restaurant Corporation and a Senior Audit Accountant at Deloitte. For FY 2019, Rosenbloom’s total compensation was \$866,281. Of his FY 2019 compensation package, \$321,350 was base salary (37.1% of total compensation), \$372,015 was equity incentive compensation (42.9% of total compensation), and \$172,916 was non-equity incentive compensation (20.0% of total compensation).

Shareholder Base & Liquidity

Shareholder Base

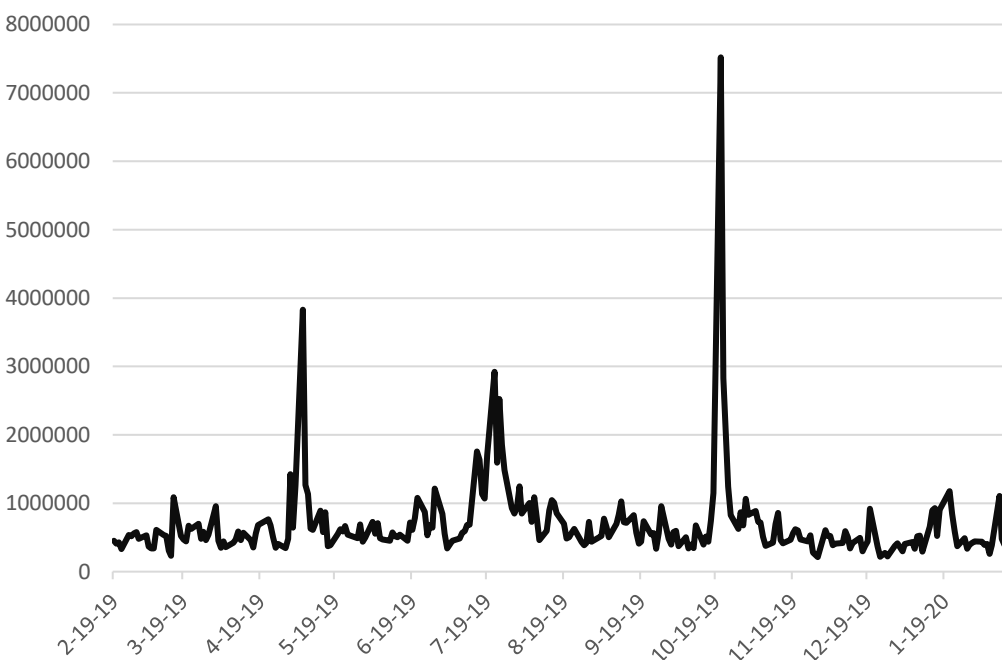
PetMed Express has 19,973,000 shares outstanding as of September 2019 with a 96% free float. Insiders hold 4.3% of all shares, while Investment Managers hold 91.2%, indicating that it is of institutional quality. Its ten largest shareholders are listed in the table below.

Shareholder	Shares Owned	% of Shares Outs.
BlackRock Institutional Trust Company, N.A.	2,872,107	14.24%
Renaissance Technologies LLC	1,622,200	8.04%
The Vanguard Group, Inc.	1,402,746	6.95%
Dimensional Fund Advisors, L.P.	866,932	4.30%
State Street Global Advisors (US)	853,315	4.23%
SG Americas Securities, L.L.C.	677,495	3.36%
BofA Securities, Inc	588,902	2.92%
Numeric Investors LLC	546,569	2.71%
Newtyn Management, LLC	525,999	2.61%
Akdag (Menderes)	510,000	2.53%

Liquidity

Over the last twelve months, PetMed Express has an average daily trading volume of 710,240 shares. The significant spikes in daily trading volume are at the dates of earnings statement releases. With approximately 20.17 million shares outstanding, this daily trading volume exhibits a high turnover rate and short holding period. This may possibly imply that investors believe that the PetMed stock will outperform the market and generate higher returns in the short term.

LTM Daily Trading Volume



Valuation

We have decided to derive our implied share target based on a discounted cash flow analysis with a 40% weighting of the EV/EBITDA exit multiple and a 40% weighting of the perpetuity growth model. The remaining 20% is based on our comparable company analysis with the P/E multiple and EV/EBITDA multiple each weighted at 10%. We decided to give the DCF analysis more weight since PetMed Express currently operates in a very niche sub-industry where no other competitor has a similar business model.

