

Recommendation: **HOLD**

Current Price: **\$40.55** (3/16/11)

Target Price: **\$38-\$42**

Highlights

Recommendation

We initiate coverage of PetSmart (PETM) stock with a HOLD rating. PetSmart is a fundamentally strong company with excellent future revenue expectations, the largest industry market share, solid cost controls, and good competitive positioning. However, these factors are fully reflected in the current stock price.

- Industry:** The pet industry is part of the consumer discretionary sector, but unlike many companies in this sector, PetSmart has continued to perform well as pet owners have been unwilling to cut back on spending for their animals. During this period, pet spending has increased, and we forecast this increase will continue at a rate of 4-7% per year. The increased humanization of pets will continue to drive positive comparables for pet spending as pet owners strive to improve the quality of their pet's lives. With these trends, PetSmart will continue to maintain value for shareholders.
- Competitive Advantages:** PetSmart's goal is to provide for the lifetime needs of pets and pet parents. PetSmart differentiates from competitors by offering merchandise and services under one roof for pet owners, while catering to the needs of premium, niche, and mass retail customers. It has established several exclusive partnerships, products, and proprietary consumable options. With PetSmart's superior understanding of customer needs and its PetPerks program, PetSmart has tailored its services and product offerings to maximize repeat patronage, customer satisfaction, and desired products. Overall, PetSmart is well positioned in the current market to outperform its major competitors.
- Revenues:** Through its advertising and promotions throughout the store, PetSmart cross-sells customers from grocery brands like "Pedigree" to propriety, organic, and premium brands of pet food and high revenue margin services like grooming, training, and boarding, PetSmart is ensuring prolonged revenue growth despite the current economic conditions. These will create increasing profit margins and same store sales over the coming years.
- Company:** PetSmart has effectively controlled costs and capital expenditures, allowing it to maximize profits. Given PetSmart's strong financial position, the company has been able to use the recent market decline as an opportunity to enter new geographical markets.
- Risks:** Risks include the rate at which new stores are opened, adverse effects on the company's supply chain, loss of key management, and competition. PetSmart faces a risk to losing market share to its competitors in the industry, particularly big box retailers such as Wal-Mart and Target. Regional supermarkets also pose a threat to PetSmart, especially for customers who are willing to buy generic pet food. Smaller pet specialty suppliers pose a threat to the firm as well, especially online businesses such as Vitahound.com and Pet Meds Express, which have lower overhead due to a lack of brick-and-mortar establishments.

While these concerns are valid, Wal-Mart announced its intention to gain a 30% market share several years ago. Today it controls 25% of the Pet Product and Supply market. During this time, PetSmart consistently increased its market share and year-over-year revenue change percentage in excess of the industry, demonstrating its rightful place as the top pet specialty retailer. See Total Revenue Change chart at left.

Total Revenue Change Year over Year			
Year	Industry % Change	PetSmart % Change	Capture Rate
2003	9.83%	7.76%	-2.07%
2004	6.17%	11.16%	4.99%
2005	5.52%	12.26%	6.74%
2006	6.06%	11.80%	5.74%
2007	7.01%	12.59%	5.57%
2008	4.85%	10.36%	5.51%
2009	5.32%	8.40%	3.08%
2010	4.84%	5.35%	0.52%



PETM YTD Chart, Source: Google Finance

Business Description

The Company

PetSmart, Inc., together with its subsidiaries, provides products, services, and solutions for lifetime needs of pet owners and is an industry leader with \$5.3 billion in revenue for 2010.

Founded in 1986 and headquartered in Phoenix, Arizona, PetSmart employs 45,000 associates within its 1,149 retail stores, 162 PetsHotels, 740 hospitals under the Banfield and The Pet Hospital trademarks, and 12 Canadian pet hospitals (administered by third parties). It intends to increase the presence of veterinary services to all PetSmart stores. Through its PetPerks program, PetSmart tracks the needs of its consumers.

Management

In an interview with PetSmart Co-Founder Michael Manson, who worked with Philip L. Francis and Robert Moran, the management practices and corporate culture was discussed. PetSmart empowers its employees in a variety of ways.

According to Mr. Manson, store level managers are given the responsibility and authority to make independent decisions. This allows capable leaders to develop and decreases the risk of any one manager leaving. Both Philip Francis and Robert Moran maintained this culture and empowerment practice.

PetSmart also provides training classes for its associates. This grants associates transferable skills and, if they complete all the courses, qualifies them as a Veterinary Assistant. This employee empowerment and knowledge base improves PetSmart's customer service capabilities, and therefore, customer satisfaction.

Most importantly, Mr. Manson discussed the situation in PetSmart at the time that Mr. Francis and Mr. Moran entered management at PetSmart. The company was rapidly approaching failure, its stock price had plummeted, and significant changes were required for recovery. The new management team was able to overcome these obstacles and return PetSmart to profitability.

In addition to capable leadership, PetSmart's management team encompasses diverse skill sets and extensive retail experience.

Executive Chairman Philip L. Francis was the chief executive from 1998 to 2009. Before PetSmart, Mr. Francis was president and chief executive officer of J. Sainsbury plc. subsidiary, Shaw's Supermarkets. Earlier, he was corporate vice president of Roundy's, a wholesale grocery distribution company, from 1988 to 1991.

CEO Robert F. Moran joined PetSmart in July 1999 as president of North American store operations. In December of 2001, he was appointed president and chief operating officer, and he was named president and chief executive officer in June 2009. Moran came to PetSmart from Toys 'R' Us, Ltd., Canada, where he was president. Prior to that, he spent 20 years with Sears, Roebuck and Company in a variety of financial and merchandising positions, including president and chief executive officer of Sears de Mexico. From 1991 to 1993, Moran was CFO of Galerias Preciados, a Spanish department store chain.

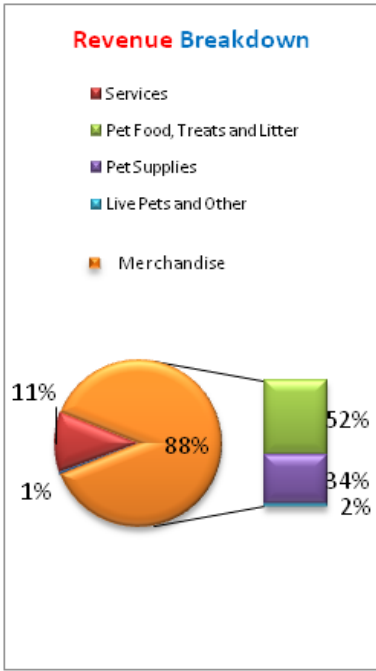
Chip Molloy joined PetSmart in October 2007 as the Chief Financial Officer and remains in that position currently. Prior to joining PetSmart, he held various financial leadership roles with Circuit City, Inc. including the CFO of Retail Stores. Molloy's other finance positions include corporate planning at Capital One Financial, private equity with AGL Capital Investments, and consulting with Deloitte Consulting. Prior to entering the private sector, Molloy served in the US Navy as a fighter pilot subsequently retiring as a Commander from the Naval Reserve.

