



## Quarterly Pet Industry Report

Vol. 1, Issue 4: Q4 2015

### Pet – Q4 2015

During the fourth quarter of 2015, several blue-chip strategic players in the pet space were actively involved in M&A transactions, both as buyers and sellers. The most notable deal was the announced acquisition of Petco for \$4.6 billion by CVC Capital and Canada Pension Plan Investment Board. Prior to the announcement, Petco had filed for an IPO and was rumored to be in discussions with PetSmart. Other strategic players that were involved in transactions include Central Garden & Pet Company, Henry Schein, and Mars.

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### Select Pet Deal Activity

<b>Strategic Transactions</b>	<p><b>Announced – Henry Schein</b>, a leading medical and veterinary products company, announced that it has agreed to acquire an 80% stake in <b>Vetstreet Inc.</b>, a Website that enables and facilitates veterinarian care with pet owners.</p> <p><b>12/01/2015 – Central Garden &amp; Pet Company</b>, a leading provider of household pet and garden supplies, acquired <b>Dallas Manufacturing Company</b>, a supplier of pet bedding products.</p> <p><b>11/19/2015 – Mars, Incorporated</b>, a leading manufacturer of pet food, acquired <b>BluePearl Veterinary Partners</b>, the largest private provider of specialty and emergency veterinary care services in the U.S. <b>Mars</b> acquired their stake from <b>Summit Partners</b>, who had invested in the Company in 2014. Mars currently operates veterinary hospitals under the Banfield Pet Hospital name and this acquisition helps to bolster its veterinary offerings.</p>
<b>Financial Transactions</b>	<p><b>Announced – CVC Capital Partners and Canada Pension Plan Investment Board</b> announced that they have agreed to acquire <b>Petco Holdings, Inc.</b>, a leading specialty pet retailer that operates stores under the Petco and Unleashed store names. The transaction is valued at \$4.6 billion and is expected to close in early 2016.</p> <p><b>11/16/2015 – Community Veterinary Partners</b>, an operator of animal hospitals, sold a majority stake to <b>Cortec Group</b> for \$43.5 million. <b>Cortec Group</b> is a New York-based private equity firm.</p> <p><b>10/15/2015 – Petstages</b>, a leading provider of toys for dogs and cats, was acquired by <b>Outward Hound</b>, a portfolio company of <b>The Riverside Company</b>.</p>

### Giving You the Real Scoop – CVC Capital and Canada Pension Plan’s Acquisition of Petco

**Announced**



**Have Agreed to Acquire**



**Acquisition Type:**  
Financial

**Transaction Size:**  
\$4.6 billion

#### Transaction Rationale and Notes:

- CVC and CPPIB hope to leverage their extensive retail knowledge and resources to drive growth
- Petco operates more than 1,400 stores under the Petco and Unleashed by Petco brands
- Current shareholders include Leonard Green & Partners and TPG Capital, who acquired Petco for \$1.8 billion in 2006



### 2015 Year in Review Notable News and Acquisitions



In January, United Pet Group, a subsidiary of Spectrum Brands, completed the acquisition of Salix LLC, a manufacturer of all-natural dog chew products. Salix reported 2014 revenue of \$100 million. The terms of the deal were not disclosed.

#### BC Partners



In March, BC Partners and Longview Asset Management completed their acquisition of PetSmart for approximately \$8.4 billion in cash. The deal represented a 1.2x multiple of LTM revenue and a 8.8x multiple of LTM EBITDA. As a result of the transaction, PetSmart became a privately owned company and no longer trades on the NASDAQ exchange.



In March, J.M. Smucker announced that it had acquired Big Heart Pet Brands for \$5.8 billion from the existing ownership group of KKR, Centerview Capital, and Vestar Capital. The deal is J.M. Smucker's largest acquisition in its 118 year history and represents Smucker's entrance into the rapidly growing \$21 billion pet food industry. Smucker gains leading pet brands such as Milk-Bone, Kibbles'n Bits, and Meow Mix.



In July, Blue Buffalo - a Connecticut-based provider of premium food for dogs and cats - completed an initial public offering ("IPO"). Blue Buffalo raised approximately \$677 million from its IPO and is listed on the NASDAQ under the symbol BUFF. In 2014, the Company reported revenue and net income of \$918 million and \$102 million, respectively.