Discounted Cash Flow Analysis

Operating Assumption

PetMed Express is on track for its weakest annual performance (Fiscal Year 2020) in the last 5 years; however, given the strong performance in previous years, we believe that PetMed Express will recover in the coming years as it strengthens its brand recognition and customer retention through implementation of new marketing strategies and MAP pricing across the industry.

Revenue Growth

As consumer spending habits shift online, e-commerce retail sales in the US have grown 15.7%. We have predicted positive growth for its internet sales segment and consequently predicted negative growth in the contact center sales growth as PetMed Express' trade name "1-800-PetMed" is becoming more of a brand image rather than a toll-free number with this increase in e-commerce.

COGS Margin

Although fiscal year 2020 is on track towards having a higher COGS margin, we predict that this number will remain at approximately 72.5% in comparison to it historically being in the 63% to 68% range. This is a result of the recent entrance of enormous companies, such as Walmart and Chewy.com, who are able to drive down the prices of products. Nonetheless, as of Q2, MAP pricing is in the process of being implemented across the industry. The MAP pricing is on average higher than PetMed's prior pricing and the majority of sales are under MAP pricing strategies. We expect this to drive down the COGS margin in future years.

SG&A Margin

We have predicted the SG&A margin to decrease slightly over the next few years as consumer spending has shifted online and there will be less need for customer service representatives at PetMed Express' call centers. Forecasts were kept conservative with the margin decreasing to no lower than 8.9% as we still expect SG&A costs to be fairly present in the operations of online and call center sales.

R&D Margin

Since PetMed Express aims to maintain its title as the largest online pet pharmacy in the US, adequate funds must be invested into R&D to continuously develop their website and brand image. This allows for its competitive edge to be maintained as additional companies enter the industry. Although in the last 5 years, R&D margins have begun to decrease from 11.0% in 2015 to 7.8% 2019, we expect this margin to grow back towards 10.0% as more capital is invested into the PetMed's marketing strategy and the improvement of its online website and mobile app.

Weighted Average Cost of Capital

In determining PetMed Express' weighted average cost of capital (WACC), the rates used were retrieved from Bloomberg. The current US 5-year Treasury Bill yield is 1.6% which we used as the risk-free rate. The US market currently expects a 6% market return and a beta of 0.82 was used to calculate a cost of equity of 5.2%. PetMed Express has no debt in its capital structure and the effective tax rate is set to 21% - the corporate tax rate. This allowed us to conclude a final WACC value of 5.2%.

Dividend Policy

PetMed Express has increased its dividends recently - growing \$0.21 US from FY 2018 to FY 2019. We predict dividends to remain at its current amount of \$0.27 per share each quarter through FY 2025. This conservative dividend payment will allow the company to re-invest capital back into the company in the form of investments.

EV/EBITDA Exit Multiple

Based on our analysis, we used an EV/EBITDA exit multiple of 24.1x. We believe this is a fair estimate since it is what it currently trades at and we believe that it will continue to trade at 24.1x in the future as cash flows grow.

Comparable Company Analysis

PetMed Express operates in the very niche industry of online pet pharmacies and does not have any direct competitors. Nonetheless, competitors consist of other pet supplies companies as well as pharmaceutical companies. For our comparable company analysis, we selected pharmaceutical companies based around the world as all pharmaceutical companies operate with similar products and are thus exposed to similar costs, trends, and risks.

1-800-Flowers.com Inc.

1-800-Flowers.com is an US e-commerce provider of floral products and gifts, which can be purchased either online or through calling its toll-free telephone number.

Trupanion

Trupanion is a pet insurance provider who provides medical plans for dogs and cats located in the US, Canada, and Puerto Rico. It operates in the subscription business and operations business. Within the subscriptions business, it provides monthly

subscriptions to its medical plan, which it markets towards consumers; and in the operations business, it provides software solutions marketed at veterinarians, which aid in facilitating direct payments of invoices.

Chewy, Inc.

Chewy, Inc. is based an online and mobile-based retailer of branded and private-label pet food and grooming supplies. It offers over 1600 brands and sells products ranging from tablets to ointment. The company owns a number of brands including A Pet Hub, A&E Cage Company, ABO Gear, Ark Naturals, and more.

Covetrus, Inc.

Covetrus, Inc. is an animal-health technology and services company that operates globally. It provides its technology and services to animal veterinary markets and aims to connect veterinarians and clients through combining practice management software, prescriptions management, multi-channel client engagement services, and supply chain infrastructure.