CMO John Alpaugh was appointed Senior Vice President, Chief Marketing Officer in February 2010. He joined PetSmart in 1999 and has served in several leadership roles including Vice President of Marketing, Vice President of Specialty Merchandising, and most recently as Vice President of Strategic Planning and Business Development. Prior to joining PetSmart, Alpaugh worked in Brand Management for Procter & Gamble Europe and in Financial Planning and Analysis for IBM.

Stores

PetSmart's stores range in size from 14,000 to 27,500 square feet. While all the same services and products are being offered, most new stores designs have changed, decreasing to about 14,000 square feet in response to current location choices. Smaller locations provide lower overhead costs while maximizing sales per square foot. PetSmart is limiting its new store opening to about 40 stores per year for two reasons. First, finding profitable locations in excess of 40 per year is difficult. Second, this rate of growth allows management to maximize each location's profitability and efficiency. The current real estate climate provides PetSmart opportunities for lower lease rates and entry into new urban and rural areas as demonstrated by their newest store openings in New York, New York and Kingman, Arizona.





Products

PetSmart offers over 10,000 products. This gives the customer an unparalleled selection of pet products and services at one location. These products include brand name, customer-requested, proprietary, and private label products.

The three major categories of goods, consumables, hard goods, and pets, accounted for 89% of PetSmart’s total revenue in 2009.

- Consumables: pet litter, food, and treats.
- Hard goods: collars, leashes, toys, and other accessories.
- Pet sales: fresh-water fish, tropical fish, birds, reptiles, rodents, and other small pets.

PetSmart provides space in most stores for dog and cat adoption organizations. Dog owners are PetSmart’s most lucrative customers and adoption programs build lifelong customers.

PetSmart has refocused its product offerings over the past several years. Many of these changes are customer and/or efficiency driven. The hard good offerings were overhauled in 2009 to remove low margin and substandard products. In March, PetSmart was given authorization from Bayer to sell the Advantix and Advantage brands of flea and tick care. The Advantix and Advantage brands have loyal customers, providing PetSmart high profit margins and an established customer base.

Emphasis is also on cross-selling customers from grocery brands like “Pedigree” to propriety, organic, and premium brands of pet food. These premium brands provide PetSmart with larger margins and builds customer loyalty based on restricted availability.

For example, the margins on the dog food products are listed below.

	Classification	Available	Example	Margin (as a multiple)
1	Grocery Brand	Anywhere	Pedigree	1
2	Bridge Brand	Anywhere	Iams	1.4
3	Premium	Pet Specialty Stores	Science Diet	1.8
4	Rx	PetSmart Exclusive	Royal Canin	1.8
5	Super Premium	Pet Specialty	Blue Buffalo	2.1

Proprietary brands, which are only available at PetSmart, include Authority, Great Choice, and Dently’s. Customers loyal to these high profit margin brands drive strong profitability gains and encourage repeat patronage.

Services

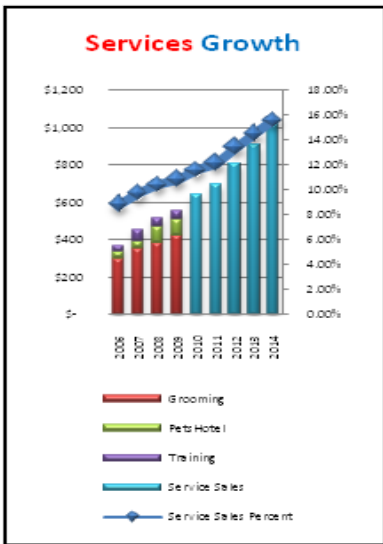
Services are a key focus for PetSmart because the only expenses involved are employee wages and training costs, resulting in high profit margins. PetSmart currently controls 15% of the pet services market and services represent about 11% of the company’s total revenue.

Most PetSmart stores offer services including pet salons, veterinary care, training classes, and pet boarding.

- Grooming includes bathing, precision hair cutting, nail trimming, ear cleaning, and teeth brushing. This is the largest portion of the company’s service offerings representing 8.44% of the company’s revenue, an increase of 10.67% from last year.
- Veterinary services are provided in 70% of PetSmart stores through Medical Management International, Inc., operating under the “Banfield” name. This provides synergetic options, shows PetSmart’s commitment to total pet care, and drives sales. They offer full service hospitals providing routine examinations, vaccinations, dental care, a pharmacy, and surgical procedures. PetSmart owns 21% of the Banfield partnership, with Medical Management International owning the remainder.
- Training services are led by certified pet instructors and carry a 100% satisfaction guarantee. Obedience problems are the main reason for pets ending up in shelters; therefore training classes provide double revenues, first for the training and then for the pet costs of ownership. Training is estimated at 1% of company revenues.
- PetsHoteles and Doggie Day Camps, offered in 162 locations, provide overnight boarding and daycare services for pets. The PetsHoteles have 24-hour staff, an on call veterinarian, temperature-controlled rooms, specialty treats, and staff supervised playtime. This accounts for approximately 1.56% of PetSmart’s total revenues.

Industry Overview

The pet industry is part of the consumer discretionary sector. Several key factors are driving the industry: consumer spending, pet ownership, and the humanization of pets.



Consumer Spending

Consumers are cutting back on personal spending budgets rather than decreasing their pet spending; thus driving continued sales growth through the current financial difficulties.

The American Pet Products Association (APPA) shows consistent consumer spending in the pet industry, starting in 1994 at approximately \$17 billion and growing to \$45.5 billion in 2009. This growth is expected to continue as projections for fiscal year 2010 estimate \$47.7 billion in industry revenue. The average annual growth for the industry is in excess of 6.5% annually.

Despite the recession, pet product retailers are among top performers in the retail industry. Since the real estate collapse of 2007 pet spending growth is down about 1% to 2% annually, but the industry is still growing at solid 5% year over year for the past three years.

Humanization

Humanization is treating pets as family members in all legal, emotional, and logistical ways. Eighty-eight percent of pet owners consider their animals to be members of the family. This drives the willingness of consumers to spend more on their pets, which affects the industry.

Services

According to the American Pet Products Association (APPA) \$3.2 billion was spent on pet services in 2008 and \$3.4 billion in 2009, establishing a growth trend. For PetSmart, pet services such as grooming and training represents a high profit margin offering.

Health Care

Veterinary service is a growing industry. Pet parents want the same quality of healthcare they require for themselves for their pets. Partially due to the increasing costs of veterinary care, interest is increasing for pet health maintenance products, creating a demand for organic pet food and additional vitamin supplements. Animal supplements increased 7.4% to \$1.4 billion in 2008, making up half of U.S. natural animal nutritional sales. PetSmart's new line of GNC/PetSmart exclusive pet supplements has just been introduced to meet this demand.

Pet Ownership

Pet ownership is the key driver to PetSmart's business. Pet product sales correlate to the number of households with pets. The APPA's 2009/2010 National Pet Owner Survey found that 62% of U.S. households own a pet, equating to 71.4 million homes (APPA's 2009/2010 National Pet Owners Survey, 2010). However, pet ownership is down from the 2008/2009 totals, based on decreased home ownership and high foreclosures.