In July, Purina announced that it had agreed to acquire Merrick Pet Care, a provider of premium dog and cat food owned by Swanker Pace Capital. The acquisition expanded Purina's natural and organic branded offerings by giving them access to the Merrick, Castor & Pollux, ORGANIX, and Whole Earth Farms brands, among others. In addition, Purina believes that it can leverage its overseas network to expand Merrick's international presence. Merrick will continue to operate as an independent business following the acquisition.



In November, CVC Capital and Canada Pension Plan Investment Board announced that they had agreed to acquire Petco Animal Supplies, a specialty retailer of pet products, for approximately \$4.6 billion. Existing owners include TPG Capital and Leonard Green & Partners. The acquisition comes months after rival PetSmart was acquired by a consortium of investors. The transaction is expected to close in early 2016.



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### Quarterly Spotlight

**Bob Vetere,**  
**President of the American Pet Products Association**  
**An Interview by MHT MidSpan's Carol Frank**

**As it was in my 2011 interview with you, the pet market continues to be HOT. Do you see that growth continuing? If so, for how long?**

Yes, although I'm not sure it will be quite as vibrant and impressive as it's been over the last several years. My biggest concern is Baby Boomers that will reach the age of 70 and say "I can't keep doing this." We need backfill. Up until the last Pet Owner's Survey, I was concerned. But now we see Millennials take a bigger interest in their pets, an audience that can be a backfill for aging Baby Boomers. This is great news and I believe our industry is in good shape for at least 3-5 years.

**Are there any specific trends you are seeing that could influence investor interest?**

One of the things we saw for a while...then stopped...and are now seeing again is big companies buying the little guys. But there are always more little guys! Every year APPA acquires 200-250 new members of all sizes. Currently total membership stands between 1,200-1,300 companies. It was 620 when I joined in 2002, doubling since I started.

Another indicator of the significant growth of the industry since I started at APPA is the number of Global Pet Expo exhibitors. The total has grown from 1,470 booths in 2003 to 3,200 in 2015! One of the advantages of coming to Global is to see the new companies/products/ideas in the New Product Showcase.

Every year we lose a bunch from the year before, but the influx of new guys still keeps getting stronger and more plentiful. There seems to be a never ending supply of new companies coming in. And now we are seeing large non-pet players entering the industry, as when Smuckers acquired Big Heart. Never a dull moment.

Pet is one of the most secure segments among all retail sectors and I believe it will continue to be a vibrant part of our economy.

**What effect will the Millennial Generation have on the pet industry? Will the Millennials make up for the fact that baby boomers are starting to "age out" of having pets?**

I believe the Millennials will more than make up for the drop off Boomers will have.

(Continued on Page 4)

#### Bob Vetere

Bob Vetere has been serving in the APPA for nearly 14 years and was recently named President of the association. He has made his mark in the industry as



APPA's chief spokesperson with guest columns in publications including Pet Business and Pet Product News and television appearances on such acclaimed shows as CNNFN, ABC's World News Tonight, and CNBC.



### Quarterly Spotlight (Continued)

There are many similarities and some differences between the generations. Both Boomers and Millennials are looking for ways to stay active and keep their active lifestyles while making sure their pets are well taken care of (i.e. – remote cameras, timed watering devices, and speakerphones to talk to your pet while you are away).

Pet sitters, walkers, pooper-scoopers. Both Boomers and Millennials love these services.

I don't think there will be a radical change as Boomers retire and Millennials pick up the slack.

Millennials do seem to be more on point with what is going inside their dog than other generations. This concern is partially driving the huge growth we have seen in natural/premium/organic sector.

#### What technology trends are you excited about?

Products that allow you to be away from home yet give you comfort in knowing that your pet will be OK. Things like a Doggie Door that allow the door to be unlocked at specific times gives much more opportunity for interactions with your pet. I know a gentleman who has a camera in all seven rooms of his house that are connected to his cell phone. He can call his dog if he's doing something wrong because the dog has a special collar with a cell phone that rings and answers automatically and the owner can speak through speaker to his dog. Amazing!

In terms of the plethora of GPS and activity-based collars and tags – there are so many people with partial good answers, but I haven't seen anyone knock it out of the park yet. And no one seems to want to talk to each other. If these creative entrepreneurs ever put their heads together, they could create Facebook Part II. But it seems like there are so many closed doors and so much secrecy.

#### Why do you think the pet industry is “the place to be” from an investor standpoint?

The 2008 recession bore me out as being right. It turns out that people will cut in a lot of places in their lives before they cut expenses for their pets. 2008 and 2009 showed that there are a significant number of people who just got in the car and drove their family and their pet(s) to a pet-friendly destination. Even though people stopped going out to eat, they always made sure their pet was well taken care of.

