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Investment Thesis White Paper

# PetMed Express, Inc.

# (NASDAQ: PETS)

An Undervalued Pet Health Platform with Significant Asset Value, M&A Catalysts, and Asymmetric Upside

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*This document does not constitute an offer to buy or sell securities. Past performance is not indicative of future results. Investors should conduct their own independent analysis and consult with qualified professionals before making investment decisions.*

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# Thesis Summary

**PetMed Express, Inc. (NASDAQ: PETS)** represents a compelling special situation investment opportunity offering substantial downside protection through tangible asset value, combined with significant upside potential driven by active M&A interest and a secular growth industry tailwind.

Founded in 1996 and headquartered in Delray Beach, Florida, PetMed Express is one of America's largest and most recognized online pet pharmacies, operating under the PetMeds® and PetCareRx® brand names with pharmacy licenses in all 50 states.

The Company has built an irreplaceable infrastructure over nearly three decades, including a nationally-recognized consumer brand, regulatory licensing, a proven direct-to-consumer fulfillment operation, and a loyal customer base of millions of pet owners.

At the current trading price of approximately $2.90 per share, the market is pricing PETS as if the business is terminal. We believe this is a fundamental mispricing. The Company holds approximately $26.9 million in cash with zero long-term debt, owns property and equipment valued at $27.6 million on its books (with likely significant unrealized appreciation in Delray Beach real estate), and continues to acquire approximately 59,000 new customers per quarter.

Two sophisticated parties - SilverCape Investments at $4.00 per share and Cardone Ventures at $4.25 per share - have independently concluded that the Company's fair value substantially exceeds current trading levels.

Based on our analysis of comparable transactions, sum-of-the-parts asset valuation, and the competitive bidding dynamics in play, we believe PETS has a fair value range of $4.25 to $6.50 per share, representing 45% to 124% upside from current levels.

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# Company Background & Overview

PetMed Express, incorporated in Florida in 1996, has operated for nearly 30 years as a direct-to-consumer pet pharmacy. The Company sells prescription and non-prescription medications, health products, food, supplements, and supplies for dogs, cats, and horses through its websites (petmeds.com and petcarerx.com), mobile app, and customer contact center, offering approximately 7,200 SKUs of leading pet health products.

## 2.1 A Track Record of Profitability Under Proper Management

PETS is not a startup that has never earned a dollar. This is a mature business that has demonstrated the capacity to generate substantial profits when managed effectively. In Fiscal Year 2021 (ended March 2021), PetMed Express posted $303.6 million in revenue, $84.3 million in gross profit, $30.5 million in operating income, and $23.9 million in net income, translating to $1.53 in earnings per share. The stock traded as high as $44.49 during that period, giving the Company a market capitalization exceeding $900 million.

Even as recently as Fiscal Year 2023 (restated), the Company generated $5.1 million in net income and $19.8 million in adjusted EBITDA. The profitability erosion in recent periods is attributable to management execution failures - including excessive customer acquisition costs, failed integration of the PetCareRx acquisition, and internal control weaknesses - not to the underlying business model or market demand.

| Fiscal Year | Revenue | Net Income | Adj. EBITDA | EPS |
|---|---|---|---|---|
| FY2021 (Mar 2021) | $303.6M | $23.9M | ~$35M | $1.53 |
| FY2022 (Mar 2022) | $272.3M | $18.7M | ~$28M | $1.04 |
| FY2023 (Mar 2023, restated) | $256.6M | $5.1M | $19.8M | $0.01 |
| FY2024 (Mar 2024, restated) | $281.1M | ($7.5M) | $8.2M | ($0.37) |
| FY2025 (Mar 2025) | $227.0M | ($6.3M) | ~$4–5M | N/A |

The core thesis is simple: this Company proved it can generate over $23 million in annual net income with the right leadership. The current losses reflect management failures, not business fundamentals.

