



Quarterly Pet Industry Report

Vol. 2, Issue 1: Q1 2016

Pet – Q1 2016

Compared to 2015, the first quarter of 2016 saw a slight decrease in the overall number of high-profile transactions. Coming off of a particularly active year for acquisitions in the pet space, and in part due market volatility early in the year, this quarter has been relatively quiet in terms of M&A activity. Despite a slowdown of the overall macro environment, there was still notable activity amongst financial sponsors as they continue to bet on pet. Financial players involved in pet acquisitions this quarter include River Associates, J.H. Whitney, Guardian Capital Partners, and Berwind Corporation.

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Select Pet Deal Activity

Financial Transactions	<p>02/25/16 – Weaver Leather, LLC, a leading manufacturer of leather dog collars, leashes, and harnesses, was acquired by River Associates Investments, a private equity firm based in Chattanooga.</p> <p>02/15/16 – Day Six Pet Nutrition, LLC, a leading manufacturer of specialty dry pet food products, was acquired by C.J. Foods, a pet food portfolio company of J.H. Whitney. The deal represents the first add-on acquisition by the company since it was acquired by J.H. Whitney in 2014.</p> <p>01/21/2016 – Guardian Capital Partners, a private equity firm based in Pennsylvania, acquired Rose America Corporation (d/b/a Hyper Pet), a leading manufacturer of pet toys, collars, and leashes. This was Guardian’s first investment in the pet space.</p> <p>01/07/2016 – Sojourner Farms, LLC a provider of provider of pet food mixes for dogs and cats to pet specialty stores, was acquired by WellPet, LLC, a pet food and treat portfolio company of Berwind Corporation.</p>
Strategic Transactions	<p>03/03/2016 – The Tasty Bone Company, a leading manufacturer of nylon edible, rubber chew, and play pet toys, was acquired by Pets Choice Ltd., a UK-based provider of pet food and treats.</p> <p>02/11/2016 – Point Pet Products, Ltd., a leading manufacturer of dog treats and biscuits, was acquired by Fold Hill Foods Limited, a UK-based provider of pet food.</p> <p>01/13/2016 – Emerald Pet Products, a leading provider of pet treats and toys, was acquired by one of its co-founders, Glenn Novotny, Sr. who purchased the remaining stake from minority shareholders.</p>

Giving You the Real Scoop – Guardian Capital Partners’ Acquisition of Hyper Pet

01/21/2016



Has Acquired



Acquisition Type:
Financial

Transaction Size:
N/A

Transaction Rationale and Notes:

- Guardian Capital targets niche consumer products companies with the flexibility to pursue other, larger transactions.
- The firm has made 12 acquisitions in the last eight years.
- Hyper Pet has a 100K sq. ft. distribution facility in Kansas and is known for its line of interactive dog toys as well as collars/leashes. Founders were retiring and looking for liquidity.



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Quarterly Spotlight

Bill Behnken,

CEO of American Nutrition, Inc.

An Interview by MHT MidSpan's Carol Frank and Craig Lawson

American Nutrition has been in business over 40 years. What are some of the most significant changes you have seen in the industry since your father, Jack Behnken, began making dog food in 1972?

The most significant changes we've experienced are the choice of ingredients our customers desire for their products and the food safety/quality assurances they require in making those foods and treats. Where inexpensive grains like corn, wheat and rice dominated the top slots of most ingredient statements, meats and grain-free alternatives like potatoes carrying prices significantly higher now top the list. Handling, storing and properly processing these ingredients challenged us to relearn much of what we thought we knew. Food safety and quality expectations accompanied the higher value, more premium foods causing us and most all manufacturers to up their game entering the realm of human food safety standards. With few exceptions, we now specifically target human food industry professionals to fill our food safety, quality and production management roles.

What are some key initiatives that you have implemented that has allowed ANI to keep up with the vast changes the pet food industry has experienced since 2007?

