



Capstone Partners

Investment Banking Advisors

PET & ANIMAL CARE

Q2 2015

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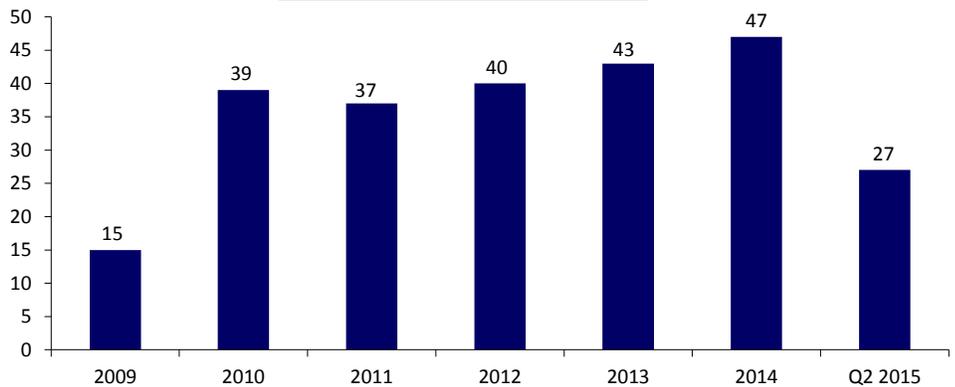
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MERGER & ACQUISITION ACTIVITY

The pet products industry again commanded high levels of merger and acquisition activity through Q2 2015. Sellers in this industry found aggressive buyers and high EBITDA multiples as PE firms and strategic acquirers alike showed continued interest in increasing their exposure to this largely recession proof industry.

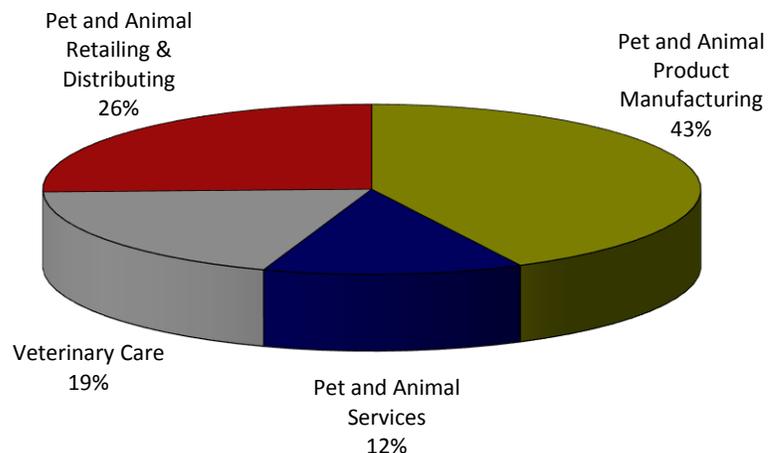
Pet and Animal Care Transactions



Sources: Capstone Partners LLC research and Capital IQ

Rapid expansion in the services sub-sector, driven by an increase in pet ownership and the inclination of pet owners to treat pets as part of the family, has been a major theme of the pet & animal healthcare industry through the first half of 2015. This bodes well for retailers and manufacturers in the higher priced segment of the market, as top-end pet products and services typically carry higher margins. In conjunction, falling input prices in the pet food industry are allowing operators to reduce sales prices while maintaining strong margins.