### 2.2 Balance Sheet Strength: A Fortress of Assets

Despite operational challenges, PETS maintains one of the cleanest balance sheets among public micro-cap companies. As of March 31, 2025, the Company held $54.7 million in cash and cash equivalents with absolutely zero long-term debt. Even as of December 31, 2025 (after significant operating cash burn and a $26.7 million goodwill impairment write-down), the Company still held $26.9 million in cash with no debt.

| Balance Sheet Item | Dec. 31, 2025 | Mar. 31, 2025 |
|---|---|---|
| Cash & Cash Equivalents | $26.9M | $54.7M |
| Total Current Assets | $48.5M | $78.9M |
| Property & Equipment (net) | $27.6M | $28.9M |
| Total Assets | $88.0M | $148.7M |
| Total Liabilities | $55.2M | $63.6M |
| Total Debt | $0 | $0 |
| Shareholders' Equity | $32.8M | $85.1M |

*Source: PETS Condensed Consolidated Balance Sheet, Form 10-Q (Dec. 31, 2025). SEC EDGAR.*

### 2.3 Real Estate and Tangible Asset Value

A critical and often overlooked component of PETS' valuation is its real estate holdings. The Company's executive headquarters and fulfillment center are located at 420 South Congress Avenue, Delray Beach, Florida 33445 - an area that has experienced significant real estate appreciation in recent years.

The Company's property and equipment carry a net book value of approximately $27.6 million as of December 31, 2025. Given the sustained appreciation of South Florida commercial real estate, the fair market value of these assets likely exceeds their depreciated book value

by a meaningful margin. This real estate alone, combined with cash on hand, provides substantial downside protection for shareholders.

**Sum-of-the-Parts Floor Valuation**

Cash on hand: $26.9 million ($1.26/share); Property and equipment (book value): $27.6 million ($1.29/share); Intangible assets and other: $11.3 million ($0.53/share). This produces a tangible asset floor of approximately $3.08 per share - above the recent trading price - before ascribing any value to the operating business, brand, customer relationships, or pharmacy licenses.

## Macro Tailwinds & Pet Industry Growth

The pet care industry is one of the most durable and fastest-growing consumer sectors in the global economy. According to Fortune Business Insights, the global pet care market was valued at $273.4 billion in 2025 and is projected to grow to $496.8 billion by 2034, representing a compound annual growth rate (CAGR) of 7.75%. In the United States alone, the American Pet Products Association (APPA) reported that pet industry expenditures reached $152 billion in 2024, with projections of $157 billion for 2025.

### 3.1 Pet Ownership is Accelerating

According to the APPA's 2025 State of the Industry Report, 94 million U.S. households now own at least one pet - up from 82 million in 2023, an increase of nearly 15% in just two years. Dog ownership has grown to 51% of U.S. households (68 million homes), while cat ownership accounts for 37% (49 million homes). Critically, 77% of U.S. pet owners report that financial concerns have not impacted their pet ownership, underscoring the industry's resilience during economic uncertainty.

Gen Z is the fastest-growing cohort of pet owners, with 18.8 million Gen Z households owning a pet in 2024 - a 43.5% increase from 2023. Millennials represent the largest share of pet-owning households at 30%. Importantly, 70% of Gen Z pet owners own two or more pets, and 50% of Gen Z describe their pets as their actual children.

### 3.2 Declining Birth Rates and the "Fur Baby" Phenomenon

A powerful demographic force is reshaping household spending patterns: declining birth rates are accelerating pet adoption. As Elon Musk has repeatedly warned, "Low birth rates will end civilization" - and the data supports the severity of this trend. The U.S. fertility rate dropped to an all-time low of 54.5 births per 1,000 women in 2023, less than half its 1957 peak. U.S. households with children dropped to just 39% in 2024, while pet ownership rose to 71% of all households in 2025.

The inverse relationship between birth rates and pet ownership is not merely anecdotal. Younger couples are increasingly opting for pets instead of - or before - children, due to cost-of-living pressures, delayed marriage, and changing lifestyle preferences.

For example: in China, where birth rates have declined even more dramatically, pet ownership surged 113% between 2014 and 2019, and Bloomberg projects China's pet market to reach $49 billion by 2030.