Heska Corporation

Heska Corporation sells veterinary diagnostic and specialty products. It operates in the Core Companion Animal Health (CCA) and Other Vaccines, Pharmaceuticals, and Products segments (OVP). The company's main objective is supporting veterinarians in canine and feline healthcare through offering a line of veterinary blood testing and other instruments. Alongside this, the company also manufactures biological and pharmaceutical products for other animal-health companies.

Recommendation

PetMed has positioned itself strategically as the leader in a niche industry and we see many opportunities for PetMed Express to rebound as consumer spending habits continue to shift online, coupled with the rising "pet parent" mentality. PetMed Express is able to offer both the value and convenience that customers are seeking.

PetMed Express' competitive advantage of being the leader of the online pet pharmacy's industry as well as their strong brand image appeals to customers. By expanding into pet supplies through offering third party products, PetMed Express is able to offer consumers the convenience and of purchasing their pets' medication and supplies together, from the a device. With the implementation of PetMed Express' rewards program, customers will be incentivized to spend more and return to PetMed Express for additional purchases.

We believe that the current share price undervalues PetMed Express, which has ample opportunity for growth in the future. By weighting the DCF valuation at 80% and Comparable Companies valuation at 20%, we produce a target price of \$58.59. Ultimately, this resulted in a return of 45.1% and we initiate a buy rating on PetMed Express.

Risks

Increasing Competition in the Industry

Although the online pet food and pet supply sales industry has multiple major players, few of these companies have a significant online presence. Nonetheless, major players from the online pet food and pet supply sales industry could expand their product inventories so that they are also carrying pet medications for online distribution. In 2017, Pet Smart launched their online pharmacy, while competitor Chewy did so as well in 2018. Both companies offer prescribed and over-the-counter medications.

Macroeconomic Risk

On average, a bull market lasts 4.5 years; as we are over ten years into a strong bull market, it can be assumed that the economy is nearing the end of a business cycle. In a bear market, disposable per capita income decreases, which directly affects the sales of PetMed Express, which operates in the consumer discretionary sector. To mitigate this risk, PetMed Express can continue offering competitive prices to customers until MAP is fully implemented. Subsequent to this, PetMed Express may mitigate this risk by offering a larger selection of pet supplies to include additional staple goods, such as pet foods and treats to maintain sales revenues.

Compliance to Laws & Regulations

Failing to comply with state or federal regulations covering the dispensing of prescription pet medications could result in the loss of PetMed Express pharmacy license. Such a loss would cause material adverse effects on operations. While PetMed Express makes a full effort to comply with law, the company cannot ensure 100% compliance as each state is governed by different state laws. Although PetMed Express is located in Florida and governed by Florida state law, each sale is also covered by the laws of the state where the customer completed the purchase. In the past, PetMed Express has faced numerous fines for dispensing prescription medications illegally as pet pharmacies must maintain a veterinary-client-patient relationship. The company had an “alternate veterinary program” where it employed Doctor of Veterinary Medicine staff who would prescribe medications to customers without the veterinary-client-patient relationship. To repair the relationship between PetMed Express and veterinarians, the company released a television advertisement in 2012 with a veterinarian’s approval. Prior advertisements portrayed the company as a way for customers to circumvent purchasing medications from veterinarians.

Implementation of MAP

PetMed Express main strategy is based on being able to provide products to customers at a lower price in comparison to competitors. MAP pricing directly threatens PetMed Express as its advertising campaign actively promotes its lower prices. Although MAP pricing does not prevent PetMed Express from selling products at prices lower than implemented, it does prevent the advertisement of these prices. To mitigate this risk, many online retailers will simply display a different price in shopping carts than displayed on the product page by adding a disclaimer.