As people got back on their feet, they wanted to thank their pets for helping them get through the tough times. Their beloved dog, cat, bird, horse, etc. was always there to provide unconditional love through the tough times. I believe some of the significant growth we have seen over the last several years was because pet parents were trying to thank their pets by buying something special that was meaningful to them.

#### You've been doing this a long time now. In your observation, what does it take to launch and build a successful pet company? One that will be exhibiting at Global Pet 2025?

That is a great question and one of the most frustrating parts of my job. I'll see a great product, but the person running the company has no idea how to balance a checkbook, order inventory, or cost their products. APPA offers so many services to our members, but so many of them say “I don't have time.”

(Continued on Page 5)



### Quarterly Spotlight (Continued)

Success comes from the entrepreneur who has business sense or who is smart enough to find a partner with business sense AND be smart enough to pay attention to that partner's business acumen. But don't let them talk you out of your great idea! Just look to grow in the right way.

Make sure you patent your idea before you show up at Global Pet Expo! I feel so bad for these guys who get knocked off by the third day of the show. A few years ago, there was a member who came to the show with a great idea. By the third day, one of the other members had photoshopped a picture of the original product and had it in his booth as a "coming soon" product. Unfortunately, like with so many other industries, there are some copy cats in the pet industry. Once you have all your intellectual property, then talk to retailers/distributors that are the right size for what you can produce comfortably right now. In other words, don't go to Wal-Mart and try to get their business right out of the box.

Identify your target customer. Stay alert, stay awake, do market research to find out perceptions and what people are looking for. Who is really going to want this? Be receptive to comments, criticisms, and suggestions. Listen to the right people, but don't listen to EVERYONE.



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### Pet M&A Overview Select Q4 2015 Deals

Date	Target	Acquirer	Target Description	Enterprise Value	Enterprise Revenue	Enterprise EBITDA
Announced	Petco Holdings, Inc.	CVC Capital Partners; Canada Pension Plan Investment Board	Petco is a specialty pet retailer that operates stores under the Petco and Unleashed store names.	\$ 4,600.0	-	-
Announced	Vetstreet Inc.	Henry Schein, Inc.	Vetstreet Inc. owns and operates a Website that enables veterinarians to care for animals and communicate with pet owners.	-	-	-
12/10/2015	Nutri-Vet, LLC	Manna Pro Products, LLC (Broad Sky Partners)	Nutri-Vet, LLC provides veterinary formulated animal supplements and complementary external products that promote health and well-being in dogs and cats in North America and internationally.	-	-	-
12/1/2015	Dallas Manufacturing Company, Inc.	Central Garden & Pet Company	Dallas Manufacturing Company supplies pet supplies and pet bedding products.	61.0	-	-
11/19/2015	BluePearl Veterinary Partners LLC	Mars, Incorporated	BluePearl Veterinary Partners LLC operates a community of hospitals that offer specialty and emergency veterinary medicine for pets.	-	-	-
11/18/2015	Southside Animal Hospital	Southern Veterinary Partners, LLC	Southside Animal Hospital owns and operates a pet care hospital.	-	-	-
11/16/2015	Community Veterinary Partners, LLC	Cortec Group	Community Veterinary Partners, LLC provides solutions for veterinary professionals.	-	-	-
10/30/2015	Old Mill Pet Products, LLC	Multipet International, Inc.	Old Mill Pet Products, LLC produces nutrition and treats for pets.	-	-	-
10/15/2015	Petstages, Inc	Outward Hound (The Riverside Company)	Petstages, Inc designs, manufactures, and distributes toys for cats and dogs.	-	-	-

### Featured Trend

**Veterinary / Animal Hospital Consolidation** – Throughout 2015, veterinary services companies and animal hospitals were consistently the target of M&A transactions. Larger players in the space have been pursuing a roll-up M&A strategy, exemplified by MedVet Associates, a provider of specialty and emergency veterinary care services. In 2015, MedVet completed six add-on acquisitions, acquiring veterinary hospitals in Illinois, Indiana, Ohio, Kentucky, Alabama, and Louisiana. There were several other veterinary and animal hospital deals that occurred in the fourth quarter of 2015, several of which are highlighted above. Spurred by increased pet ownership, as well as the rise of pet insurance companies such as Trupanion that allow pet owners to afford high-cost pet procedures, the veterinary services space has been growing in popularity. As a result, the veterinary services market is expected to grow to nearly \$37 billion by 2020. We expect continued consolidation within the sector, as the market remains highly fragmented among local and regional players.