Fifty-two percent of adults age 62 and older own at least one pet, 58% of this demographic own more than two pets, and 10% own six pets or more. This is a significant portion of the pet industry that has the time, desire, and financial resources for pets.

The U.S. Census Bureau's 2009 report "Income, Poverty, and Health Coverage in the United States" shows a decrease of 0.8% in the total poverty for people age 65 or older. It also shows the change between 2008 and 2009 in real median income per household for people 65 and older increasing by 5.8%. Discretionary income for baby-boomer pet owners is expected to continue increasing, resulting in job creation for animal care professionals. According to the Animal Care and Service Workers section of the 2010-2011 Occupational Outlook Handbook, employment of animal care and service workers is expected to grow 21 percent over the 2008-2018 decade, faster than all other occupations (Bureau of Labor Statistics, 2009).

As the U.S. population ages, pets are taking the place of grown children. This influences pet ownership and results in higher pet spending on pet products and services given this demographics' higher disposable income.

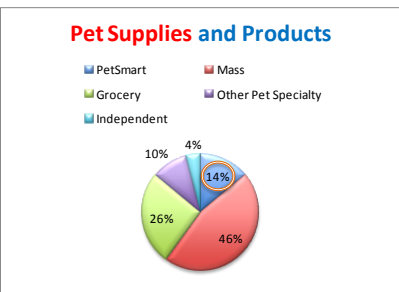
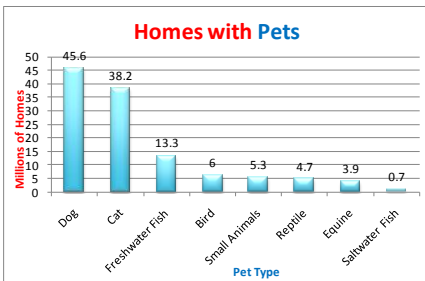
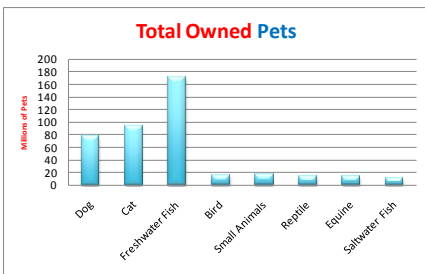
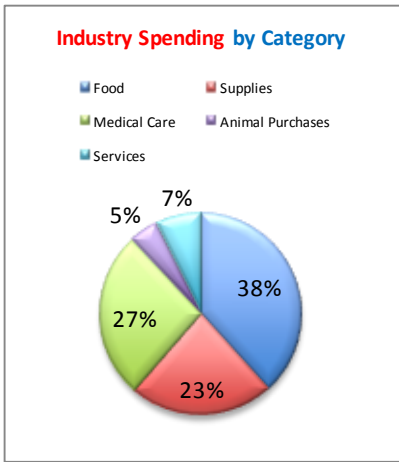
Competitive Positioning

Market Share

PetSmart is the largest pet specialty retailer with approximately 11.2% market share in the pet specialty industry comprising 14% of the Products and Supplies market, 15% of the Services market. PetSmart has a synergetic portion of the veterinary market through Banfield, control of their expenses, nationwide distribution capabilities, and sound management.

Competition

Big box retailers like Wal-Mart, Target, and others have focused on this market recently with the intention of undercutting pet specialty store prices. This type of store can leverage its size to decrease its prices and provide an excellent one-stop shopping solution for customers.



Wal-Mart's market share has increased significantly as it has targeted the pet supply market. In 2005, it announced the intention to achieve a 30% market share. Wal-Mart has nearly achieved this goal with a current 25% market share and the highest selling dog food, Ol'Roy brand. The increase was captured through providing a 20% average cost savings on pet supplies for consumers.

During this time, PetSmart grew its revenues in excess of 5% over the industry's growth, gaining market share despite Wal-Mart's increased focus. This provides strong evidence of PetSmart's ability to protect its market share and overcome competitive pressures.

Supermarkets and grocery stores like Safeway, Fry's, and others are also engaged in the generic pet consumables market. Their high foot traffic allows them to generate sales and expand on their product offerings as a one-stop shop for all of a customer's consumable needs, human or animal.

Big box retailers and grocery stores may offer lower prices, but they can't match the selection, specializations, and options available at PetSmart due to limited square footage for pet consumables and supplies.

These factors are driving PetSmart to focus on its strengths, customer loyalty and premium customers. PetSmart is strategically placing stores in shopping centers that drive high levels of foot traffic and often contain one of these big box competitors. This proximity makes it likely the customer will stop in at PetSmart to take advantage of the higher product offering and other specialty goods.

PetSmart's primary direct competition is Petco, a specialty pet retailer, which was taken private in 2006. Petco represents an estimated 6% of the pet product market. The number of households with dogs are 45.6 million, 38.2 million own cats, and 33.9 million households own all other pets. This provides a smaller target market for Petco. As home ownership decreases, it is easier to find a new home or apartment that will accept a dog or cat when compared to exotic pets. While Petco targets a specialty pet market, PetSmart gains the competitive advantage of attracting more dog and cat customers, which offer higher gross margins. Finally, Petco only offers pets and pet products, but no services or veterinary care.

Smaller pet specialty suppliers also provide competition. With the increase in organic food and health demands, many companies have started to provide these needs. Vitahound.com (an Internet based company) is capitalizing on demand for pet supplements, while Only Natural Pet Store (an international, Internet focused company specializing in organic pet foods and goods) is servicing the desire for certified organic food, health products, treats, toys, and other products for pets.

PetMed Express, providing pet medication throughout the United States, started shipping online pet supplies via third party vendors. This increases PetMed Express's product offering, but they remain a phone and Internet focused company. While PetMed Express has a significant market share in pet medicines, veterinarians still possess the largest market share. Unlike PetSmart (who has Banfield as an authorized dealer for medications), some of PetMed Express's medications are authorized through third party distributors. There are no guarantees for these products in either supply or pre-arranged price.

Competitive Advantages

Strategy

"Our strategy is to be the preferred provider for the lifetime needs of pets" (PetSmart 2010 10K). PetSmart's main strategy is brand differentiation while promoting customer value. Superior customer service, product selection, services expansion, customer loyalty programs, on-site veterinary care, and store design create differentiation to drive sales growth. PetSmart's ideal is to create a one-stop shop for pet parents.

Providing veterinary services on site allows PetSmart to differentiate themselves from their competition, complete the one-stop shop for pet owners, and sell products that require a licensed veterinarian's backing including PetSmart's Rx Dog foods and medications.

Per PetMed's 2009 10K, one of their major risk factors is overcoming the loyalty people feel to purchase their pet's medications through their veterinarian and the convenience of purchasing the medications at the same time as their visit. This is an advantage for PetSmart and Banfield.

Customer Base

On PetSmart's May 19, 2010 analysts' call, Robert F. Moran stated, "While the current macro economy still has its challenges, we are pleased with the loyalty of our customers." The company's understanding of its customers is highly valued and leveraged as a competitive advantage. This knowledge is used to determine projects, services, and product offerings in a timely manner based on consumer requests, needs, and desires.

