

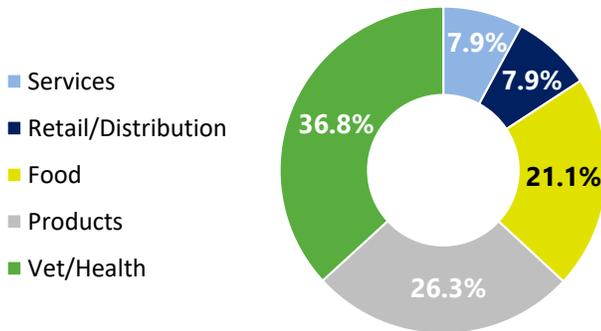


## INDUSTRY OVERVIEW

- Over the previous decade, Pet industry expenditures have increased 65.6%, according to the American Pet Products Association.<sup>1</sup> Pet & Animal Care industry growth has continued to be supported by demographic and cultural tailwinds such as pet humanization and the increase in US pet ownership (67% of US households), driven primarily by millennials who now make up the majority of pet owners. The market has responded to these trends by flooding the industry with premium food, services, and products that promote healthy, active lifestyles.
- Heightened demand and subsequent increasing profit margins for premium products have provided strategic and private equity buyers alike with an abundance of quality acquisition targets. International merger and acquisition (M&A) activity has mirrored North American trends, such as an influx of acquisition activity related to the health and wellness of pets. Of the 39 international deals year-to-date (YTD), approximately 38% of buyers have targeted companies that provide health and wellness products and services.

## M&A SEGMENT BREAKDOWN

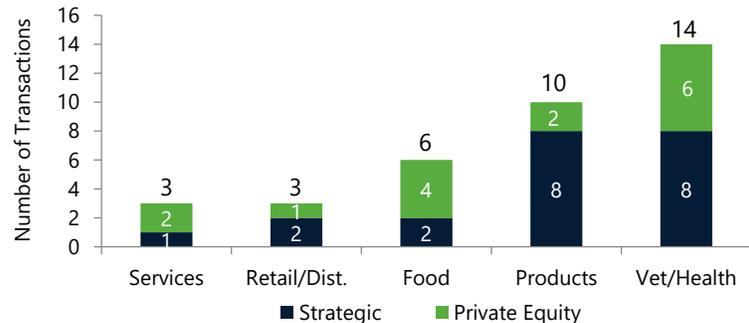
- The Veterinary & Health and Food segments have continued to attract heightened demand in the M&A market, accounting for nearly 58% of total deal activity YTD, consistent with the 60% in all of 2018.
- Companies providing, premium products and services have been in high demand, promoting margin expansion and increasing the attractiveness to potential investors.



Year-to-date (YTD) ended July 2  
Source: Capital IQ, Pitchbook, FactSet, and Capstone Headwaters Research

## FINANCIAL VS. STRATEGIC VOLUME

- Financial buyers have accounted for ~42% of transactions announced or completed year-to-date (YTD), compared to ~30% during the same period in 2018. Private equity firms, seeking to bolster platform investments by acquiring accretive businesses, have accounted for approximately 22% of current deal activity. Notably, Arbor Investments-backed Red Collar Pet Foods Inc. (acquired by Arbor in December 2018 – rebranded from Mars Petcare) acquired Hampshire Pet Products (February, undisclosed), a manufacturer of premium and mainstream private label pet food and treats.



## SEGMENT HIGHLIGHT: VETERINARY & HEALTH

- The U.S. Veterinary (“Vet”) Services market has increased at an annual rate of 5.4% from 2014 to 2019, according to IBISWorld.<sup>2</sup> Increasing pet ownership coupled with rising pet longevity has driven demand for routine care and chronic disease management. Continued growth in the Vet Services space is expected, through 2024, although at a slower pace. In addition, the rise in the number of pets insured in the US grew 18% in 2018, according to DAPHIA.<sup>3</sup> This allows owners to access higher-cost procedures or treatments at an affordable cost, driving revenues for vet service providers.

Strong industry growth over the previous five years has yielded ample M&A opportunities which have been capitalized on by leading consumer brands. Notably, JAB Holding Company, a renowned consumer brands conglomerate, made its first two investments in the Pet & Animal Care space with the acquisitions of two vet services companies in 2019. In February, JAB agreed to acquire Compassion-First Pet Hospitals for a \$1.2 billion valuation. Compassion-First operates a network of 41 specialty, emergency, and general practice vet hospitals across 13 states. JAB also agreed to acquire National Veterinary Association (NVA) in June for an undisclosed sum. NVA operates over 670 vet hospitals and 70 pet resorts across 43 states in the U.S. and internationally.