At the risk of repeating myself from the previous question, I'd say the most key initiative was to get everyone, not just quality and food safety personnel, to think food safety. To this end, we instituted cross-functional plant teams at each of our plants led by the plant managers and attended via web conference by corporate executive team members including myself. This level and degree of focus on food safety continues today and is part of our culture. Another related initiative was the creation of a team to identify vulnerabilities within and throughout the supply chain including our own processes. Although this may just sound the same as risk assessment, the intent here was to go beyond what is likely to go wrong with a particular ingredient, for example, but stretch a ways further to ask deeper what-if questions. No one thought there was a risk of having melamine show up in a pet food ingredient until it was learned that it showed up as protein under current testing methods falsely representing the ingredient to contain higher protein and thus higher value. This kind of devious economic adulteration goes a step further than risk assessment, in my opinion.

(Continued on Page 3)

Bill Behnken

Bill Behnken is President & CEO of American Nutrition, a leading pet food and treat manufacturing company based in Ogden, Utah. Bill is the second generation leader of this family



owned business that was founded by his father, Jack, in 1972. He has held numerous roles in the organization over his 26 year career with the company and is known for his inclusive leadership style and his passion continuous improvement. Bill has served on the Board of Directors of Pet Food Institute for 10 years working closely other pet industry leaders in all matters related to pets and nutritional quality and safety. An Arizona State University graduate, he began his career with in the electronics industry with Motorola and Hewlett Packard. Bill enjoys hiking, skiing and cycling in rugged and mountainous Utah terrain.



Quarterly Spotlight (Continued)

How do you think the Millennial Generation’s keen interest in transparency, natural, and “free-from” will affect the pet food and treat business?

It keeps us busy, that’s for sure. Whether it is in sourcing the new replaced ingredient or figuring out how to make the new food or treat, each new twist presents challenges to make a consistent, nutritious and safe food that still meets applicable AAFCO requirements. This often results in higher cost of manufacture and price to the consumer but the market has seemed to tolerate the higher costs with no signs of slowing down.

It certainly seems that having manufacturing capacity has become a real differentiator, particularly given the predominance of food and treats businesses that use co-packers. Any thoughts on this?

I can’t agree that capacity is a differentiator right now on the dry pet food side. However, capability may be as not everyone is capable of making the higher meat included formulas, especially as those diets often fall into the previously mentioned “free-from” category which presents unique processing challenges. Treat capacity, depending on the type of treat, does have some limitations. For example, there is ample capacity in the baked treat world while meat based treats and whole muscle jerky is harder to come by.

Related to the previous question, manufacturing domestically (“made in USA”), versus outsourced to Asia certainly seems to be an important attribute these days. Any thought on this?

My only thought on this is to agree that “made in the USA” is a very important attribute, although I have great respect for our northern neighbors that get left out as a result.

There have been some recent M&A deals in your space where the multiples have certainly exceeded historical “norms.” Any thoughts on this?

I’ll hand over all credit or blame, depending on whether you’re a buyer or seller, to the private equity world. PE firms rightly targeted pet products and have made a real difference.



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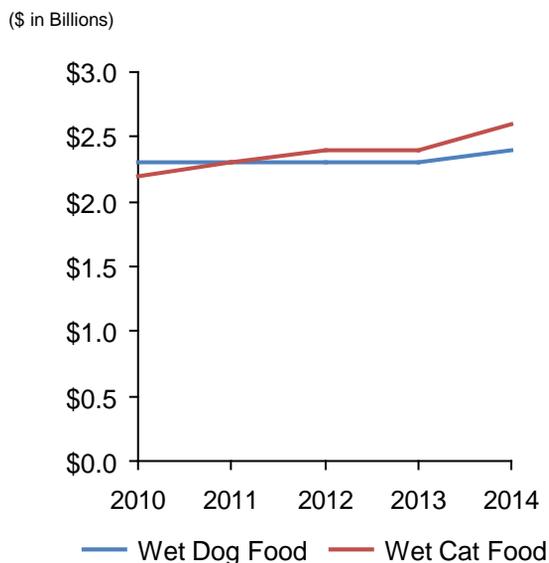
Pet M&A Overview Select Q1 2016 Deals