PetSmart is focused on cross branding and developing its customers to use proprietary and premium consumable brands and PetSmart services. This will generate the customer loyalty and higher margins



discussed earlier. Currently, PetSmart divides their customers into three categories: the Mart, Smart, and Smart with Heart customers.

Mart

The Mart customer visits a PetSmart store about once a year spending \$18 per visit and driving only 5% of total revenues and 6% of their profit margin. These customers are about 40% of the PetSmart foot traffic but focus on convenience and costs (as evidenced by their shopping patterns with other pet supply vendors) rather than quality and services.

Smart

The Smart customer is the target of its cross-branding and development strategy. The intention is to increase customer frequency of visits by updating store layout and cross selling products and services through in-store advertising and promotions to increase overall spending of Smart customers. This customer shops PetSmart on average once a quarter spending about \$136 annually. About 57% are PetPerks Members and represent 50% of PetSmart's total foot traffic. They drive 45% of total revenues and 48% of the margins spending.

Smart with Heart

The final category comprises only 10% of PetSmart's total patronage, but generates 50% of the total profits. They visit PetSmart on average 17 times a year and spend over \$750 per customer annually. This group uses services and often exclusive or premium products. About 80% are PetPerks members. The implied revenue margin is 4.6 times the costs of goods sold. Changing consumer spending patterns from "Smart" to "Smart with Heart" will greatly increase PetSmart's net profits.

	Smart with Heart	Smart	Mart
% of PetSmart Customers	10%	50%	40%
% of Total Sales	50%	45%	5%
% of Total margin	46%	48%	6%
Average Transactions Per Year	17.1	4.1*	1.2
Average Annual Spend per Customer	\$757	\$136	\$18
Mass Retailer	10%	24%	32%
PetPerks Members	79%	57%	36%

Exclusive Products

The company's use of exclusive products serves as a powerful competitive advantage. PetSmart offers exclusive products from Martha Stewart, GNC, Fisher Price, and others. They have developed exclusive brands of pet food for various needs and customer desires including prescription pet foods. PetSmart, as partnered with Banfield, is the only retailer to offer this type of food because of veterinary restrictions.

GNC is offering PetSmart exclusive dietary pet supplements for dogs and cats in PetSmart stores. According to GNC Executive Vice President Tom Dowd, "the new pet vitamins represent a true consumer-driven innovation." Increasing pet supplement demand is rapidly increasing based on the desire to maintain the pet's health and decrease veterinary costs.

Investment Summary

Our analysis shows a 12 month target price for PetSmart of \$38-\$42 per share. The recent increase in PetSmart's stock price (30% year-to-date) as consumed the previously undervalued stock price making it fairly valued at this time.

To arrive at this target price, we used three valuation models:

- Dividend Discount Valuation
- Free Cash Flow Valuation
- Enterprise Value Multiple Valuation

Given PetSmart's short dividend history, the Free Cash Flow and Enterprise Value methods were given the most weight in our analysis.

Sensitivity analysis was conducted for each model through the changing of the key inputs. Changing the stated growth estimates or the cost of capital to determine the sensitivity of our analysis to these key variables.

PetSmart carries no long-term debt (only its capital leases), maintains control over its costs, and is profitable through existing and new stores. While the industry and company are expected to grow, the market has already accounted for these factors.

Valuation

Several key inputs affect every the valuation models used for PetSmart. They are the cost of capital and the growth assumptions used to create the pro forma statements. These vital components are discussed below, and detailed financial data can be found in the appendix.

Components

Weighted Average Cost of Capital

PetSmart's weighted average cost of capital is 8.75%. The projected cost of equity is 9.17%,. See appendix for the detailed derivations of this cost.

One key item in our analysis was the adjustment of the 10-year Treasury rate used as our risk-free proxy. The current 10-year Treasury note is at a historically low 2.56%. This is below the historical average and not an appropriate measure for a long-term risk free rate. After further research, the 3.53% long-term composite rate was used. This statistic provides a current, quantitatively relevant measure for the risk free rate, which more accurately represents the increasing U.S. bond rate changes that will occur as the economy recovers.

While PetSmart has no long-term debt, its lease obligations carry an implied interest rate of 11%. Based on the decreasing real-estate market, PetSmart's new and renegotiated leases will be executed at lower costs to the companies. Most of PetSmart's recent expansions occurred at the peak of the real-estate market bubble, causing the implied 11% rate to be artificially inflated and unrealistic for projection purposes. Therefore, the cost of debt used was modified to 9%.

Growth Rates

PetSmart's historical average growth rates over the past 10 years are as follows:

- 10.67% Revenue growth
- 20% Net income growth
- 35% Dividend Growth (Over 8 years)

The pro forma sheets are based on data gathered from management, historical growth rates, and qualitative research. Total revenue was projected based on the optimal store openings, services growth, and a time series analysis for product sales independent of management guidance.

Year	2009	2010	2011	2012	2013	2014
Open Stores		1164	1206	1239	1270	1302
New Stores		42	33	31	32	36
Year Ending Stores	1164	1206	1239	1270	1302	1338

Year	2009	2010	2011	2012	2013	2014
Net Sales Per Sq/ft	206.04	208.16	216.95	228.67	241.51	254.65
Cost of Sales per Sq/ft	198.38	201.37	209.66	220.68	232.71	244.97
Net Income per Sq/ft	7.66	6.79	7.29	7.99	8.8	9.68

The resulting revenue growth rate of 7%, 3.67% below PetSmart's historical growth rate, is directly in line with management estimates. PetSmart management estimates same store revenues to increase 2% to 4% annually, with new stores contributing 2% to 3% total growth. This results in an average annual revenue projection of 4% to 7%.

Models

Free Cash Flow Model

The free cash flow model analyzes future cash flows to the firm resulting in the stock price of \$40.04. The free cash flows method is a more accurate way of establishing a target stock price, because PetSmart has experienced very rapid dividend growth since the original disbursement in 2005. The calculated WACC of 8.75% was used when calculating the present value of future cash flows. After close analysis of capital expenditures, FCFE is estimated to increase 10% year over year ultimately reaching a target price of a \$40.04

EV/EBITDA Multiple

EBITDA allows for another valuable method of forecasting a company's future stock price. Rather than looking at the bottom line cash flows, the EBITDA method focuses on establishing an enterprise value multiple using the total invested capital less cash and short term investments. After analysis of past statements, we noticed an increasing trend in historical EV multiples for PetSmart. The calculated 2009 multiple was 9 (a 2% increase over 2008) continuing an increasing trend. Comparable companies are also higher multiples. Assuming, for sensitivity purposes, a future PetSmart's EV multiple of 10 and discounting at the WACC, the EV/EBITDA model allows us to establish a stock value of \$38-40 per share.

Because PetSmart is the only publicly traded pet specialty retail company in the industry, a correlation analysis on the variations of stock prices over the past five years was conducted on specialty retailers. Comparing similar operating, growth, as well as marginal and seasonal trends to PetSmart resulted in a high correlation with Home Depot, Dick's Sporting Goods, and Cabelas. Like PetSmart, Home Depot, Cabelas, and Dick's Sporting Goods provide goods and services to a single industry. All strive to provide a one-stop shop solution for their industry through massive product differentiation.

