



Position Close Update: PetMed Express (PETS)

Years of declining profitability and mounting competition lead us to close this [Long Idea](#), PetMed Express, Inc. (PETS: \$30/share).

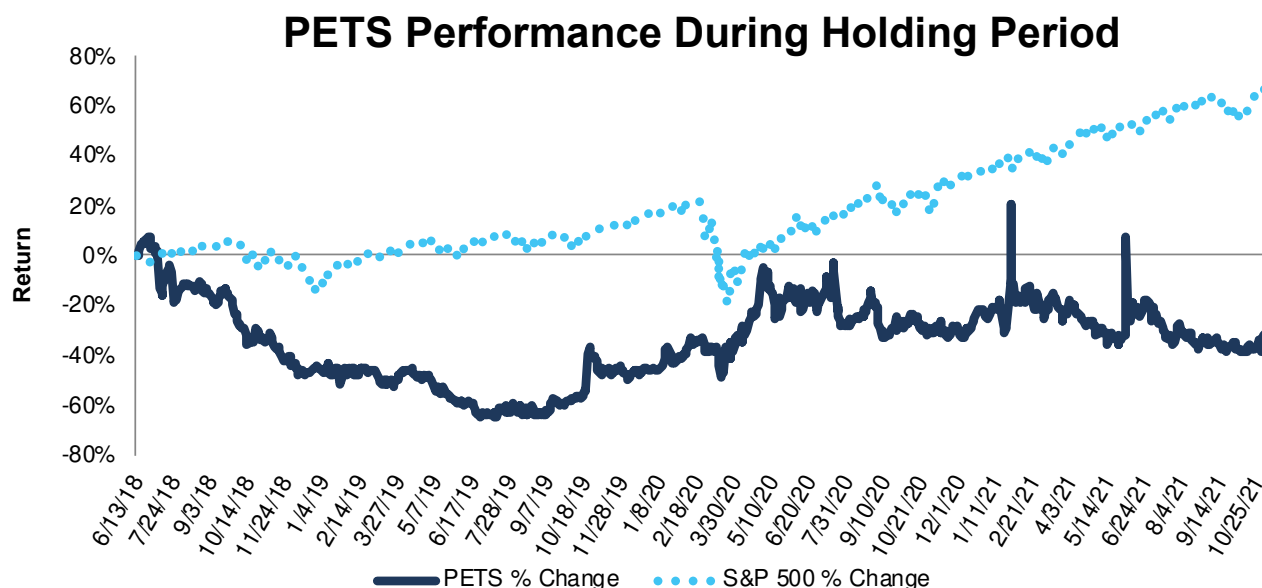
[Learn more about the best fundamental research](#)

We leverage more [reliable fundamental data](#), proven in [The Journal of Financial Economics](#)¹, and shown to provide a [new source of alpha](#), with qualitative research to highlight this firm whose stock no longer presents the same risk/reward it once did.

PETS Has Underperformed Since Our Original Long Idea

We made PetMed Express a Long Idea in [June 2018](#) and the stock has underperformed the market by 98% since then. At the time of our report, PETS earned a Very Attractive [rating](#). We believed the company's ecommerce position in an overlooked niche market with favorable long-term trends would support continued profit growth. While the company still earns a Very Attractive rating, headwinds look likely to hamper the company's growth prospects moving forward. Details below.

Figure 1: Long Idea Performance: From Date of Publication Through 11/2/2021



Sources: New Constructs, LLC and company filings

Multiple Headwinds Make PetMed Express Less Attractive

PetMed Express' competitive position has worsened as other large pet care and pet med retailers now own the majority of the market. In calendar 2020, PetMed Express' business accounted for just 0.3% of [personal pet expenditures](#). Competitors such as Chewy (CHWY), PetsMart, Walmart Pet Rx (WMT), Amazon (AMZN), and Tractor Supply Rx (TSKO) have larger customer bases, offer more products, operate larger distribution networks, and offer better-developed omnichannel experiences than PetMed Express.

¹ Our research utilizes our [Core Earnings](#), a more reliable measure of profits, as proven in [Core Earnings: New Data & Evidence](#), written by professors at Harvard Business School (HBS) & MIT Sloan and published in [The Journal of Financial Economics](#).



PetMed Express has struggled to add new customers since fiscal 2017, and the company's number of new customers acquired fell 32% year-over-year (YoY) in 2Q22. Going forward, acquiring new customers will likely get more difficult and expensive.

In its fiscal [2Q22 earnings call](#), management noted, "some of the channels like Facebook have obviously got [sic] more expensive due to the loss of first party data due to the Apple IDFA decision." Apple's privacy changes have had a very immediate and noticeable effect to PetMed Express' advertising costs. The advertising cost of acquiring a new customer for the six months ended September 30, 2021 was \$71/per customer compared to \$50/per customer in the prior period, or a 42% YoY increase.

Ever-increasing competition is clearly taking its toll on the business, and PetMed Express' [Core Earnings](#) fell from \$40 million in fiscal 2018 to \$26 million over the trailing-twelve-months.

With its eye on a larger total addressable market, PetMed Express wants to expand beyond pet meds and into the rest of the pet care market. However, the challenges PetMed Express faces in the pet meds market will only intensify in the even more competitive pet care market, with peers offering more products to larger customer bases. At the end of fiscal 2021, PetMed Express offered just 3,000 products compared to Chewy's 70,000 products. Furthermore, over the past two years, PetMed Express served just over 2 million [active customers](#) compared to Chewy's ~20 million active customers² at the end of its fiscal 2Q22.