Date	Target	Acquirer	Target Description	Enterprise Value	Enterprise Revenue	Enterprise Value / EBITDA
3/3/2016	The Tasty Bone Co. Limited	Pets Choice Ltd	The Tasty Bone Co. Limited manufactures nylon edible, rubber chew and play pet toys.	-	-	-
2/25/2016	Weaver Leather, LLC	River Associates Investments, LLC; River VI, L.P.	Weaver Leather, LLC manufactures leather and nylon tack products including dog collars, leashes, and harnesses.	-	-	-
2/15/2016	Day Six Pet Nutrition, LLC	C. J. Foods, Inc. (J.H. Whitney)	Day Six Pet Nutrition, LLC manufactures specialty dry pet food products.	-	-	-
2/11/2016	Pointer Pet Products Ltd.	Fold Hill Foods Limited	Pointer Pet Products Ltd. manufactures pet treats and biscuits for dogs.	-	-	-
1/21/2016	Rose America Corporation	Guardian Capital Partners	Rose America Corporation designs, produces, and markets collars and leashes for pets.	-	-	-
01/13/2016	Emerald Pet Products Inc.	Glenn W. Novotny, Sr.	Emerald Pet Products Inc. provides canine and feline treats and toys.	-	-	-
1/7/2016	Sojourner Farms, LLC	WellPet LLC (Berwind Corporation)	Sojourner Farms, LLC provides pet food mixes for dogs and cats in the United States.	-	-	-

Featured Trend

“Cat Craze” Amongst Millennials – While the pet industry has largely been dominated by dogs, we are seeing an interesting trend as cats are rapidly gaining in popularity especially amongst Millennials. Numerous companies that traditionally only manufactured or sold dog toys or dog food are increasingly branching out to cat products. According to data from a study by Nestlé Purina, this is the right move – there are roughly 80 million Millennials, who will have a combined spending of \$1.4 trillion by 2020, nearly half of whom own a cat. The generation has an unprecedented fascination with cats, largely due to social media and the ease of sharing photos and videos online. They also tend to have more disposable income, delay having children, and lead busy lifestyles that make them better suited to raise cats than dogs. They tend to spend more on luxury items and make more educated purchases, which is already evident in the rapid rise of premium cat food sales in the U.S. – particularly for raw frozen and canned food. Millennials know their cats need the protein and moisture, and have proven their willingness to pay more for it!

Wet Pet Food Sales in the U.S.



Source: Euromonitor International

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Public Basket

For the last twelve months, the pet industry has largely performed in line with the S&P 500 Index. During the first quarter of 2016, our pet industry index increased by approximately 5%, compared to the S&P 500 Index, which was up approximately 10% coming off of a large first quarter dip. One of the strongest performers in the pet index for the first quarter was Central Garden & Pet (NASDAQ: CENT), whose stock was up approximately 23% for the quarter.