Transactions by Industry Segment

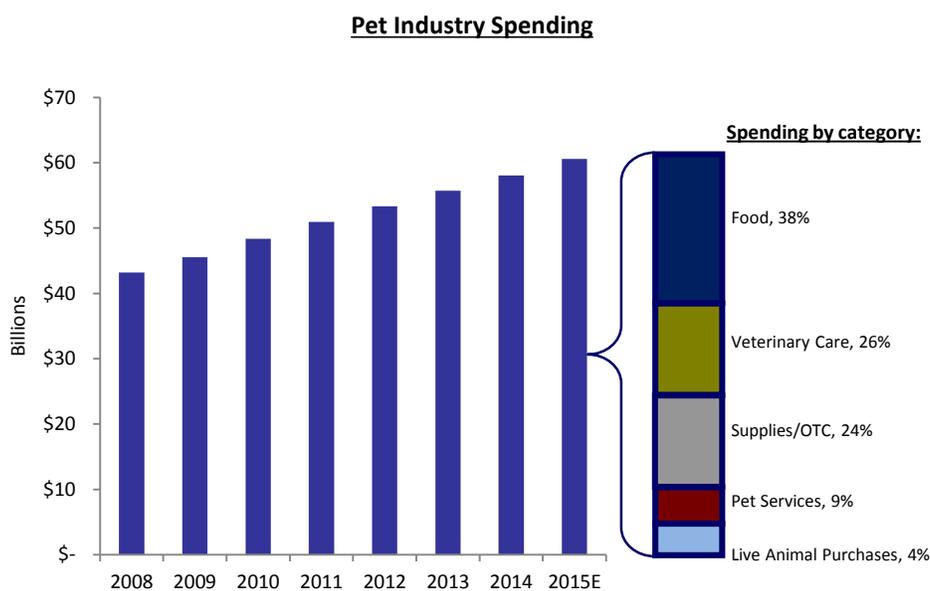


Sources: Capstone Partners LLC research and Capital IQ
Twelve months ending June 30, 2015

INDUSTRY TRENDS

Not surprisingly, the food, veterinary care, and supplies categories dominated spending within the pet & animal care industry. As pet owners continue to humanize pets, Capstone sees significant M&A potential in the high-end pet services industry. These services extend beyond grooming and training to more non-essential services including luxury therapy and transportation services.

The pet products and animal care industry is highly attractive to investors in part because it is sheltered from the volatility found in some other consumer products segments. Perhaps most importantly, pet owners prioritize spending on their pets above almost all other consumer discretionary industries such as leisure, travel, and entertainment. Decreasing household size and an influx of innovative products and services have also strengthened the foundation of the pet products industry.



Source: APPA

OUTLOOK

Industry revenue is expected to continue to grow at an impressive clip thanks to the rising number of pet owning households and growth of the overall pet population. The pet industry will benefit as the economy gathers steam and consumers spend available income on their pets. Capstone expects pet & animal care industry growth through the next five years to accelerate past the impressive levels of the previous five years.

NOTABLE PET & ANIMAL CARE TRANSACTIONS

Several notable transactions have already been completed or announced in the Pet & Animal Care industry in 2015. Selected transactions are outlined below, followed by a more comprehensive list on the following table.

- ▶ **Alltech acquires Ridley (April 2015)** – Alltech, a producer of natural feed supplements for animals, acquired Ridley, one of the largest commercial animal nutrition businesses in North America, in a transaction valued at \$424 million. Ridley was purchased at an EBITDA multiple of 8.1x, a representation of the healthy multiples pet & animal care companies are receiving. The acquisition is expected to help Alltech build out its global distribution network and create a new model of animal nutrition distribution. Pearse Lyons, founder and president of Alltech, commented, “This combination creates a new model to deliver superior animal nutrition and tailored feeding programmes supported by robust scientific research and data analytics. This deal underscores our continued momentum in growing our business through strategic acquisitions of best-in-class companies with trusted technology and brand recognition.” The combined entity operates in over 128 countries and employs more than 4,200 people.

- ▶ **Patterson Companies acquires Animal Health International (May 2015)** – Animal Health International, a leading animal health distribution company, was acquired by Patterson Companies, a veterinary, dental, and rehabilitation supply distributor. The acquisition effectively doubled the size of Patterson’s veterinary business and complements Patterson’s existing presence in the pet market. The deal valued Animal Health International at approximately \$1.1 billion and reflected an EBITDA multiple of more than 16x. Patterson CEO Scott Anderson commented, “This acquisition is a key part of our previously disclosed strategic intent to take a broadened view of our markets and position our businesses to generate profitable growth and increase shareholder value.”

