



Capstone Partners

PET & ANIMAL CARE

Q1 2017

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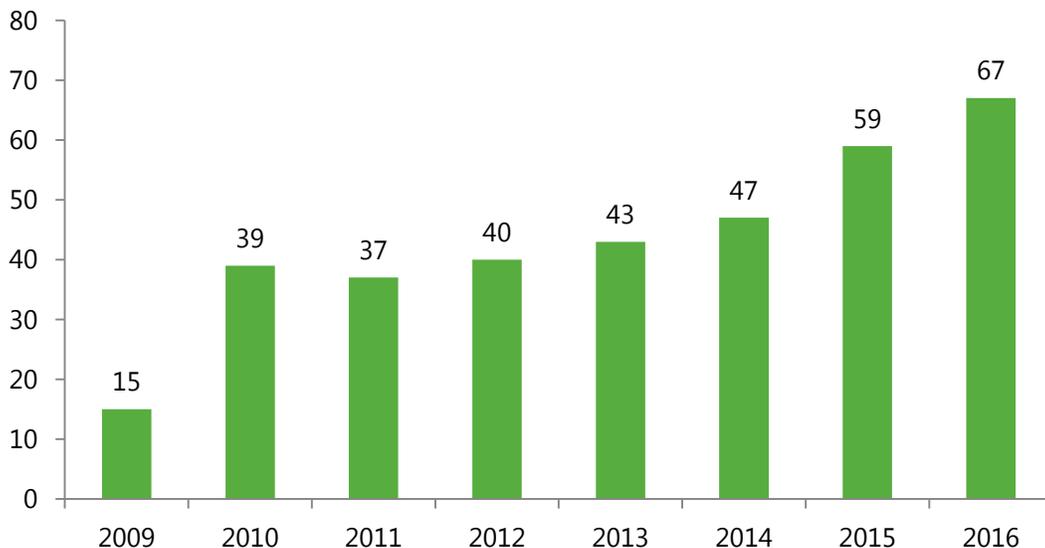
MERGER & ACQUISITION ACTIVITY

The Pet & Animal Care industry has seen acquisition volume rise in each of the past five years to reach record levels because of growing pet humanization trends. Owners treat their pets as family by purchasing premium, innovative and sustainable products. As a result, natural pet food, using technology to better connect with one's pet, and veterinary and health-related services are all sub-segments that have seen heightened growth within this industry. M&A activity has been strong because acquisitions provide buyers with a way to efficiently gain segment expertise and key relationships, expand geographical reach and access new consumer bases.

Furthermore, buyers have placed a premium on target companies that offer access to new distribution channels and consumer demographics. As mentioned in Capstone's Q3 2016 report, E-commerce continues to be an increasing focus for the industry as tech-savvy customers look online to purchase goods and services. Millennials, who have rising disposable income, continue to be a major driver of this trend.

The Veterinary & Health sub-sector remained the most active in this industry in 2016, accounting for 32.8% of total deal volume, followed by Retail/Distributors (24.0%), Products (17.9%), Food (13.4%) and Services (11.9%). Acquisitions of Retail/Distributors and Pet Products have grown the most over the past two years, respectively accounting for only 16.9% and 11.9% of total volume in 2015. Overall, the 2016 buyer universe remained consistent with previous years with private equity groups making 35.6% of acquisitions and strategic buyers making 64.4%.

M&A Activity: Pet & Animal Care



Sources: Capstone Partners LLC Research and Capital IQ

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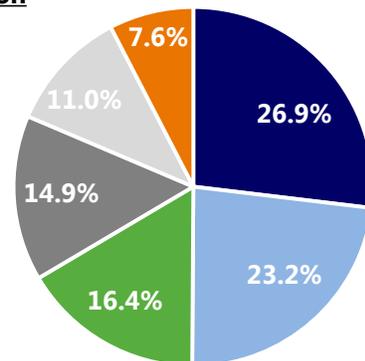
SEGMENT HIGHLIGHT: VETERINARY AND PET HEALTH

Over the past five years, the US Veterinary Services sub-segment grew at a healthy annual rate of 3.4% and is projected to reach \$38.8 billion in revenue for 2017, according to *IBISWorld*. This growth is largely due to two main factors, increasing pet ownership and advances in veterinary technology and medicine. Pet ownership increased last year and is projected to continue doing so through 2021. Households with a dog or cat visit a veterinarian on average 2.6 and 1.6 times a year, respectively, making any increase in pet ownership highly beneficial to the industry. In addition, advances in veterinary technology and medicine have increased the availability of specialized care, often covered by pet health insurance, and have driven higher industry margins. Technological and medicinal advancements also have the added benefit of extending pet life expectancy, which increases demand for routine care and chronic disease management.