### Select Targets in 2015



These materials were prepared from publicly available information and other sources without independent verification by MHT MidSpan, and therefore neither MHT MidSpan nor any of its partners, directors, officers, employees or affiliates warrants the accuracy or completeness of these materials, including without limitation the accuracy or achievability of any valuations, projections, estimates or assumptions, all of which are necessarily preliminary and subject to further analysis. Actual results may vary from such valuations, projections, estimates and assumptions, and such variations may be material.



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### Public Basket

For the last twelve months, the pet industry has tracked slightly above the performance of the S&P 500 Index. During the fourth quarter of 2015, our pet industry index declined by approximately 2%, compared to the S&P 500 Index, which was up approximately 6%. One of the strongest performers in the pet index for the fourth quarter was Trupanion (NASDAQ: TRUP), whose stock was up approximately 30% for the quarter.

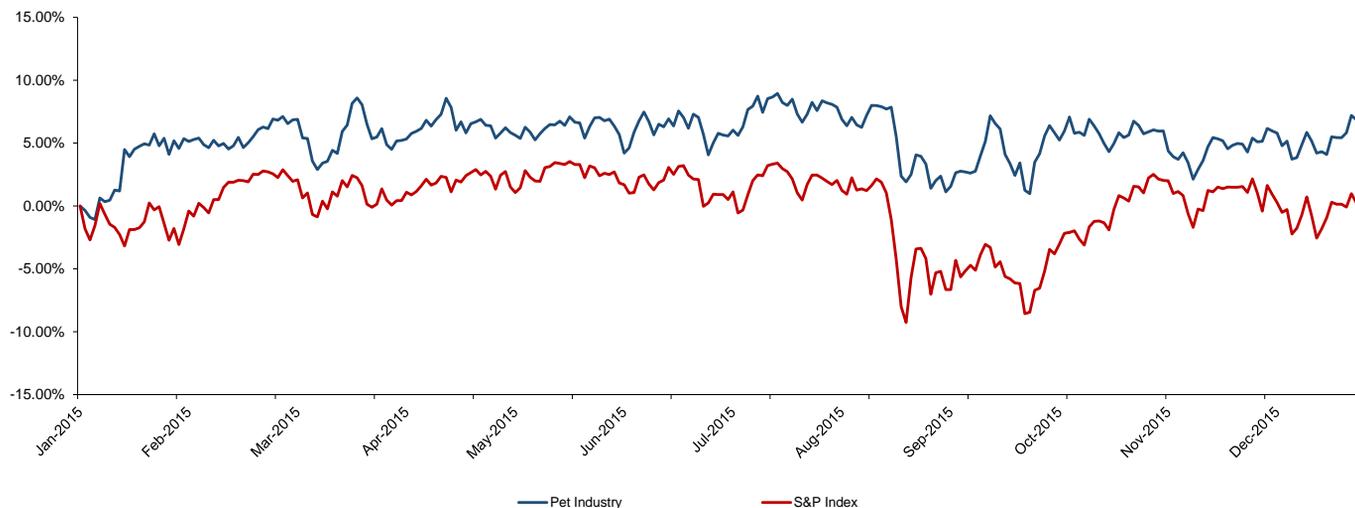
### Public Company Set

(\$ in Millions, except share prices)