**For investors, this means the total addressable market for pet health and wellness products is expanding structurally, driven by demographics that are unlikely to reverse in the near or medium term.**

### 3.3 Pet Spending is Economically Resilient

Even during periods of economic uncertainty, pet spending has proven remarkably durable. The pet care industry grew throughout the 2008 - 2009 Great Recession, the 2020 COVID-19 pandemic, and the 2022 - 2024 inflationary cycle.

Average annual household spending on pets is projected to reach $1,445 per pet by 2026 and $1,733 by 2030. Pet medications specifically represent a $12.6 billion U.S. market that benefits from recurring demand - pets need their medications regardless of economic conditions.

# Comparable Transactions & Price Targets

To assess PETS' fair value, we examined recent acquisition transactions in the pet health, pet pharmacy, and pet retail sectors. These transactions demonstrate that strategic and financial acquirers consistently value pet industry assets at significant premiums to operating metrics, particularly when brands, customer databases, and regulatory infrastructure are involved.

## 4.1 Recent Comparable Transactions

| Transaction | Date | Enterprise Value | Revenue | EV/Revenue |
|---|---|---|---|---|
| Covetrus (CVET) - CD&R / TPG | Oct. 2022 | $4.0 billion | $4.6 billion | 0.87x |
| PetIQ (PETQ) - Bansk Group | Oct. 2024 | $1.5 billion | ~$1.0 billion | ~1.5x |
| Allivet - Tractor Supply Co. | Dec. 2024 | $135 million | Not disclosed | N/A |
| PetMed Express (proposed - Cardone) | Dec. 2025 | ~$89 million | $227 million | 0.39x |
| PetMed Express (proposed - SilverCape) | Dec. 2025 | ~$84 million | $227 million | 0.37x |

**Key Observation:** Covetrus, a pet pharmacy and veterinary technology company with a comparable business model to PETS, was taken private at approximately 0.87x revenue. PetIQ, a pet medication and wellness company, was acquired at approximately 1.5x revenue. Tractor Supply paid $135 million for Allivet, a much smaller online pet pharmacy, signaling strong strategic interest in the online pet pharmacy model.

By contrast, the current unsolicited offers for PETS value the Company at just 0.37x to 0.39x revenue - a fraction of what comparable pet health assets have commanded.

This significant discount likely reflects the temporary governance and operational challenges at PETS, not the intrinsic value of the underlying platform.

### 4.2 Implied Price Targets Based on Comparables

Using PETS' trailing twelve-month revenue of approximately $185 million (annualized from the nine-month period ended December 31, 2025) and applying comparable transaction multiples, we derive the following price targets:

| Scenario | EV/Revenue Multiple | Implied Enterprise Value | Implied Price/Share |
|---|---|---|---|
| Distressed / Floor (Current Offers) | 0.37–0.39x | $68–$72M | $2.90–$3.10 |
| Conservative (Discount to Comps) | 0.50x | $92.5M | $4.33 |
| Base Case (Allivet-Adjusted) | 0.65x | $120M | $5.62 |
| Fair Value (Covetrus Comp) | 0.87x | $161M | $7.53 |
| Upside (PetIQ-Adjusted Comp) | 1.0x | $185M | $8.65 |

*Note: Implied price per share assumes approximately 21.4 million shares outstanding and adjusts for cash and debt positions. Revenue estimate based on annualization of the nine-month period ended December 31, 2025. These are illustrative estimates only and not guarantees of future trading prices.*

**Even at a highly conservative 0.50x EV/Revenue multiple - well below every completed comparable transaction - PETS would be valued at approximately $4.33 per share, representing nearly 50% upside from current levels.** At multiples consistent with the Covetrus transaction, implied value exceeds $7.00 per share.

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## Insider Ownership & Active Accumulation

One of the most informative signals in equity analysis is the behavior of those closest to the business. At PetMed Express, insiders have been actively buying shares with their own capital - a powerful vote of confidence in the Company's intrinsic value.

According to Simply Wall St analysis published November 11, 2025, insider buying at PETS reached approximately $1.09 million over the prior twelve months, with the largest single purchase made by Interim CEO and Board Chair Leslie C.G. Campbell, who invested $325,000 at $5.46 per share - nearly double the current trading price.