With a strong industry outlook, both strategic and financial buyers have looked to make acquisitions in this sub-segment. Veterinary and health-related transactions totaled 22 deals in 2016, or 32.8% of total volume. The majority of deals were completed by strategic buyers, 16 deals, while private equity investments consisted of the remaining six. Consolidation is projected to continue because larger groups have greater access to technology and labs, can share administrative costs and spend more on marketing.

Products and Services Segmentation

- Nonsurgical Treatment
- Routine Examinations
- Laboratory Services
- Surgical Treatment
- Merchandise
- Other



Source: *IBISWorld*

BUYER PROFILES

PetSafe – Founded in 1991, Radio Systems (d.b.a. PetSafe) develops a variety of pet care supplies under the PetSafe, Invisible Fence, SportDog and Innotek brands. In March 2016, PetSafe raised \$231.0 million from private equity firm TSG Consumer Products and then subsequently acquired The Piddle Place in May and Canine Containment in January 2017. PetSafe generally acquires companies with strong patents and EBITDA between \$2 and \$6 million.

Agrolimen – In May, Agrolimen, a Spanish producer of pet food, acquired the remaining interest in Nature’s Variety, the US manufacturer of the Instinct® Pet Food brand, after an initial investment in July 2014. Agrolimen has a history of making acquisitions outside of Spain to grow its international footprint. Through its subsidiary Affinity Petcare, the firm acquired NOVA FOODS, an Italian producer of pet food, in March 2016. In addition, Agrolimen acquired a UK-based producer of natural pet food, Natures Menu, in December 2015.

NOTABLE PET & ANIMAL CARE TRANSACTIONS

Several notable transactions have already been completed or announced in the Pet & Animal Care industry through Q1 2017. Select transactions are outlined below, followed by a more comprehensive list on the following pages.

- ▶ **Mars announces acquisition of VCA (January)** – Mars, a leading confectionary, pet care and food product manufacturer, has agreed to acquire VCA for an enterprise value of approximately \$9.1 billion at revenue and EBITDA multiples of 3.7x and 19.1x, respectively. The deal includes about \$7.7 billion in cash and the assumption of \$1.4 billion in debt. VCA, a provider of health care and clinical laboratory services for pets, will operate as a separate unit within Mars Petcare, which includes other veterinary services companies such as BANFIELD® Pet Hospital, BLUEPEARL® and PET PARTNERS™. Through both organic and acquisitive growth, VCA now consists of nearly 800 animal hospitals and 60 diagnostic laboratories throughout North America. Mars CEO Grant F. Reid commented, "VCA is a leader across pet health care and the opportunity we see together—for pets, pet owners, veterinarians and other pet care providers—is tremendous. We have great respect for VCA, with whom we share many common values and a strong commitment to pet care. Together, we will be able to provide even greater value, better service and higher quality care to pets and pet owners." Poul Weihrauch, Mars' Global Petcare President, added, "VCA's industry-leading partnerships with veterinarians and pet care providers together with its expertise in veterinary services, diagnostics and technology will position Mars to deliver accessible, quality care and continue to create a better world for pets. VCA's philosophy of partnering with the veterinary profession and educational institutions is aligned with our core values and culture. We look forward to together providing the best care possible for pets."
- ▶ **Private equity groups make multiple acquisitions in the Pet & Animal Care industry** – Accounting for just over a third of total acquisition volume in 2016, private equity groups (PEGs) continue to be active buyers in this industry. These types of buyers, generally driven by potential returns, have been attracted to this industry due to its recession-proof nature and steady revenue growth. According to the American Pet Products Association (APPA), the Pet market has grown every year since 2000, including during the Great Recession, and has maintained a compound annual growth rate of 3.3% over the past five years ending in 2016. A few notable PEG buyers that were active last year include The Riverside Company (Riverside), Prospect Partners (Prospect) and Guardian Capital (Guardian). Through its portfolio company Outward Hound, profiled in Capstone's Q3 coverage report, Riverside acquired Dublin Dog, a manufacturer of collars, leashes and toys for pets. The add-on acquisition will provide Outward Hound access to additional distribution channels and entry into new product segments. Similar to Riverside, Prospect also made acquisitions through its portfolio company, Innovetive Petcare (Innovetive). Innovetive's two acquisitions in 2016 were its third and fourth acquisitions in the Veterinary and Pet Health sub-segment over the past two years. Early last year Guardian acquired Rose America (d.b.a. Hyper Pet), a producer of pet toys, collars and leashes.