Decreased home ownership directly affects Home Depot because renovations, repairs, and remodels are paid for by homeowners, regardless of who performs the physical labor. Pet ownership is directly correlated to home ownership. Therefore, fewer homes equal fewer customers for both Home Depot and PetSmart.

Proper exercise and health maintenance reduces medical costs for people and pets. This justifies the continued spending on premium pet foods and pet supplements through a recession, just as people will spend a little on vitamins and proper running shoes for their own health and all the inherent benefits.

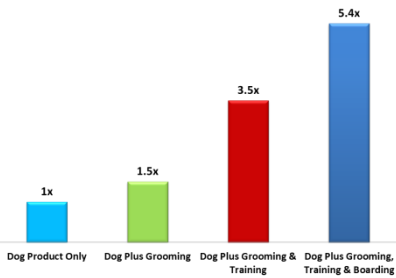
While major home projects are often placed on hold, new pet acquisitions slow, and expensive exercise equipment sales decline because of economic recession, these industries are recession resistant. Current and remaining pet and home owners will maintain their spending practices. Sport participants still need equipment and athletic clothing to partake in their activities. Pets will eat and have treats throughout a recession, just as a house will get painted and repaired, and sports participants will continue to play and exercise.

Home Depot's 2009 EV multiple is 9.19, Cabelas is 10.05, and Dick's Sporting Goods multiple is 10.42. Considering PetSmart's historical EV/EBITDA multiples for 2008 (8.67), 2009 (9.00), and estimated 2010 (9.13), there is a direct growth trend created by increased revenues and profits. Given PetSmart's recent EV/EBITDA multiple trend and the higher EV/EBITDA multiples of comparable companies', PetSmart's multiple will increase. An estimated forward multiple of 10 was established and used to calculate the target price range of \$38-\$40.

Discounted Dividend Model

PetSmart started paying dividends in 2005 at \$.03 per share. These have increased to \$.33 per share in 2009 and are projected to be \$.45 per share for 2010. The historical dividend growth rate based on PetSmart's dividend history is 35%. This growth rate is not sustainable long-term, so assumptions of declining growth rates were made. Based on past patterns and our analysis of available free cash flow, a dividend growth rate of 22% was forecast until 2014. This rate then was reduced to 16% until 2019, and finally leveling out at a terminal growth rate of 5.5%. This resulted in a target stock value of \$32.30.

Gross Margin



Financial Analysis

Net Sales

Over the past 10 years, PetSmart has seen a very steady revenue increase. Historically, PetSmart's sales grew by 10.67% annually. During our analysis, we observed a strong seasonal pattern displaying stronger sales during the holidays, especially Christmas. Taking into consideration PetSmart's seasonal sales patterns as well as dependency of events and employing time-series analysis, we were able to forecast a compounding growth rate of 7-8% year over year over the next 5 years.

Net sales are composed of merchandise and service sales. Merchandise sales represent 88% of the total revenues in 2009 and will continue to increase at 7% annually. Since service sales carry much higher margins than merchandise, PetSmart has made a significant effort to grow the service portion of their business. We forecast service growth to outpace merchandise and will decrease as an overall percentage of total sales going forward.

Cost Control

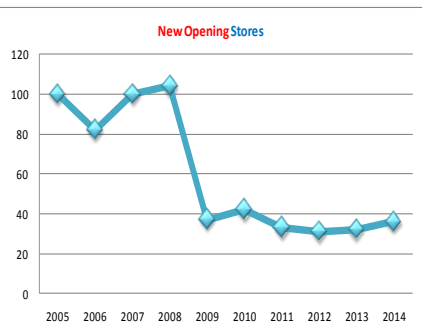
PetSmart has focused on cutting costs and increasing efficiency. This streamlined its distribution network, removed low margin hard goods, maximized new store profitability, and set a capital expenditure limit. The only places left to reduce costs are advertising and employment, neither of which is desired nor currently needed. Management has reduced costs to the extent possible driving profit growth over the recessionary period. We were not able to identify areas of further reduction, so increased future profitability growth must come from higher sales which will be difficult to accomplish in this competitive environment.

Capital Expenditures

Over the last 5 years, PetSmart has implemented new fiscal policies to grow their operations at sustainable long-term levels. During PetSmart's extensive growth period between 2005 and 2007, the capital expenditure budget exceeded \$300 million annually (4.5-6.5% of total sales) as the company opened roughly 100 new stores per year. We have determined that the optimal level of new store openings is between 36-40 per year based on operation research optimization and management guidance. The projected average capital expenditure for the next 5 years is \$127.3 million at our optimal level, which remains within management's expected range of \$125 to \$150 million per year.

Cash Flows

Over the past ten years, cash flows provided by operations and financing activities have grown roughly 18% and investing activities about 10% year-over-year. Because capital expenditures will be aimed towards expanding product lines and current services, free cash flows are likely to increase to roughly \$300 million in



2010. By generating strong operating cash flow, the firm does not need to issue any short-term or long-term debt.

Earnings

Over the last five years PetSmart has seen a very steady increase in the companies' earnings. In 2010 net sales reached 5.6 billion up from 5.3 billion in 2009. Due to decreased spending and increased efficiencies, we forecast earnings to grow at 7-8% annually. Key revenue drivers for PetSmart are their partnership with Banfield, expanding services, and new exclusive vendor contracts. We expect the company's EPS to reach \$3.36 by 2015. This represents a 55% upside from their 2009 \$1.59 EPS figure. The company has implemented a share buyback program which is having positive impacts on their future EPS.

Investment Risk

Market

International Operations

PetSmart's Canadian operations are subject to currency exchange rate fluctuations, certain tariffs, and foreign legal compliance.

Recession

Unemployment, reduced discretionary income, possible double dip recession, and other factors can and do influence consumer spending practices. Continued business success for PetSmart is predicated on customer spending habits. Material profit loss for PetSmart is possible based on these major economic factors forcing customers to lower-margin products, less expensive supplies, discontinuing services, or giving up their pets altogether.

Housing

Depression and/or recession will decrease pet ownership due to decreased home ownership. Currently 14% of all residential real estate is currently in or at risk of foreclosure. Under dire economic conditions, home purchases decrease and foreclosures increase. With pets unauthorized or governed by restrictive policies in many apartments, total pet ownership will decrease.

Industry

Preferences

Changes in customer preferences are a risk because of the time lag between identifying the change and implementing measures to meet the customer's needs. Even if the need is identified in time, implementation of the product or service could require too much time or resources. In an economic downturn, customers are reluctant to spend on premium products. PetSmart addressed this by establishing in-house brands that offer a premium product at a lower cost, taking advantage of increased margins. Failure to meet customer needs and/or desires could hurt customer relationships, market share, and profitability.

Competitors

Given the high competition in the pet supply industry, key competitors seek to gain higher market shares through their competitive advantages. Competing big box retailers like Walmart and Target are expanding their pet product selection to capture market share, and due to leveraging, are able to offer lower prices on similar products. PetSmart faces the risk of lowering their prices to remain competitive and defend their market share.

