



Unusual Call Buys in PetsMed into New Platform Launch, Potential for M&A

Ticker/Price: PETS (\$28.1)

Analysis:

PetMed Express (PETS) IV rose late in trade with more than 1500 March \$25 calls active with buyers near a price of \$3.60, a name that has 1,770 of the March \$30 calls and 1,275 of the June \$30 calls in open interest from recent buyer flow. PETS is a name that has fell sharply since 2018 highs but recently bottomed near \$16 and has shown strong momentum since Q4 2019 recently extending out past an earnings gap move, and the next retracement level aligns with a key breakdown retest level near \$31.25. The \$580M online pet pharmacy trades 19.3X Earnings, 2.1X Sales, 15.7X EBITDA and has a high 3.84% dividend yield. PETS saw revenues down Y/Y in 2020 for the first time since 2015 and expects growth to return in 2021. It reported results 1/21 beating EPS estimates while coming in light on revenues with margin expansion. It noted that increased online competition did negatively impact its new order sales though sees a continued shift to online sales from veterinarians who have the majority of prescription medication market share. Spring and summer are considered peak seasons, with fall or winter being the off-season. PETS will be adding a new e-commerce platform by the end of February that will improve the user experience with more personalization, ease of use and speed utilizing AI capabilities. Analysts have an average target of \$23.50 with short interest still very high at 30.6% of the float, but coming down 40% from peak levels in July 2019. PETS does not see a lot of analyst coverage but an interesting note from Craig Hallum last July noted its CEO in an 8K filing saw an amendment in the change in control section which could be a hint the company may explore strategic alternatives.

Hawk Vision:



Hawk's Perspective: PETS with a nice bull flag for a potential further squeeze higher and becoming very interesting as a stable business at good valuation and the new platform could drive upside to numbers.

Confidence Ranking: \$\$