Over the trailing year, insiders purchased 232,000 shares worth $1.1 million and sold only 60,463 shares (the latter by the former CEO prior to her resignation). The average insider purchase price of approximately $4.70 per share indicates that insiders see substantial value at and above current levels.

Key institutional holders include Renaissance Technologies (6.04%), Vanguard Group (4.69%), Hotchkis & Wiley Capital Management (3.93%), and BlackRock (2.58%). The presence of Renaissance Technologies - one of the most sophisticated quantitative hedge funds in the world - is particularly noteworthy for a micro-cap company and suggests the stock screens as a statistical deep value opportunity.

## Sophisticated Investors Bids Signaling M&A

In the world of special situation investing, the arrival of sophisticated, well-capitalized activists with Schedule 13D filings is one of the strongest signals that a change-of-control event is approaching. At PetMed Express, two distinct parties have independently concluded that the Company is worth substantially more than its current market price and have taken concrete steps toward acquisition.

### 6.1 SilverCape Investments Limited

SilverCape Investments Limited, a Singapore-based investment firm led by Managing Director Peter Kennedy, filed a Schedule 13D with the SEC on May 20, 2025, disclosing beneficial ownership of approximately 12.28% of PETS' outstanding shares (approximately 2.58 million shares based on 21,015,559 shares outstanding). SilverCape has made multiple open-market purchases totaling approximately 279,378 shares and has not sold a single share.

On December 11, 2025, SilverCape filed an amendment to its Schedule 13D disclosing a non-binding proposal to acquire all remaining shares of PetMed Express at $4.00 per share in cash, with no financing contingency. SilverCape's willingness to submit an acquisition offer - rather than simply liquidating its position during a period of accounting restatements and governance turmoil - is a powerful signal that the firm believes the intrinsic value of PETS' assets significantly exceeds $4.00 per share.

### 6.2 Cardone Ventures (Grant Cardone and Brandon Dawson)

Just five days after SilverCape's disclosure, on December 16, 2025, Cardone Ventures announced an unsolicited, non-binding proposal to acquire all outstanding shares of PetMed Express at $4.25 per share in cash - topping SilverCape's bid by 6.25%. The proposal carries no financing contingency, reflecting the financial capacity of the Cardone organization.

Cardone Ventures is led by Brandon Dawson (Co-Founder and CEO), who previously sold his company, Audigy Group, for an extraordinary 77x EBITDA and listed Sonus on the American Stock Exchange at just 29 years old. The firm has scaled to approximately $225 million in revenue in under five years. Grant Cardone, the organization's namesake partner, is a globally recognized entrepreneur who has raised over $2 billion in investment capital and manages over $5 billion in assets through Cardone Capital.

Brandon Dawson stated: "I've followed the PetMeds business closely for more than five years and have long believed the company represents a strategically valuable platform with strong brand equity, infrastructure, and customer relationships."

### 6.3 The Significance of Competing Bids

Academic research on hostile and unsolicited takeover bids consistently demonstrates that the presence of multiple bidders significantly increases the probability of transaction completion and results in higher final acquisition premiums. According to data cited in the Digital BD Deep Research report on PETS, the historical pattern in situations with competing unsolicited all-cash offers is clear: the initial offers rarely represent the final price.

Moreover, the competitive dynamics create a floor under the stock. SilverCape's 12.28% stake makes it a "kingmaker" in any transaction - it is unlikely that any deal can proceed without their assent, and they have effectively established a price floor of $4.00 per share. Cardone's entry at $4.25 per share creates upward competitive pressure.

**The presence of two credentialed, capitalized bidders with no financing contingencies fundamentally de-risks this investment. Historically, additional third-party bidders - such as larger strategic acquirers like Amazon, Chewy, or Tractor Supply - often enter after initial offers are disclosed, potentially pushing valuations substantially higher.**

## Cardone Ventures' Analysis Validates $4.25 Per Share

Cardone Ventures' $4.25 per share offer was not arrived at arbitrarily. The proposal reflects a careful assessment of PetMed Express's sum-of-the-parts value, encompassing the Company's substantial tangible assets, its operating platform, and the strategic value of its brand and customer relationships.