While the company still earns a Very Attractive rating, the rise of formidable competition, ballooning advertising costs, and the company's long-term decline in profitability means the stock no longer provides the same risk/reward it once did, and we're closing this long position.

This article originally published on [November 3, 2021](#).

Disclosure: David Trainer, Kyle Guske II, and Matt Shuler receive no compensation to write about any specific stock, sector, style, or theme.

Follow us on [Twitter](#), [Facebook](#), [LinkedIn](#), and [StockTwits](#) for real-time alerts on all our research.

² Chewy counts active customers as the total number of individual customers who have made a purchase at least once during the preceding 364-day period.



It's Official: We Offer the Best Fundamental Data in the World

Many firms claim their research is superior, but none of them can prove it with independent studies from highly-respected institutions as we can. Three different papers from both the public and private sectors show:

1. Legacy fundamental datasets suffer from significant inaccuracies, omissions and biases.
2. Only our “novel database” enables investors to overcome these flaws and apply [reliable](#) fundamental data in their research.
3. Our proprietary measures of [Core Earnings](#) and [Earnings Distortion](#) materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

Forthcoming in [The Journal of Financial Economics](#), a top peer-reviewed journal, [Core Earnings: New Data & Evidence](#) proves our Robo-Analyst technology overcomes material shortcomings in legacy firms' data collection processes to provide superior [fundamental data](#), [earnings](#) models, and [research](#). More [details](#).

Key quotes from the paper:

- “[New Constructs’] *Total Adjustments* differs significantly from the items identified and excluded from Compustat’s adjusted earnings measures. For example... 50% to 70% of the variation in *Total Adjustments* is not explained by S&P Global’s (*SPGI*) *Adjustments* individually.” – pp. 14, 1st para.
- “A final source of differences [between New Constructs’ and S&P Global’s data] is due to data collection oversights...we identified cases where Compustat did not collect information relating to firms’ income that is useful in assessing core earnings.” – pp. 16, 2nd para.

Superior Models

A top accounting firm features the superiority of our ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg’s in [Getting ROIC Right](#). See the [Appendix](#) for direct comparison details.

Key quotes from the paper:

- “...an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [as New Constructs does] can investors get an accurate calculation of ROIC.” – pp. 8, 5th para.
- “The majority of the difference...comes from New Constructs’ machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies.” – pp. 4, 2nd para.

Superior Stock Ratings

Robo-Analysts’ stock ratings outperform those from human analysts as shown in this [paper](#) from Indiana’s Kelley School of Business. Bloomberg features the paper [here](#).

Key quotes from the paper:

- “the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant.” – pp. 6, 3rd para.
- “Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts.” – pp. 20, 3rd para.

Our mission is to provide the best fundamental analysis of public and private businesses in the world and make it affordable for all investors, not just Wall Street insiders.

We believe every investor deserves to know the whole truth about the profitability and valuation of any company they consider for investment. More details on our cutting-edge technology and how we use it are [here](#).



DISCLOSURES

New Constructs®, LLC (together with any subsidiaries and/or affiliates, "New Constructs") is an independent organization with no management ties to the companies it covers. None of the members of New Constructs' management team or the management team of any New Constructs' affiliate holds a seat on the Board of Directors of any of the companies New Constructs covers. New Constructs does not perform any investment or merchant banking functions and does not operate a trading desk.

New Constructs' Stock Ownership Policy prevents any of its employees or managers from engaging in Insider Trading and restricts any trading whereby an employee may exploit inside information regarding our stock research. In addition, employees and managers of the company are bound by a code of ethics that restricts them from purchasing or selling a security that they know or should have known was under consideration for inclusion in a New Constructs report nor may they purchase or sell a security for the first two days after New Constructs issues a report on that security.

DISCLAIMERS

The information and opinions presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or solicitation of an offer to buy or sell securities or other financial instruments. New Constructs has not taken any steps to ensure that the securities referred to in this report are suitable for any particular investor and nothing in this report constitutes investment, legal, accounting or tax advice. This report includes general information that does not take into account your individual circumstance, financial situation or needs, nor does it represent a personal recommendation to you. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about any such investments or investment services.

Information and opinions presented in this report have been obtained or derived from sources believed by New Constructs to be reliable, but New Constructs makes no representation as to their accuracy, authority, usefulness, reliability, timeliness or completeness. New Constructs accepts no liability for loss arising from the use of the information presented in this report, and New Constructs makes no warranty as to results that may be obtained from the information presented in this report. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information and opinions contained in this report reflect a judgment at its original date of publication by New Constructs and are subject to change without notice. New Constructs may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and New Constructs is under no obligation to insure that such other reports are brought to the attention of any recipient of this report.

New Constructs' reports are intended for distribution to its professional and institutional investor customers. Recipients who are not professionals or institutional investor customers of New Constructs should seek the advice of their independent financial advisor prior to making any investment decision or for any necessary explanation of its contents.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would be subject New Constructs to any registration or licensing requirement within such jurisdiction.

This report may provide the addresses of websites. Except to the extent to which the report refers to New Constructs own website material, New Constructs has not reviewed the linked site and takes no responsibility for the content therein. Such address or hyperlink (including addresses or hyperlinks to New Constructs own website material) is provided solely for your convenience and the information and content of the linked site do not in any way form part of this report. Accessing such websites or following such hyperlink through this report shall be at your own risk.

All material in this report is the property of, and under copyright, of New Constructs. None of the contents, nor any copy of it, may be altered in any way, copied, or distributed or transmitted to any other party without the prior express written consent of New Constructs. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of New Constructs. Copyright New Constructs, LLC 2003 through the present date. All rights reserved.