VETERINARY AND PET HEALTH: SELECT M&A TRANSACTIONS

Ann. Date	Target	Acquirer	Target Business Description	Enterprise	EV / LTM	
				Value (mm)	Revenue	EBITDA
01/27/17	Ask The Veterinarian	HealthBrands	Operates a pet health platform.	-	-	-
01/09/17	VCA	Mars	Provides animal healthcare products and services.	\$9,074.2	3.6x	18.4x
01/01/17	Merial	Boehringer Ingelheim	Manufactures animal medicines.	-	-	-
11/30/16	Country View Animal Hospital	Badger Veterinary Hospital	Operates a veterinary hospital.	-	-	-
11/21/16	OregaPet	True Leaf Pet	Manufactures medicinal products for pets.	-	-	-
11/17/16	Veterinary Products Labs	Pegasus Laboratories	Manufactures animal healthcare products.	-	-	-
11/03/16	VSSI	Midmark	Manufactures veterinarian equipment for the animal healthcare industry.	-	-	-
10/06/16	Jaguar Animal Health	Napo Pharmaceuticals	Develops gastrointestinal products for companion and production animals.	-	-	-
10/05/16	Boehringer's Vaccines	Elanco	Comprises an animal vaccine production and marketing business.	\$885.0	-	-
10/01/16	Sun Dog Cat Moon	Innovative Petcare	Operates veterinary clinics.	-	-	-
09/07/16	Horn Lake Animal	Shore Capital	Provides veterinary care services and operates animal hospitals.	-	-	-
09/06/16	Herschel Animal Clinic	Shore Capital	Operates an animal hospital and veterinary clinic.	-	-	-
08/22/16	Thrive Affordable Vet Care	Pathway Partners Vet	Operates veterinary clinics for pets.	-	-	-
05/17/16	Western Financial	Economical Insurance	Provides pet health insurance.	-	-	-
05/08/16	Veterinary Referral Hospital	Innovative Petcare	Operates a veterinary hospital.	-	-	-
04/19/16	Geissler's Stethoscope	Intervet	Develops a detection system used to determine the severity of an animal's lung condition.	-	-	-
03/15/16	Putney	Dechra Pharmaceuticals	Develops generic prescription medicines for pets.	\$200.0	4.0x	-
02/29/16	CAPNA	VCA	Operates veterinary hospitals that offer medicine and surgery services.	\$430.0	-	-
02/01/16	Oncura	Analogic	Provides cancer management and real-time ultrasound solutions for companion animals.	\$19.0	-	-
01/12/16	RxWork	Henry Schein	Develops veterinary practice management software solutions.	-	-	-
12/23/15	Orapup	TRUPET	Designs brushes for dogs to remove bad breath.	-	-	-
12/11/15	Chicago Vet Emergency	MedVet Associates	Provides veterinary emergency, critical care and specialty care services for cats and dogs.	-	-	-
12/10/15	21st Century Animal Health	Nutri-Vet Wellness	Manufactures canine and feline health and wellness supplements.	-	-	-
11/16/15	Community Veterinary	Cortec	Manages animal hospitals.	-	-	-
11/02/15	Bakker's Animal Health Division	Ralco	Distributes animal nutrition products and provides related consulting services.	-	-	-

PET RETAIL: SELECT M&A TRANSACTIONS

Ann. Date	Target	Acquirer	Target Business Description	Enterprise Value (mm)	EV / LTM Revenue	EBITDA
12/19/16	Holistic Pet Source	Animal Supply Company	Distributes pet food and care products.	-	-	-
10/24/16	Segrest Farms	Central Garden & Pet	Engages in the wholesale distribution of ornamental fish.	\$60.0	-	-
10/18/16	Wylie Wagg for Pets	Kriser's Feeding Pets for Life	Retails pet food and supplies in the US.	-	-	-
09/29/16	Petsense	Tractor Supply	Operates a chain of small format pet supply stores.	\$116.0	-	-
07/14/16	Go Dog Go	Bentley's Pet Stuff	Retails pet products including food, natural supplements and toys.	-	-	-
07/11/16	Pet Retail Brands	Pet Supermarket	Operates a chain of pet retail stores.	-	-	-
07/05/16	Stockmen's and Midwest Supply	Animart	Retails and distributes animal health products.	-	-	-
02/01/16	Franchise Bancorp	WTF	Operates stores in Canada that offer pet food products and a range of pet care accessories.	\$13.0	1.0x	15.7x
11/23/15	Petco	CVC Capital and CPPIB	Provides pet supplies and services.	\$4,600.0	-	-
03/31/15	Dover Saddlery	Webster Capital	Operates as a specialty retailer and omni-channel marketer of equestrian products in the US.	\$73.2	0.7x	17.2x