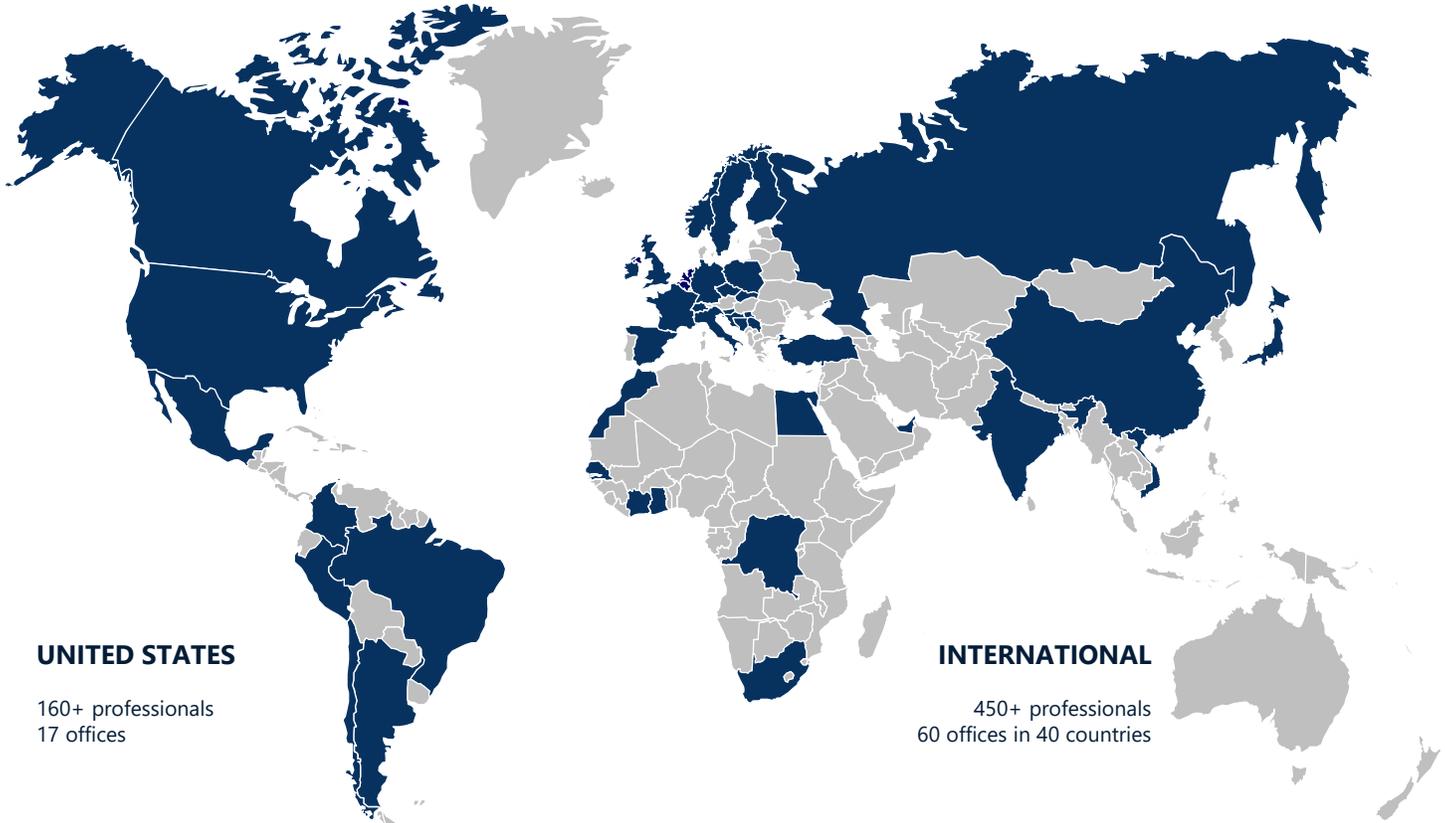
## SEGMENT HIGHLIGHT: CBD PET PRODUCTS

- On the heels of Capstone Headwaters’ discussion with health and wellness pet products provider, Holistic Hound, the CBD pet product market continues to foster investor attention driven by its marketability as an alternative to prescription medications. Analogous with human consumption, CBD pet products have been identified as an all-natural solution to treat chronic pain, arthritis, anxiety, and seizures. The industry is set to benefit from further adoption and is estimated to reach a US market value of \$125 million by 2022. This represents an impressive five-year compound annual growth rate of 57%, according to New Frontier Data.<sup>4</sup>

CBD-infused pet product companies have seen particular interest from strategic buyers, looking to expand product offerings and capitalize on the rapidly growing CBD market. Notably, Better Choice Company (OTC:BTTR), a health and wellness pet products holding company, acquired Bona Vida (February, undisclosed), a CBD-infused product platform focused on developing a portfolio of health and wellness products to add to its existing CBD-infused pet product brand. Other notable acquisitions in the CBD pet space include Elixinol’s minority investment in Altmed Pets (April, \$25.2 million) and Revolution Enterprises acquisition of Reilly’s Hempvet (June, undisclosed).



## BUILT FOR THE MIDDLE MARKET



### CITATIONS

1. American Pet Products Association, "Historical Totals (2009-2019)," <https://www.americanpetproducts.org/Uploads/MarketResearchandData/PetIndustryMarketSize2019.pdf>, accessed July 11, 2019.
2. IBISWorld, "Veterinary Services in the US," <https://www.ibisworld.com/industry-trends/market-research-reports/professional-scientific-technical-services/professional-scientific-technical-services/veterinary-services.html>, accessed July 10, 2019.
3. NAPHIA, "NAPHIA Announced Pet Insurance Market Reaches \$1.42B in North America," <https://naphia.org/news/naphia-news/naphia-announces-pet-insurance-market-reaches-1-42b-in-north-america/>, accessed July 10, 2019.
4. New Frontier Data, "Hemp-derived Pet Supplies in the Growing CBD Market," <https://newfrontierdata.com/marijuana-insights/hemp-derived-pet-supplies-growing-cbd-market/>, accessed July 10, 2019.

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