Appendix 1: Model Summary

	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25
(Figures in mm USD)	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
Income Statement											
Revenue	229.4	234.7	249.2	273.8	283.4	280.1	292.4	303.3	316.6	331.8	349.0
EBITDA	28.3	33.2	38.9	54.3	48.4	30.3	32.1	31.8	32.9	31.9	30.7
Net Income	17.5	20.6	23.8	37.3	37.7	23.3	23.0	22.9	23.7	23.1	22.3
Earnings Per Share	\$ 0.87	\$ 1.02	\$ 1.17	\$ 1.82	\$ 1.84	\$ 1.15	\$ 1.12	\$ 1.12	\$ 1.16	\$ 1.13	\$ 1.09
Cash Flow Statement											
Capital Expenditures	(0.9)	(20.1)	(10.6)	(0.7)	(0.6)	(3.4)	(0.9)	(1.1)	(1.3)	(1.5)	(1.6)
Acquisitions	-	-	-	-	-	-	-	-	-	-	-
Divestitures	-	-	-	-	-	-	-	-	-	-	-
Dividend Payment	(13.8)	(14.7)	(15.5)	(17.5)	(21.9)	(21.9)	(21.7)	(21.7)	(21.7)	(21.7)	(21.7)
Dividend Per Share	\$ 0.68	\$ 0.72	\$ 0.76	\$ 0.85	\$ 1.06	\$ 1.06	\$ 1.06	\$ 1.06	\$ 1.06	\$ 1.06	\$ 1.06
Dividend Payout to Earnings	79.1%	71.4%	65.1%	46.9%	58.1%	94.2%	94.4%	94.7%	91.6%	94.1%	97.4%
Dividend Payout to Core FCF	61.4%	33.9%	38.7%	40.9%	50.0%	70.5%	82.4%	82.2%	79.3%	80.8%	83.1%
Dividend Yield	4.7%	4.2%	3.7%	2.3%	3.2%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%
Balance Sheet											
Current Assets	79.6	67.6	81.8	105.2	126.4	122.5	123.9	128.1	131.9	135.2	137.6
Non-Current Assets	3.3	22.7	31.0	29.6	28.0	27.8	26.2	24.9	23.8	23.0	22.3
Assets	82.9	90.3	112.8	134.8	154.4	150.3	150.1	153.0	155.7	158.2	160.0
Current Liabilities	7.4	7.1	18.4	18.1	18.6	22.6	21.0	22.8	23.5	24.6	25.8
Non-Current Liabilities	-	-	1.1	1.0	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Liabilities	7.4	7.1	19.4	19.1	19.7	23.7	22.1	23.9	24.6	25.7	26.9
Shareholders' Equity	75.4	83.2	93.4	115.7	134.7	126.6	127.9	129.1	131.1	132.5	133.1
Cash	35.6	37.6	58.7	77.9	100.5	95.8	96.4	101.1	104.4	105.3	106.5
Debt	-	-	-	19.1	19.7	22.5	18.9	21.6	22.7	23.7	25.3
Net Debt	(35.6)	(37.6)	(58.7)	(58.8)	(80.8)	(73.3)	(77.5)	(79.4)	(81.7)	(81.7)	(81.2)
Minority Interests	-	-	-	-	-	-	-	-	-	-	-
Debt/EBITDA	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Operating Metrics											
Return on Equity (ROE)	23.1%	24.7%	25.5%	32.2%	28.0%	18.8%	22.8%	25.5%	22.4%	22.0%	21.3%
Return on Assets (ROA)		23.8%	23.5%	27.7%	24.4%	16.0%	20.0%	23.8%	20.8%	20.6%	20.2%
Return on Invested Capital (ROIC)	23.0%	24.6%	25.2%	31.2%	26.3%	16.5%	16.2%	16.0%	16.3%	15.6%	15.0%
Valuation Metrics											
Stock Price (High)	\$ 16.59	\$ 18.70	\$ 23.66	\$ 53.24	\$ 46.17	\$ 22.73	\$ 22.73	\$ 22.73	\$ 22.73	\$ 22.73	\$ 22.73
Stock Price (Low)	\$ 12.56	\$ 15.72	\$ 17.31	\$ 20.20	\$ 20.50	\$ 22.73	\$ 22.73	\$ 22.73	\$ 22.73	\$ 22.73	\$ 22.73
Stock Price (Average)	\$ 14.58	\$ 17.21	\$ 20.49	\$ 36.72	\$ 33.34	\$ 22.73	\$ 22.73	\$ 22.73	\$ 22.73	\$ 22.73	\$ 22.73
Diluted Shares Outstanding (Average)	20.1	20.3	20.4	20.4	20.5	20.0	20.0	20.0	20.0	20.0	20.0
Market Capitalization (Average)	293.5	348.6	417.4	750.3	683.1	455.5	454.0	454.0	454.0	454.0	454.0
Enterprise Value (Average)	257.9	310.9	358.7	691.5	602.3	382.2	376.5	374.5	372.3	372.3	372.8
P/E	16.8 x	16.9 x	17.5 x	20.1 x	18.1 x	19.8 x	20.3 x	20.3 x	19.7 x	20.2 x	20.9 x
EV/EBITDA	9.1 x	9.4 x	9.2 x	12.7 x	12.4 x	12.6 x	11.7 x	11.8 x	11.3 x	11.7 x	12.1 x
FCF Yield to Market Capitalization	9.4%	-0.3%	7.6%	4.3%	5.6%	5.6%	5.0%	5.9%	5.6%	5.1%	5.1%
FCF Yield to Enterprise Value	10.7%	-0.4%	8.9%	4.7%	6.4%	6.6%	6.0%	7.1%	6.8%	6.2%	6.2%
Free Cash Flow											
EBIT	27.6	32.4	37.5	52.1	46.2	28.0	29.6	29.5	30.5	29.6	28.5
Tax Expense	(10.3)	(12.0)	(14.1)	(16.5)	(11.4)	(5.9)	(6.2)	(6.2)	(6.4)	(6.2)	(6.0)
D&A	0.7	0.8	1.4	2.1	2.2	2.3	2.5	2.4	2.4	2.3	2.3
Capital Expenditures	(0.9)	(20.1)	(10.6)	(0.7)	(0.6)	(3.4)	(0.9)	(1.1)	(1.3)	(1.5)	(1.6)
Changes in NWC	10.5	(2.1)	17.7	(4.6)	1.9	4.4	(2.3)	2.1	0.3	(1.2)	(0.1)
Unlevered Free Cash Flow	27.5	(1.1)	31.9	32.4	38.3	25.4	22.7	26.7	25.5	22.9	23.0
Valuation Summary											
Current Price	\$ 40.96										
Target Price	\$ 58.59										
Total Return	43.0%										
Recommendation	BUY										
DCF Valuation											
Perpetuity Growth Implied Price	\$ 38.46										
Exit Multiple Implied Price	\$ 38.75										
Comps Valuation											
Comps - EV/EBITDA Implied Price	\$ 230.80										
Comps - P/E Implied Price	\$ 46.22										