- ▶ **Worldwise merges with Quaker Pet Group (May 2015)** – Worldwise, a branded pet products manufacturer, merged with Quaker Pet Group, a manufacturer of pet toys. The companies will operate under the Worldwise platform. The merged company will cover a significant number of product segments within the pet & animal care industry. Kevin Fick, CEO of Worldwise, commented, “The core competencies of Worldwise and QPG complement each other perfectly, making this a win-win for both companies, as well as retailers and consumers. The new combined company will be able to better service the needs of retailers and bring more innovation to pets and pet parents around the world. In addition, this merger enhances our ability to further acquire brands in the highly fragmented pet accessory market, and to continue to roll out internally developed new product lines.”

SELECT M&A TRANSACTIONS

Date	Target	Acquiror	Target Business Description	Enterprise Value (mm)	EV/LTM Revenue	EBITDA
06/17/15	Happy To Be Here	Thomas Franchise Solutions	Provides dog daycare, overnight boarding, and spa services to the United States.	-	-	-
05/28/15	Quaker Pet Group	Worldwise	Manufactures products for pets and their pet-parents.	-	-	-
5/26/2015	incuboom	Crescendo Capital Partners	Offers pet care products for dogs and cats in the United States.	-	-	-
05/04/15	Animal Health International	Patterson Companies	Distributes animal health products and supplies.	\$1,100.0	0.7x	16.2x
4/29/2015	Contech Enterprises	Scotts Canada	Designs and provides animal control and wellness products such as Catstop to keep cats out of garden.	-	-	-
4/24/2015	SPUD	Single Investor	Sells organic cat and dog food online.	-	-	-
4/23/2015	Ridley	Alltech	Manufactures and markets a range of animal nutrition products.	\$509.1	0.7x	8.0x
4/20/2015	VetCor	Cressey & Company	Manages a network of veterinary hospitals in the United States.	-	-	-
4/15/2015	Pet Supermarket	Roark Capital Group	The largest retailer of pet food and pet-related supplies based in the Southeastern United States.	-	-	-
4/13/2015	Coast Pet Distributors	Animal Supply Company	Supplies pet food and other pet products.	-	-	-
3/30/2015	Wilson Pet Supply	Animal Supply Company	Distributes pet foods and supplies, tropical fishes, reptiles, and marine fishes.	-	-	-
3/21/2015	PetSuites of America	National Veterinarian Associates	Offers grooming and boarding facilities to pets in Ohio, Indiana and Kentucky.	-	-	-
3/18/2015	Kriser's Feeding Pets for Life	Alliance Consumer Growth	Operates pet food stores, grooming and other pet supplies out of Illinois.	-	-	-
3/17/2015	Petcube	SOSventures and Almaz Capital	Developed a home gadget to watch, talk, and play laser games with cats and dogs through a mobile application.	-	-	-
3/9/2015	Natural American Pet Ntrl. Life Pet Products	Arthur Dogswell	Produces chicken, beef, duck pet treats, and food for pets with allergies and food intolerance.	-	-	-
3/3/2015	Protein For Pets	Crowd Funding	Offers dry, raw, and wet foods for poultry, meat, and fish sections.	-	-	-
2/26/2015	LiveWatch Security	Monitronics International	Supplies products for family protection, pet monitoring and security, and property protection in homes.	\$61.0	-	-
2/25/2015	Valleydale Animal Clinic	Shore Capital Partners	Operates a small animal veterinary hospital that specializes in medical, surgical, and dental care for pets.	-	-	-
2/5/2015	doggyloot	The FamilyPet Network	Sells a range of dog care products at discounted prices in the United States.	-	-	-
2/4/2015	Flavor & Fragrance Specialties	Lucta	Offers fragrances under various categories, including pet care.	-	-	-
1/29/2015	Snaptracs	Whistle Labs	Develops pet GPS tracking systems for pet owners in the United States.	-	-	-
1/26/2015	PetCure Oncology	Venture Capital	Provides veterinary oncology services to animals in Ohio and Arizona.	-	-	-
1/23/2015	RDB Investments	Pet Valu	Offers dog, cat, fish, bird, pond, reptile, and small pet food products.	-	-	-
1/20/2015	Salix	United Pet Group	Distributor of premium, natural rawhide dog chews, treats and snacks.	-	-	-
1/13/2015	Bionic Pet Products	Outward Hound	Designs and manufactures durable fun toys for dogs and their families.	-	-	-
1/6/2015	PetVet Care Centers	Ontario Teachers' Pension Plan	Provides veterinarian services for veterinary clinics and veterinary practices in Connecticut.	\$440.0	-	11.0x
1/3/2015	AA Small Animal Emergency Service	MedVet Associates	Offers medical and cancer centers for pets in Lexington, Kentucky and surrounding communities.	-	-	-