Company	Enterprise Value	Equity Value	Share Price	% of 52-Week High	Stock Price Performance		EV / Revenue		EV / EBITDA	
					One-year	Three-Year	LTM	2015E	LTM	2015E
<b>Pet Products</b>										
Blue Buffalo Pet Products, Inc.	\$3,873	\$3,670	\$18.71	65.0%	NA	NA	3.9x	3.8x	20.2x	17.9x
Central Garden & Pet Company	1,035	681	13.52	74.0%	54.0%	34.9%	0.6	0.6	7.6	7.1
Freshpet, Inc.	266	285	8.49	32.8%	(50.2%)	NA	2.4	2.3	159.7	26.6
OurPet's Company	22	16	0.90	90.0%	5.9%	136.8%	0.9	--	8.0	--
<b>Consumer Products Companies w/ Pet Lines</b>										
Nestlé S.A.	257,145	237,451	74.46	96.8%	2.2%	25.1%	2.6	2.9	13.8	15.2
Colgate-Palmolive Co.	65,287	59,753	66.62	93.1%	(3.7%)	27.5%	4.0	4.1	14.6	14.8
Unicharm Corporation	12,428	12,325	20.61	72.9%	(14.9%)	65.3%	2.1	2.0	12.5	14.1
Spectrum Brands Holdings, Inc.	9,809	6,040	101.80	95.5%	6.4%	126.6%	2.1	1.9	13.4	10.7
JAKKS Pacific, Inc.	306	147	7.96	77.4%	17.1%	(36.4%)	0.4	0.4	4.7	5.5
Oil-Dri Corp. of America	258	267	36.83	94.6%	12.9%	33.4%	1.0	--	8.1	--
Eli Lilly and Company	93,148	89,368	84.26	90.7%	22.1%	70.8%	4.7	4.7	17.5	17.2
<b>Animal Health</b>										
Zoetis Inc.	26,933	23,860	47.92	86.5%	11.4%	NA	5.6	5.7	18.8	18.5
VCA Inc.	5,274	4,435	54.68	88.0%	26.7%	226.1%	2.5	2.5	13.5	13.1
Virbac SA	2,751	2,013	238.72	85.2%	26.1%	46.7%	2.9	2.9	21.4	21.1
Trupanion, Inc.	254	276	9.76	98.1%	40.8%	NA	1.8	1.7	NM	NM
<b>Median:</b>	<b>\$3,873</b>	<b>\$3,670</b>	<b>\$37</b>	<b>88.0%</b>	<b>12.1%</b>	<b>46.7%</b>	<b>2.4x</b>	<b>2.5x</b>	<b>13.6x</b>	<b>15.0x</b>

Source: Capital IQ. As of 12/31/2015.

### Pet Industry vs. S&P 500 Last 12 Months



Note: chart is weighted by market capitalization.

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### MHT MidSpan – The Leading Middle Market Pet Investment Bank

**Carol Frank, Managing Director**

**cfrank@mhtmidspan.com**



Prior to MHT MidSpan, Carol's investment banking background comprised of deals exclusive to the pet industry, such as the sale of Cloud Star to Frontenac and the acquisition of Zeus Pet Products by Pet Food Experts. Prior to her investment banking career, from 1987 to 2007, Carol founded and operated highly successful pet-related companies: The Animal Kingdom, Avian Kingdom Supply, Inc; and Avian Adventures. Carol has an MBA from Southern Methodist University and a BBA in accounting from The University of Texas at Austin.

**Craig Lawson, Managing Director**

**clawson@mhtmidspan.com**



Craig has over 20 years of sell-side and buy-side financial experience. He brings deep experience with consumer products and leads MHT MidSpan's Consumer / Retail industry practice. Within the Consumer / Retail practice he has a particular focus on the pet space, having closed several deals over the past few years and presently working with several others. Prior to co-founding MHT MidSpan Partners, Craig served as a senior banker in the San Francisco office of Harris Williams & Co. Craig holds an MBA from The Wharton School at the University of Pennsylvania and graduated with a BA from Tufts University. He also holds the CFA designation.

MHT MidSpan is a leading national middle market investment bank focused on high-growth companies and industry leaders. The team at MHT MidSpan assists clients with seller advisory, acquisition advisory, corporate finance, and strategic advisory assignments. With a tightly integrated combination of Wall Street, middle market, and strategic consulting expertise, we are uniquely qualified to serve the distinct advisory needs of companies across a range of industries. Within the consumer industry, the senior professionals of MHT MidSpan have completed over 100 deals, including 10 pet transactions. We bring these combined skill sets to bear in every engagement, creating maximum value for each client through thoughtful positioning and creative deal structuring.

**Company A**

**Veterinary Products Company**

has been recapitalized by

Animal Health International  
Sustains & Animal Health  
a portfolio company of

**Charlesbank**  
CAPITAL PARTNERS LLC

is pleased to announce the acquisition of  
**Kane Veterinary Supplies**

Animal Health International  
Sustains & Animal Health  
a portfolio company of

**Charlesbank**  
CAPITAL PARTNERS LLC

is pleased to announce the acquisition of  
**Veterinarian's Outlet of Sunnyside**

Animal Health International  
Sustains & Animal Health  
a portfolio company of

**Charlesbank**  
CAPITAL PARTNERS LLC

is pleased to announce the acquisition of  
**Cattleman's Supply Inc.**

Animal Health International  
Sustains & Animal Health  
a portfolio company of

**Charlesbank**  
CAPITAL PARTNERS LLC

is pleased to announce the acquisition of  
**Farm City Animal Supply**



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