

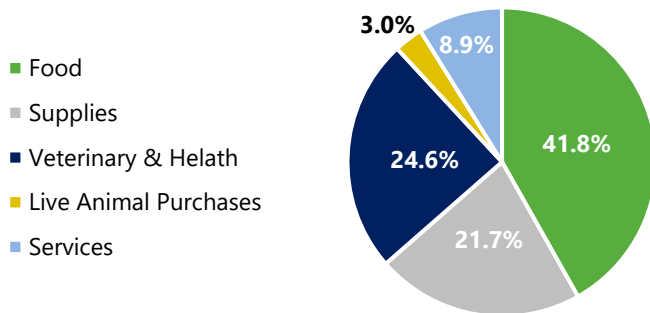


KEY M&A TAKEAWAYS

- Following the acquisitions of Chewy.com (April 2017) and Blue Buffalo (February 2018) – the two most disruptive companies in the Pet & Animal Care industry – it is expected that consolidation and merger and acquisition (M&A) activity will intensify as operators adapt to the new competitive landscape. Large retailers will explore acquisition opportunities to add additional store formats, new service capabilities, direct-to-consumer channels, and supporting technologies. Manufacturers will look to acquire companies that diversify their product mix and add complementary distribution channels. Through year-to-date 2018 (YTD), Capstone Headwaters has identified 32 transactions that have been announced or closed, which exceeds 2017 M&A activity during the same period.
- Much of the conversation surrounding the Pet Food market has been related to the string of food and treat recalls during early 2018. So far, the FDA lists 23 recalls, most of which were related to bacteria in raw foods.¹ Pet parents have become increasingly aware of and responsive to such safety concerns, and as the raw and freeze dried market continues to grow, it is expected that the frequency of recalls may increase.

2017 US SALES BREAKDOWN

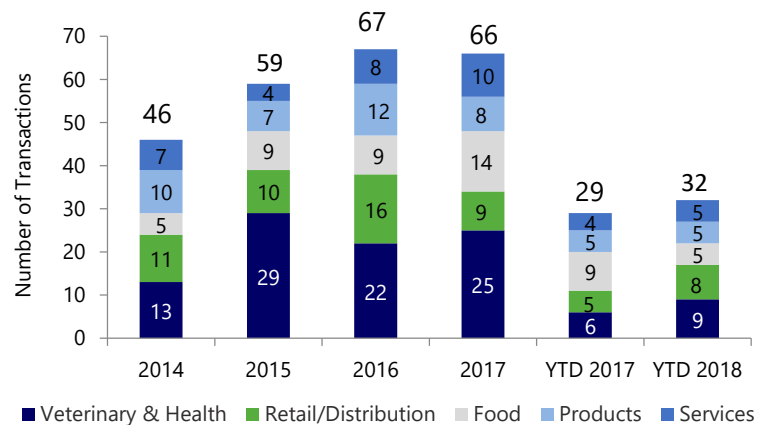
- According to the American Pet Products Association 2017-2018 National Pet Owners survey, total US Pet industry expenditures reached \$69.5 billion during 2017.² The largest share of expenditures (41.8%) was spent on food for a total of \$29.1 billion. Veterinary (Vet) & Health related expenditures was second (24.6%) and totaled ~\$17.1 billion. According to the survey, the industry is expected to grow to \$72.1 billion in 2018.



Source: American Pet Products Association

TRANSACTION VOLUME

- Vet & Health-related transactions have historically accounted for the largest share of industry M&A activity each year. Through YTD 2018, there have been nine Vet & Health transactions followed by eight Retail/Distribution related transactions.



YTD ended May 20
 Sources: American Pet Products Association

SELECT TRANSACTIONS

Date	Target	Acquirer	Target Description	Amount (mm)
05/18	PetEdge	Boss Pet Products	Distributes pet supplies and grooming products.	-
04/18	Pupco Brands	BestnPet	Develops and distributes natural consumable products.	-
04/18	Ainsworth	J.M. Smucker	Manufactures and distributes healthy pet foods and treats.	\$1,700.0
03/18	Phoebe Products	BrightPet Nutrition	Manufactures pet food.	-
03/18	General Pet	Central Garden	Supplies pet products to pet specialty and vet markets.	-
02/18	Spectrum Brands	HRG Group	Offers pet food and treats as well as pet health and grooming products.	\$4,761.7
02/18	Blue Buffalo	General Mills	Produces and sells dog and cat food.	\$7,935.1
12/17	Community Veterinary	Petiq	Operates veterinary clinics.	\$219.8