Company

New Stores

Growth through new stores has three risks. First, some of the sales are cannibalized from existing PetSmart store locations to the new location. Second, failing to control costs, manage inventory, and implement marketing plans can harm sales and vendor relationships. Finally, new store openings require several factors to be met including: the ability to enter new markets, finding locations that provide reasonable investment returns, and negotiating terms with landlords.

Furthermore, PetSmart signs new property leases about 15 months before the projected store opening. Significant economic changes can occur during this time affecting the success of the new store.

Supply Chain

Future expansion could require additions to PetSmart's distribution network in order to support the new stores and customer demands. If this is impeded, then sales and inventory control will be affected.

Disruption of current transportation, warehousing, vendor capabilities, and/or changes in vendor relationships will affect sales and inventories. The two largest vendors accounted for 22.4% of PetSmart sales. If these relationships ended or the vendor's products were made available to competitors, then PetSmart's profits could be significantly impacted.

Management

PetSmart has strong and capable management. Maintaining this caliber of management is important to their continued success. If management was to leave or their situations change, then PetSmart's revenue and efficiency could be affected.

Appendix I

PetSmart, Inc.							
Pro Forma Balance Sheet							
USD in thousands except per share data.							
	5 Yr. % of Sales	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014
Assets							
Current assets							
Cash and cash equivalents	3.2%	\$ 308,360.00	\$ 322,456.84	\$ 346,766.83	\$ 374,615.64	\$ 405,396.81	\$ 438,977.14
Restricted cash	15.6%	\$ 48,172.00	\$ 50,374.21	\$ 54,171.91	\$ 58,522.46	\$ 63,331.09	\$ 68,577.01
Receivables	1.0%	\$ 52,232.00	\$ 54,003.94	\$ 58,075.30	\$ 62,739.32	\$ 67,894.44	\$ 73,518.36
Inventories	11.0%	\$ 563,389.00	\$ 594,558.00	\$ 611,813.00	\$ 627,096.00	\$ 642,872.00	\$ 660,620.00
Deferred income taxes	0.8%	\$ 36,805.00	\$ 43,311.33	\$ 46,576.57	\$ 50,317.13	\$ 54,451.56	\$ 58,961.95
Prepaid expenses & other current assets	1.4%	\$ 57,652.00	\$ 76,454.76	\$ 82,218.67	\$ 88,821.65	\$ 96,119.89	\$ 104,081.80
Total current assets		\$ 1,066,610.00	\$ 1,141,159.08	\$ 1,199,622.28	\$ 1,262,112.20	\$ 1,330,065.78	\$ 1,404,736.26
Non-current assets:							
Property, plant and equipment							
Property and equipment, at cost		\$ 2,342,979.00	\$ 2,478,340.00	\$ 2,615,360.00	\$ 2,750,721.00	\$ 2,886,082.00	\$ 3,024,643.00
Accumulated Depreciation		\$ (1,141,122.00)	\$ (1,306,292.43)	\$ (1,471,436.26)	\$ (1,636,304.19)	\$ (1,801,199.61)	\$ (1,966,525.04)
Equity and other investments	0.1%	\$ 32,486.00	\$ 32,486.00	\$ 32,486.00	\$ 32,486.00	\$ 32,486.00	\$ 32,486.00
Goodwill	0.6%	\$ 42,200.00	\$ 42,200.00	\$ 42,200.00	\$ 42,200.00	\$ 42,200.00	\$ 42,200.00
Deferred income taxes	2.1%	\$ 94,901.00	\$ 119,365.62	\$ 128,364.58	\$ 138,673.53	\$ 150,067.97	\$ 162,498.58
Other long-term assets	1.1%	\$ 23,932.00	\$ 25,604.69	\$ 26,916.46	\$ 28,318.57	\$ 29,843.27	\$ 31,518.69
Total non-current assets		\$ 1,395,376.00	\$ 1,391,703.88	\$ 1,373,890.78	\$ 1,356,094.91	\$ 1,339,479.62	\$ 1,326,821.22
Total assets		\$ 2,461,986.00	\$ 2,532,862.97	\$ 2,573,513.06	\$ 2,618,207.11	\$ 2,669,545.41	\$ 2,731,557.48
Liabilities and stockholders' equity							
Liabilities							
Current liabilities							
Capital leases	0.1%	\$ 37,839.00	\$ 38,028.20	\$ 38,218.34	\$ 38,409.43	\$ 38,601.47	\$ 38,794.48
Accounts payable	4.2%	\$ 212,121.00	\$ 233,302.85	\$ 250,891.52	\$ 271,040.60	\$ 293,311.28	\$ 317,607.20
Accrued liabilities	4.1%	\$ 168,304.00	\$ 229,675.78	\$ 246,991.02	\$ 266,826.85	\$ 288,751.30	\$ 312,669.50
Other current liabilities	2.2%	\$ 146,965.00	\$ 124,079.46	\$ 133,433.80	\$ 144,149.86	\$ 155,994.27	\$ 168,915.78
Total current liabilities		\$ 565,229.00	\$ 625,086.29	\$ 669,534.67	\$ 720,426.73	\$ 776,658.32	\$ 837,986.95
Non-current liabilities							
Capital leases		\$ 533,635.00	\$ 536,303.18	\$ 538,984.69	\$ 541,679.61	\$ 544,388.01	\$ 547,109.95
Other long-term liabilities		\$ 190,407.00	\$ 166,905.05	\$ 179,488.00	\$ 193,902.67	\$ 209,835.14	\$ 227,216.46
Total non-current liabilities		\$ 724,042.00	\$ 703,208.23	\$ 718,472.69	\$ 735,582.29	\$ 754,223.15	\$ 774,326.41
Total liabilities		\$ 1,289,271.00	\$ 1,328,294.51	\$ 1,388,007.37	\$ 1,456,009.02	\$ 1,530,881.47	\$ 1,612,313.36
Stockholders' equity							
Common stock		\$ 16.00	\$ 16.00	\$ 16.00	\$ 16.00	\$ 16.00	\$ 16.00
Additional paid-in capital		\$ 1,148,228.00	\$ 1,205,639.40	\$ 1,265,921.37	\$ 1,329,217.44	\$ 1,395,678.31	\$ 1,465,462.23
Retained earnings		\$ 1,093,708.00	\$ 1,222,095.99	\$ 1,375,536.97	\$ 1,557,883.66	\$ 1,777,675.50	\$ 2,038,473.42
Treasury stock		\$ (1,071,606.00)	\$ (1,225,188.38)	\$ (1,458,125.28)	\$ (1,727,248.83)	\$ (2,037,227.13)	\$ (2,387,437.64)
Accumulated other comprehensive income	0.0%	\$ 2,369.00	\$ 2,005.44	\$ 2,156.63	\$ 2,329.83	\$ 2,521.26	\$ 2,730.11
Total stockholders' equity		\$ 1,172,715.00	\$ 1,204,568.45	\$ 1,185,505.69	\$ 1,162,198.09	\$ 1,138,663.94	\$ 1,119,244.12
Total liabilities and stockholders' equity	47.4%	\$ 2,461,986.00	\$ 2,532,862.96	\$ 2,573,513.06	\$ 2,618,207.11	\$ 2,669,545.41	\$ 2,731,557.48
Excess Cash (or EFN)		\$ -	\$ (0.00)	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Cash Surplus Usage		\$ -	\$ 1,225,188.38	\$ 1,458,125.28	\$ 1,727,248.83	\$ 2,037,227.13	\$ 2,387,437.64
Dividends		\$ -	\$ (53,870.83)	\$ (63,093.52)	\$ (73,895.13)	\$ (90,152.06)	\$ (109,985.51)
Treasury Stock		\$ -	\$ 1,279,059.21	\$ 1,521,218.80	\$ 1,801,143.96	\$ 2,127,379.19	\$ 2,497,423.15
Total Funds Used		\$ -	\$ 1,225,188.38	\$ 1,458,125.28	\$ 1,727,248.83	\$ 2,037,227.13	\$ 2,387,437.64