Brandon Dawson publicly stated that Cardone Ventures views PetMeds as "a strategically valuable platform with strong brand equity, infrastructure, and customer relationships" that can be "materially strengthened" under Cardone's operating model. The offer at $4.25 per share implies an equity value of approximately $89 million, which can be disaggregated as follows:

| Component | Estimated Value | Per Share |
|---|---|---|
| Cash & Cash Equivalents (as of Dec. 31, 2025) | $26.9M | $1.26 |
| Property & Equipment (Net Book Value) | $27.6M | $1.29 |
| Intangible Assets & Other | $11.3M | $0.53 |
| Operating Business / Brand / Customer Value (Implied) | $23.2M | $1.08 |
| Strategic Premium / Synergies | $~2M | $0.09 |
| Total Implied Equity Value | $~91M | $4.25 |

At $4.25 per share, Cardone is essentially paying net book value for the tangible assets and ascribing only a modest premium for a business that generated $303 million in revenue and $24 million in net income just four years ago. This reinforces the view that the current market price drastically undervalues the Company's true worth.

**It is important to note that both SilverCape and Cardone submitted their offers without financing contingencies - meaning they are confident in their ability to close. This distinguishes these proposals from speculative or exploratory approaches and signals genuine acquisition intent.**

## Continued Customer Acquisition: ~60,000 New Customers per Quarter

Despite the operational turbulence, PetMed Express continues to demonstrate meaningful customer acquisition activity, adding approximately 59,000 new customers during the quarter ended December 31, 2025, and approximately 202,000 new customers over the nine-month period ended December 31, 2025, according to the Company's Form 10-Q filing.

While these figures represent a decline from the prior-year periods (63,000 and 260,000, respectively), the Company's ability to acquire nearly 60,000

new customers per quarter even during a period of management upheaval, accounting restatements, and reduced marketing spend speaks to the enduring strength of the PetMeds® brand and the structural demand for online pet pharmacy services.

Furthermore, **recurring revenue as a percentage of total gross sales increased to 61.5% for the most recent quarter, up from 56.2% in the same period last year**. This includes AutoShip subscriptions and membership-related revenue, indicating improved customer retention and a stronger base of predictable, recurring revenue. The average customer purchase was approximately $97 per order, consistent with the prior year.

For a potential acquirer, this customer base represents enormous strategic value. Each active customer has a lifetime value tied to recurring medication needs - pets require ongoing preventive care, flea and tick treatments, heartworm medication, and chronic condition management. A customer database of this scale, combined with 50-state pharmacy licensing and a nationally recognized brand, is extremely difficult and costly to replicate.

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## Conclusion

We believe PetMed Express represents one of the most compelling risk-reward opportunities in the equity market today. Our thesis is supported by:

1. Tangible asset value that exceeds the current stock price on a sum-of-the-parts basis;
2. A proven business model that generated $24 million in net income under competent management;
3. Powerful secular tailwinds from growing pet ownership and declining birth rates;
4. Comparable transaction multiples that imply 50–150%+ upside from current levels;
5. Active, accumulating insiders buying stock at prices well above current levels;
6. Two sophisticated, well-capitalized parties competing to acquire the Company at $4.00–$4.25 per share with no financing contingencies;
7. Continued organic customer acquisition of approximately 60,000 new customers per quarter; and
8. The potential for third-party strategic bidders (Amazon, Chewy, Tractor Supply, and others) to enter the process at higher valuations.

The downside is protected by cash, real estate, and tangible assets. The upside is catalyzed by M&A dynamics, industry tailwinds, and the potential for operational turnaround under new leadership or ownership.

At the current price, the market is offering investors the opportunity to acquire shares in a 28-year-old, 50-state licensed pet pharmacy platform at a fraction of its replacement cost, with multiple credible paths to value realization.

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## Important Additional Information and Where to Find It

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***Sources we pulled from:*** *Latest market data, PETS SEC filings, Press Releases & Corporate Communications, Fortune Business Insights, Yahoo Finance, Bloomberg Intelligence, World Animal Foundation, and Palm Beach County property records.*

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