Appendix 2: Discounted Cash Flow Analysis

(Figures in mm USD)	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25
	FY2015	FY2016	FY2017	FY2018	FY2019	Q1-2020	Q2-2020	Q3-2020	Q4-2020	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
WACC Calculations															
Cost of Equity															
Risk-free rate	1.6%														
Expected market return	6.0%														
Market Risk Premium	4.4%														
Beta	0.82														
Cost of Equity	5.2%														
Cost of Debt															
Pre-tax cost of debt	-														
Effective tax rate	21.0%														
Cost of Debt	-														
WACC															
Market value of equity	818.1														
Market value of debt	-														
Total Capitalization	818.1														
Cost of equity	5.2%														
Cost of debt	-														
WACC	5.2%														
Free Cash Flow															
EBIT	27.6	32.4	37.5	52.1	46.2	6.2	8.4	7.9	5.5	28.0	29.6	29.5	30.5	29.6	28.5
Less: Tax expense	(10.3)	(12.0)	(14.1)	(16.5)	(11.4)	(1.6)	(2.5)	(1.8)	(1.2)	(5.9)	(6.2)	(6.2)	(6.4)	(6.2)	(6.0)
Add: Depreciation and amortization	0.7	0.8	1.4	2.1	2.2	0.6	0.6	0.6	0.6	2.3	2.5	2.4	2.4	2.3	2.3
Less: Capital expenditures	(0.9)	(20.1)	(10.6)	(0.7)	(0.6)	(0.2)	(0.2)	(1.4)	(1.6)	(3.4)	(0.9)	(1.1)	(1.3)	(1.5)	(1.6)
Less: Change in net working capital	10.5	(2.1)	17.7	(4.6)	1.9	(6.4)	8.8	(3.6)	5.5	4.4	(2.3)	2.1	0.3	(1.2)	(0.1)
Unlevered Free Cash Flow	27.5	(1.1)	31.9	32.4	38.3	(1.5)	15.0	1.7	8.9	25.4	22.7	26.7	25.5	22.9	23.0
Discount factor						-	-	-	0.25	0.25	1.25	2.25	3.25	4.25	5.25
Present Value of Unlevered Free Cash Flow						-	-	-	8.8	8.8	21.7	23.8	21.6	18.5	17.7