Appendix II

		PetSmart, Inc.					
		Pro Forma Income Statement					
		USD in thousands except per share data.					
		Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year
	% of Sales	2009	2010	2011	2012	2013	2014
Merchandise sales		\$ 4,761,039	\$ 4,962,874	\$ 5,310,275	\$ 5,681,995	\$ 6,079,734	\$ 6,505,316
Services sales		575,353	617,474	690,775	800,999	935,950	1,091,500
Net sales	100.0%	\$ 5,336,392	\$ 5,580,348	\$ 6,001,050	\$ 6,482,994	\$ 7,015,684	\$ 7,596,816
Cost of merchandise sales	71.5%	3,402,021	3,546,243	3,770,295	4,011,488	4,255,814	4,514,689
Cost of services sales	72.2%	\$ 415,154	\$ 445,816	\$ 493,213	\$ 562,301	\$ 644,869	\$ 738,946
Total cost of sales	69.8%	3,817,175	3,992,059	4,263,508	4,573,790	4,900,683	5,253,635
Gross profit	30.2%	\$ 1,519,217	\$ 1,588,289	\$ 1,737,541	\$ 1,909,204	\$ 2,115,001	\$ 2,343,181
Total operating expenses	22.7%	1,150,138	1,264,342	1,359,660	1,468,855	1,589,546	1,721,214
Operating income (EBIT)		\$ 369,079	\$ 323,947	\$ 377,881	\$ 440,350	\$ 525,454	\$ 621,967
Interest Expense		59,748	58,993	59,288	59,585	59,883	60,182
Other income (expense)	0.5%		\$ 29,996	\$ 32,257	\$ 34,848	\$ 37,711	\$ 40,835
Income before income taxes (EBT)	7.0%	309,331	294,949	350,850	415,613	503,283	602,620
Provision for income taxes	2.6%	\$ 117,554	\$ 115,030	\$ 136,831	\$ 162,089	\$ 196,280	\$ 235,022
Other income	0.0%	6,548	2,340	2,516	2,718	2,942	3,185
Net income		\$ 198,325	\$ 182,259	\$ 216,535	\$ 256,242	\$ 309,944	\$ 370,783
Dividends		41,151	53,871	63,094	73,895	90,152	109,986
Retained Earnings		\$ 157,174	\$ 128,388	\$ 153,441	\$ 182,347	\$ 219,792	\$ 260,798
Shares Outstanding		\$ 124,701	\$ 119,713	\$ 114,924	\$ 110,327	\$ 110,327	\$ 110,327
Earning Per Share		1.59	1.52	1.88	2.32	2.81	3.36
Dividends Per Share		\$0.33	\$0.45	\$0.55	\$0.67	\$0.82	\$1.00
Net Sales Per Sq/Ft		\$ 206.04	\$ 208.16	\$ 217.71	\$ 229.61	\$ 242.53	\$ 255.74
Net Income per sq/ft		\$ 7.66	\$ 6.80	\$ 7.86	\$ 9.08	\$ 10.71	\$ 12.48
Sales per store		\$ 4,644.38	\$ 4,794.11	\$ 4,975.99	\$ 5,224.01	\$ 5,515.47	\$ 5,825.78
Net Income per store		7.66	6.80	7.86	9.08	10.71	12.48

Appendix III

	PetSmart, Inc.					
	Statement of Cash Flows					
	USD in thousands except per share data.					
	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014
Cash Flows From Operating Activities						
Net income	\$ 198,325.00	\$ 182,258.82	\$ 216,534.50	\$ 256,241.81	\$ 309,943.90	\$ 370,783.44
Depreciation	\$ 165,454.00	\$ 165,170.43	\$ 165,143.83	\$ 164,867.93	\$ 164,895.43	\$ 165,325.43
Changes in Receivables	\$ (3,623.00)	\$ (1,771.94)	\$ (4,071.35)	\$ (4,664.02)	\$ (5,155.12)	\$ (5,623.92)
Changes in Inventories	\$ 20,622.00	\$ (31,169.00)	\$ (17,255.00)	\$ (15,283.00)	\$ (15,776.00)	\$ (17,748.00)
Changes in Deferred income taxes	\$ (8,582.00)	\$ (6,506.33)	\$ (3,265.24)	\$ (3,740.56)	\$ (4,134.42)	\$ (4,510.40)
Changes in Prepaid expenses	\$ 30,025.00	\$ (18,802.76)	\$ (5,763.92)	\$ (6,602.98)	\$ (7,298.24)	\$ (7,961.92)
Changes in Capital Leases (current)	\$ (20,125.00)	\$ 189.19	\$ 190.14	\$ 191.09	\$ 192.05	\$ 193.01
Changes in Accounts payable	\$ 17,491.00	\$ 21,181.85	\$ 17,588.68	\$ 20,149.08	\$ 22,270.68	\$ 24,295.92
Changes in Accrued liabilities	\$ 24,325.00	\$ 61,371.78	\$ 17,315.23	\$ 19,835.83	\$ 21,924.45	\$ 23,918.20
Changes in Other current liabilities**	\$ 39,650.00	\$ 32,323.65	\$ 65,838.60	\$ 69,661.59	\$ 73,496.65	\$ 77,459.51
Net cash provided by operating activities	\$ 463,562.00	\$ 404,245.70	\$ 452,255.47	\$ 500,656.77	\$ 560,359.37	\$ 626,131.27
Cash Flows From Investing Activities						
Purchases of property, plant, and equipment	\$ (65,066.00)	\$ (135,361.00)	\$ (137,020.00)	\$ (135,361.00)	\$ (135,361.00)	\$ (138,561.00)
Changes in Deferred Income Taxes	\$ (1,773.00)	\$ (24,464.62)	\$ (8,998.96)	\$ (10,308.95)	\$ (11,394.43)	\$ (12,430.61)
Changes in Other Comprehensive Income	\$ 5,083.00	\$ (363.56)	\$ 151.19	\$ 173.20	\$ 191.44	\$ 208.84
Purchase (Sale) of Other Long-term Assets	\$ 24,869.00	\$ (1,672.69)	\$ (1,311.76)	\$ (1,402.11)	\$ (1,524.70)	\$ (1,675.41)
Net cash used for investing activities	\$ (36,887.00)	\$ (161,861.87)	\$ (147,179.54)	\$ (146,898.87)	\$ (148,088.70)	\$ (152,458.18)
Cash Flows From Financing Activities						
Issuance (Payment) of Capitalized Leases	\$ (20,125.00)	\$ 2,668.17	\$ 2,681.52	\$ 2,694.92	\$ 2,708.40	\$ 2,721.94
Changes in Other Long-term Liabilities	\$ 8,807.00	\$ (23,501.95)	\$ 12,582.95	\$ 14,414.67	\$ 15,932.47	\$ 17,381.32
Repurchases of treasury stock	\$ (164,783.00)	\$ (153,582.38)	\$ (232,936.90)	\$ (269,123.55)	\$ (309,978.30)	\$ (350,210.51)
Payment of Cash Dividends	\$ (41,151.33)	\$ (53,870.83)	\$ (63,093.52)	\$ (73,895.13)	\$ (90,152.06)	\$ (109,985.51)
Net cash provided by (used for) financing activities	\$ (217,252.33)	\$ (228,286.99)	\$ (280,765.95)	\$ (325,909.09)	\$ (381,489.49)	\$ (440,092.76)
Net change in cash	\$ 209,422.67	\$ 14,096.84	\$ 24,309.99	\$ 27,848.82	\$ 30,781.17	\$ 33,580.33
Cash at beginning of period	\$ 126,314.00	\$ 308,360.00	\$ 322,456.84	\$ 346,766.83	\$ 374,615.64	\$ 405,396.81
Cash at end of period	\$ 43,827.00	\$ 322,456.84	\$ 346,766.83	\$ 374,615.64	\$ 405,396.81	\$ 438,977.14
Net Change in Cash	\$ 82,487.00	\$ 14,096.84	\$ 24,309.98	\$ 27,848.82	\$ 30,781.17	\$ 33,580.32
Cash Forecast Variance		\$ 0.00	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)
Free Cash Flow						
Operating cash flow	\$ 463,562.00	\$ 404,245.70	\$ 452,255.47	\$ 500,656.77	\$ 560,359.37	\$ 626,131.27
Capital expenditure	\$ (112,920.00)	\$ (135,361.00)	\$ (137,020.00)	\$ (135,361.00)	\$ (135,361.00)	\$ (138,561.00)
Free cash flow	\$ 350,642.00	\$ 268,884.70	\$ 315,235.47	\$ 365,295.77	\$ 424,998.37	\$ 487,570.27