Sources: Capital IQ, Pitchbook, and Capstone Headwaters Research

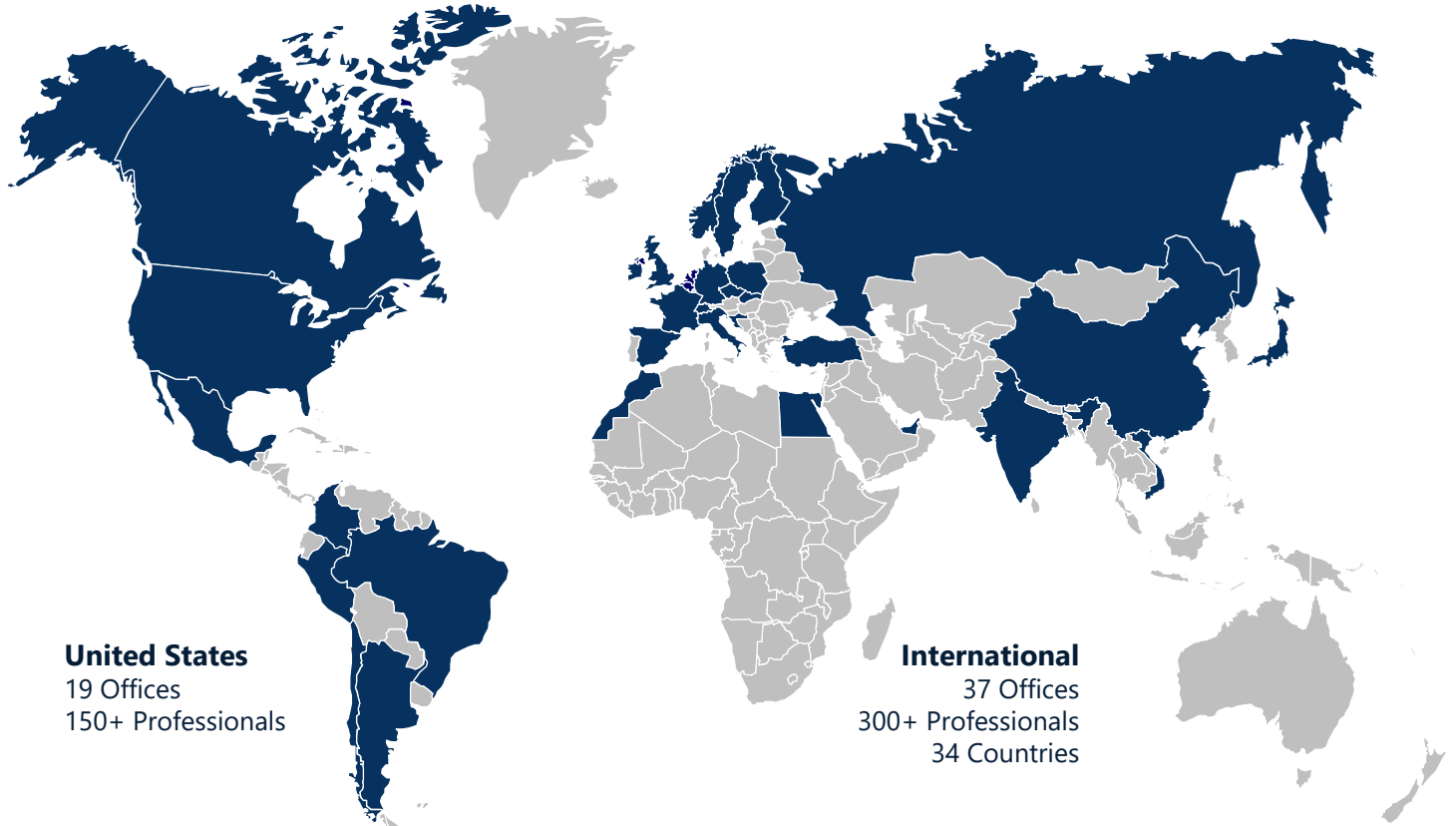
NOTABLE TRANSACTION

- J.M. Smucker acquires Ainsworth Pet Nutrition (April 2018, ~\$1.7 billion)** - J.M. Smucker Company (NYSE:SJM) has announced it has completed the acquisition of Ainsworth Pet Nutrition, a leading producer, distributor, and marketer of premium pet food and pet snacks, from L Catteron. The transaction is valued at approximately \$1.7 billion, after an estimated tax benefit of \$200.0 million. Ainsworth's renowned Rachael Ray™ Nutrish® brand (Nutrish) generates approximately two-thirds of the company's sales and is driving growth in the rapidly growing premium pet food category. The J.M. Smucker press release cites the close to \$30.0 billion US Pet Food market, the largest center-of-the-store category in the Food and Beverage industry, as the strategic rationale for the transaction.³ Further, Ainsworth's well established position in the premium pet food market will allow J.M. Smucker to immediately capture a significant share of the growing space.

"Ainsworth Pet Nutrition is an excellent strategic fit for our Company, as Nutrish brand adds another high-growth, on-trend brand to our pet food portfolio," said Mark Smucker, CEO of J.M. Smucker in the press release. "Their team has done a tremendous job growing this business, building Nutrish into one of the most recognizable premium pet food brands in the United States."



BUILT FOR THE MIDDLE MARKET



CITATIONS

1. US Food and Drug Administration, "Animal & Veterinary Recalls & Withdrawals," <https://www.fda.gov/AnimalVeterinary/SafetyHealth/RecallsWithdrawals/default.htm>, accessed May 22, 2018.
2. American Pet Products Association, "Pet Industry Market Size & Ownership Statistics," http://www.americanpetproducts.org/press_industrytrends.asp, accessed May 22, 2018.
3. J.M. Smucker Company, "The J. M. Smucker Company to Acquire Ainsworth Pet Nutrition, LLC, Maker of Rachael Ray™ Nutrish® Pet Food; Company to Explore Strategic Options for U.S. Baking Business," <http://www.jmsmucker.com/investor-relations/smuckers-financial-news-releases/article/2341144>, accessed May 22, 2018.

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