CAPSTONE PARTNERS: COMPLETED CONSUMER PRODUCTS & SERVICES TRANSACTIONS

Capstone Partners has completed several transactions within the consumer products & services space. These transactions span the major categories of manufacturing, retail, wholesale and services and include a variety of companies offering a diversity of products such as those related to pet, juvenile, food, drug and nutraceutical, and recreation products and services. Capstone's experience in the sector provides us with insight into the valuable attributes and likely valuation of a target company, the active buyers in the industry and the nuances of transactions in this space.

<p>CONFIDENTIAL</p> <p><i>corporate sale (IN PROCESS)</i></p> <p>A Branded Organic Food Company</p>	<p>CONFIDENTIAL</p> <p><i>corporate sale (IN PROCESS)</i></p> <p>Contract Manufacturer of Supplements and Nutritional Products</p>	<p></p> <p><i>has been acquired by</i></p> <p></p>	<p></p> <p><i>has been acquired by</i></p> <p></p>
<p></p> <p><i>has been acquired by</i></p> <p></p>	<p></p> <p><i>has been acquired by</i></p> <p></p> <p>a portfolio company of </p>	<p></p> <p><i>strategic joint venture</i></p> <p></p>	<p></p> <p><i>has been acquired by</i></p> <p></p> <p>a portfolio company of </p>
<p></p> <p><i>has divested</i></p> <p></p> <p><i>America's Place To Race</i></p>	<p></p> <p><i>has been acquired by</i></p> <p>Senior Members of Doc's Drugs, Ltd.</p>	<p>A Premier Provider of Early Education & Childcare Services</p> <p><i>has been acquired by</i></p> <p></p>	<p></p> <p>FRIEDRICH 1883</p> <p><i>has been acquired by</i></p> <p></p> <p>Corinthian Capital</p>
<p></p> <p><i>has been acquired by</i></p> <p></p>	<p></p> <p><i>has been acquired by</i></p> <p></p>	<p>INTERLEUKIN GENETICS</p> <p><i>acquisition advisory</i></p> <p></p>	<p></p> <p><i>has recapitalized with</i></p> <p></p> <p>BLACK CANYON CAPITAL</p>

THE PET & ANIMAL CARE TEAM



Tom Elliott, Managing Director
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Tom Elliott is responsible for managing the firm's investment banking activities in the Southeastern United States. 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.



Shawn Keenan, Vice President
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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 eight 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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Dan oversees Capstone's national business development and industry coverage activities, working closely with current and prospective clients of the firm on matters related to corporate sales, recapitalizations, mergers & acquisitions and growth financings. Prior to spearheading the firm's business development and market initiatives, he was a Vice President in Capstone's M&A group, managing numerous successful transactions across a variety of industries. Dan also gained hands-on transaction experience as an investment banker at Headwaters MB. He started his career with Ernst & Young's National Professional AABS practice in New York and later worked in Assurance and Advisory Business Services in the Denver office. Dan received a BE in Biomedical Engineering with a Business Minor from Vanderbilt University. He earned an MBA and a Master of Accountancy from the Daniels College of Business at the University of Denver.

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ABOUT CAPSTONE PARTNERS

Capstone Partners LLC is a premier investment banking firm dedicated to serving the corporate finance needs of middle market business owners, investors and creditors. The firm provides corporate sale & divestiture, merger & acquisition, private placement, corporate restructuring, valuation and financial advisory services. Capstone maintains various industry specialties including one in the Pet & Animal Care sector. The firm also has a merchant banking capability to actively co-invest in transactions. Headquartered in Boston, Capstone has offices in Chicago, London, Los Angeles, Philadelphia, San Diego, Silicon Valley and Tampa.

For more information
about our expertise,
please visit
www.capstonellc.com



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