Discounted Cash Flow Valuations

Perpetuity Growth Method	
Perpetuity Growth Rate	2.0%
PV sum of unlevered FCF	112.1
Terminal value	561.2
Enterprise Value	673.3
Add: Cash	94.9
Less: Debt	-
Less: Other EV adjustments	0.0
Equity Value	768.2
Shares outstanding	20.0
Implied Share Price	\$ 38.46
Current Price	\$ 40.96
Implied Price	\$ 38.46
Total Return	-6.1%

Exit Multiple Method	
Terminal EV/EBITDA Multiple	24.1 x
PV sum of unlevered FCF	112.1
Terminal value	567.0
Enterprise Value	679.0
Add: Cash	94.9
Less: Debt	-
Less: Other EV adjustments	0.0
Equity Value	773.9
Shares outstanding	20.0
Implied Share Price	\$ 38.75
Current Price	\$ 40.96
Implied Price	\$ 38.75
Total Return	-5.4%

		WACC				
		6.21%	5.71%	5.21%	4.71%	4.21%
Perpetuity Growth Rate	1.30%	\$ 27.57	\$ 30.10	\$ 33.27	\$ 37.37	\$ 42.88
	1.80%	\$ 29.63	\$ 32.74	\$ 36.76	\$ 42.16	\$ 49.80
	2.30%	\$ 32.23	\$ 36.16	\$ 41.45	\$ 48.93	\$ 60.34
	2.80%	\$ 35.58	\$ 40.76	\$ 48.09	\$ 59.26	\$ 78.36
	3.30%	\$ 40.09	\$ 47.27	\$ 58.21	\$ 76.92	\$ 116.23
		WACC				
		6.21%	5.71%	5.21%	4.71%	4.21%
Terminal EV/EBITDA Multiple	22.1 x	\$ 34.98	\$ 35.68	\$ 36.39	\$ 37.13	\$ 37.88
	23.1 x	\$ 36.10	\$ 36.83	\$ 37.57	\$ 38.34	\$ 39.12
	24.1 x	\$ 37.23	\$ 37.98	\$ 38.75	\$ 39.54	\$ 40.36
	25.1 x	\$ 38.35	\$ 39.12	\$ 39.93	\$ 40.75	\$ 41.60
	26.1 x	\$ 39.47	\$ 40.27	\$ 41.10	\$ 41.96	\$ 42.84

Appendix 3: Comparable Company Analysis

(Figures in mm USD)

Company	Ticker	Equity Value	Enterprise Value	EV/EBITDA Multiple			P/E Multiple				
				2018A EV/EBITDA	2019E EV/EBITDA	2020E EV/EBITDA	2018A P/E	2019E P/E	2020E P/E		
Chewy INC - Class A	(NYSE: CHWY)	14,943.5	15,024.7								
Trupanion	(NASDAQ: TRUP)	944.9	941.9	269.1 x	229.7 x	68.9 x					
Covetrus, Inc.	(NASDAQ: CVET)	909.2	1,881.2	9.4 x	19.6 x	10.6 x	5.8 x		14.5 x		
Heska Corporation	(NASDAQ: HSKA)	442.4	514.0	33.4 x	114.2 x	46.3 x	74.7 x		172.8 x		
1-800-Flowers.com Inc.	(NASDAQ: FLWS)	852.2	726.6	9.8 x	9.6 x	7.8 x	21.4 x	25.1 x	21.4 x		
				-	-	-					
				-	-	-					
PetMed Express	(NASDAQ: PETS)	818.1	723.2	13.3 x	14.9 x	23.9 x	22.4 x	22.2 x	35.7 x		
Median					66.9 x	28.5 x		25.1 x	21.4 x		
Mean					93.3 x	33.4 x		25.1 x	69.6 x		
High					229.7 x	68.9 x		25.1 x	172.8 x		
Low					-	-		25.1 x	14.5 x		
Median				EV/EBITDA Implied Price			P/E Implied Price				
				\$	166.89	\$	47.91	\$	46.22	\$	24.55
Mean				\$	230.80	\$	55.39	\$	46.22	\$	79.84
High				\$	561.44	\$	109.19	\$	46.22	\$	198.30
Low				\$	4.75	\$	4.75	\$	46.22	\$	16.68

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