Appendix IV

Weighted Average Cost of Capital Computation	
<u>Market Value of Equity</u>	
Number of Shares:	118,560,000
Market Price/Share:	34.65
Market Value of Equity	\$ 4,108,104,000.00
<u>Market Value of Long-term Debt</u>	
LT Debt (Capitalized Leases)	\$ 533,900,000.00
Total Capital	\$ 4,642,004,000.00
Weight of Equity	88.5%
Weight of Debt	11.5%
Forecast weight of debt	8%
<u>Cost of Equity (CAPM)</u>	
Rf (5 Year T-Bond)	3.52%
Equity Risk Premium	6.5%
Beta	0.87
Cost of Equity	9.175%
<u>Cost of Long-Term Debt</u>	
Value of Long-Term Debt	\$ 533,900,000.00
Interest Expense	\$ 60,000,000.00
Cost of Debt	9%
After-Tax Cost of Debt	5.5%
WACC	8.75%

Appendix VI

Free Cash Flow to the Firm Valuation (4% Long-term Growth)						
	2009	2010	2011	2012	2013	2014
WACC	8.75%					
Terminal Growth Rate	4.0%					
Present Value of Free Cash Flows	\$ 370,956.20	\$196,481.98	\$218,784.28	\$238,186.84	\$259,768.17	\$278,102.31
Terminal Value	\$4,001,913.57					\$ 6,087,477.81
Value of the Firm	\$ 5,564,193.36					
Less: Value of Debt	\$ 533,635.00					
Value of Equity	\$ 5,030,558.36					
Shares Outstanding	124,701					
Intrinsic Price per Share of Equity	\$ 40.34					

Appendix VII

PetSmart Enterprise Multiple Valuation					
	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year
EBITDA	2010	2011	2012	2013	2014
Net Income	\$ 182,258.82	\$ 216,534.50	\$ 256,241.81	\$ 309,943.90	\$ 370,783.44
Interest	\$ 58,993.35	\$ 59,288.32	\$ 59,584.76	\$ 59,882.68	\$ 60,182.09
Taxes	\$ 115,030.26	\$ 136,831.44	\$ 162,088.89	\$ 196,280.22	\$ 235,021.85
Depreciation	\$ 165,170.43	\$ 165,143.83	\$ 164,867.93	\$ 164,895.43	\$ 165,325.43
Amortization	\$ -	\$ -	\$ -	\$ -	\$ -
EBITDA	\$ 521,452.86	\$ 577,798.09	\$ 642,783.39	\$ 731,002.22	\$ 831,312.82
Enterprise Value Multiple				9.00	
WACC				8.75%	
EV Forecast	\$ 4,693,075.71	\$ 5,200,182.79	\$ 5,785,050.54	\$ 6,579,020.01	\$ 7,481,815.34
Cash	\$ 322,456.84	\$ 346,766.83	\$ 374,615.64	\$ 405,396.81	\$ 438,977.14
Value of Debt	\$ (536,303.18)	\$ (538,984.69)	\$ (541,679.61)	\$ (544,388.01)	\$ (547,109.95)
Value of Equity	\$ 4,479,229.38	\$ 5,007,964.92	\$ 5,617,986.57	\$ 6,440,028.81	\$ 7,373,682.52
Shares Outstanding	119,712.96	114,924.44	110,327.46	110,327.46	110,327.46
Future Equity Prices	\$ 37.42	\$ 43.58	\$ 50.92	\$ 58.37	\$ 66.83
Intrinsic Price/Share	\$37.42	\$36.85	\$39.59	\$41.73	\$43.94
Enterprise Value Multiple				10.00	
WACC				8.75%	
EV Forecast	\$ 5,214,528.57	\$ 5,777,980.88	\$ 6,427,833.93	\$ 7,310,022.23	\$ 8,313,128.15
Cash	\$ 322,456.84	\$ 346,766.83	\$ 374,615.64	\$ 405,396.81	\$ 438,977.14
Value of Debt	\$ (536,303.18)	\$ (538,984.69)	\$ (541,679.61)	\$ (544,388.01)	\$ (547,109.95)
Value of Equity	\$ 5,000,682.23	\$ 5,585,763.01	\$ 6,260,769.96	\$ 7,171,031.03	\$ 8,204,995.34
Shares Outstanding	119,712.96	114,924.44	110,327.46	110,327.46	110,327.46
Future Equity Prices	\$ 41.77	\$ 48.60	\$ 56.75	\$ 65.00	\$ 74.37
Intrinsic Price/Share	\$38.41	\$41.10	\$44.12	\$46.47	\$48.89