PET PRODUCTS AND SERVICES: SELECT M&A TRANSACTIONS

Ann. Date	Target	Acquirer	Target Business Description	Enterprise Value (mm)	EV / LTM Revenue	EBITDA
01/04/17	Canine Containment	PetSafe	Distributes pet containment systems.	-	-	-
12/13/16	Envision's PetNV	BuddyRest Pet Products	Produces reflective collars and leashes.	-	-	-
12/07/16	Dublin Dog	Outward Hound	Manufactures collars, leashes, gears, beds and toys for pets.	-	-	-
12/05/16	Werthan Packaging	Gateway Packaging	Provides multiwall paper bags for petfood and pet products industries.	\$7.3	-	-
10/04/16	Bugout Pet Feeding	Coastal Integrated	Offers bowls, dishes, feeders and supplies for cats and dogs.	-	-	-
07/07/16	Precision Pet	Doskocil Manufacturing	Offers beds, crates, exercise pens, housebreaking and pickup products for pets.	-	-	-
05/31/16	The Piddle Place	PetSafe	Manufactures and markets dog sanitary products.	-	-	-
05/17/16	4Knines	Hall Capital	Manufactures heavy duty seat covers for pets.	-	-	-
05/14/16	Hasco Tag	International Identification	Manufactures and markets tags for animals.	-	-	-
03/31/16	Whistle Labs	Mars	Provides an activity monitor device for pet owners and veterinarians.	-	-	-
02/02/16	Pooch Hotel	Paradise 4 Paws	Comprises 10 pet care centers.	-	-	-

THE PET & ANIMAL CARE TEAM



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Tom Elliott is the head of Capstone’s Pet & Animal Care practice and is responsible for managing the firm's investment banking activities in the Southeastern US. Tom joined Capstone through the merger of his firm, EQV Capital Group, Inc., a middle market M&A boutique headquartered in Tampa, Florida. While operating EQV, Tom focused on providing middle market business owners with sophisticated financial and strategic advisory services in the areas of exit planning, valuations, recapitalizations and merger & acquisition transactions.

Prior to founding EQV, Mr. Elliott spent 12 years with the Southeast Regional office of Citigroup Capital Strategies. Prior to Citigroup, he worked as a Corporate Finance consultant, responsible for assisting private companies with capital raising activities ranging from venture capital funding to initial public offerings. Tom also spent four years working as a CPA for Ernst & Young. Tom has worked with clients across a number of segments within the consumer products industry. Tom specializes in maximizing shareholder value in private company sales and recapitalizations. He earned his MBA from the University of Michigan and a BBA in Accounting from the University of Notre Dame.



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Shawn Keenan is focused on providing strategic advisory services for clients in the Pet & Animal Care sector. Prior to joining Capstone, Shawn was a Vice President with Raymond James & Associates investment banking. There he participated in numerous merger and acquisition advisory as well as capital offering assignments resulting in over \$2 billion of proceeds for clients. Shawn started his nine year career in investment banking after graduating with his MBA from the Kellogg School of Management at Northwestern University. Prior to attending graduate school, he spent seven years as an officer in the United States Navy, achieving the rank of Lieutenant. Shawn attended the University of Florida on a Naval ROTC scholarship and graduated with a Bachelors of Arts in Business Administration.



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ABOUT CAPSTONE PARTNERS

Capstone Partners LLC is an award-winning investment banking firm dedicated to serving the corporate finance needs of middle market business owners, investors and creditors. Over the past 15 years, Capstone has earned a reputation as one of the most innovative firms in the industry, offering corporate sale & divestiture, merger & acquisition, private placement, corporate restructuring, valuation and financial advisory services. The firm maintains seven industry practices, including: Business Services, Consumer Products, Education & Training, Government Services, Health & Medical, Manufacturing & Industrial, and Technology & Telecom. Headquartered in Boston, Capstone has offices in Chicago, London, Los Angeles, New York, Orange County, Philadelphia, San Diego, Silicon Valley and Tampa with an international presence that spans 450+ professionals in 70 offices across 31 countries.

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