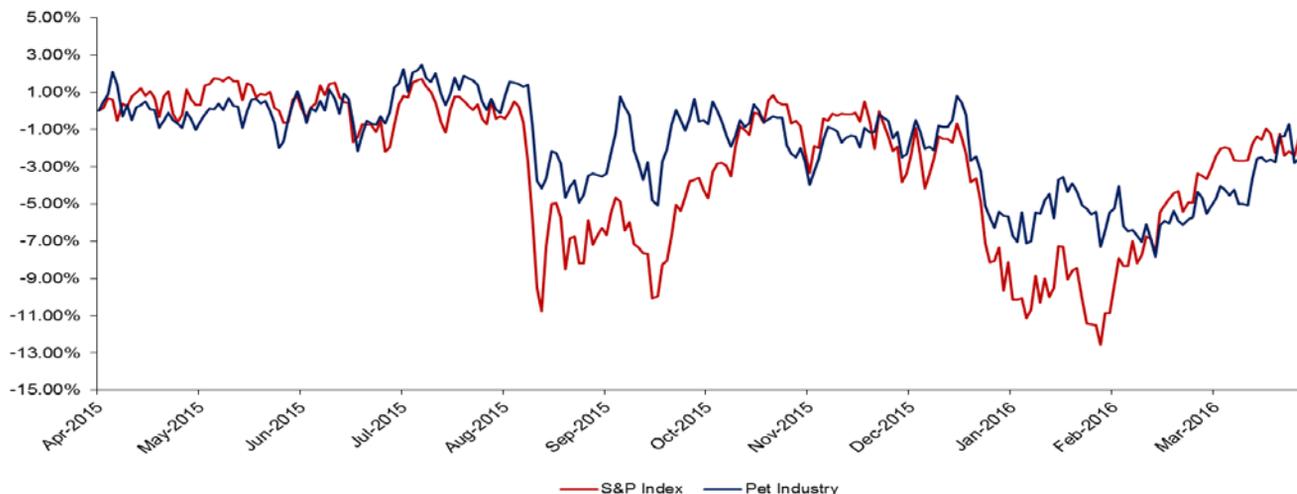
Public Company Set

(\$ 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	2016E	LTM	2016E
Pet Products										
Blue Buffalo Pet Products, Inc.	\$4,909	\$4,746	\$23.82	82.7%	NA	NA	4.8x	4.3x	22.4x	18.9x
Central Garden & Pet Company	1,218	790	15.75	86.2%	63.9%	75.7%	0.7	0.7	8.4	8.0
Freshpet, Inc.	228	239	7.38	30.1%	(68.8%)	NA	2.0	1.7	58.0	12.3
OurPet's Company	24	18	0.98	93.7%	31.2%	96.9%	1.0	--	8.4	--
Nestlé S.A.	246,032	227,577	73.78	92.5%	(5.8%)	5.6%	2.8	2.6	14.6	13.9
Consumer Products Companies w/ Pet Lines										
Colgate-Palmolive Co.	69,299	63,545	70.76	99.0%	1.6%	19.6%	4.3	4.5	15.8	15.7
Unicharm Corporation	13,703	13,757	23.09	79.2%	(20.2%)	22.1%	2.2	1.9	14.7	12.7
Spectrum Brands Holdings, Inc.	10,584	6,573	109.93	99.1%	25.6%	89.6%	2.2	2.1	13.9	11.5
JAKKS Pacific, Inc.	234	121	7.62	74.1%	9.8%	(29.5%)	0.3	0.3	4.5	3.7
Oil-Dri Corp. of America	229	243	34.05	87.5%	1.5%	23.0%	0.9	--	7.0	--
Eli Lilly and Company	82,237	78,691	74.73	80.5%	1.7%	29.9%	4.1	4.0	15.9	13.7
Animal Health										
Zoetis Inc.	27,082	23,345	47.33	85.5%	0.9%	42.4%	5.7	5.7	18.6	16.7
VCA Inc.	5,572	4,766	56.42	87.4%	(1.8%)	200.0%	2.6	2.3	13.7	12.2
Virbac SA	2,111	1,379	163.61	60.2%	(33.1%)	(19.1%)	2.3	2.1	22.6	13.8
Trupanion, Inc.	266	284	10.71	107.1%	30.0%	NA	1.8	1.4	NM	NM
Median:	\$4,909	\$4,746	\$34	86.2%	1.5%	26.5%	2.2x	2.1x	14.6x	13.2x

Source: Capital IQ. As of 04/13/2016.

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

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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

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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.



Boston | Dallas | San Francisco

Company A

Veterinary Products Company

thundershirt

has been recapitalized by

encore

consumer capital

MHT MIDSPAN

AHI

Animal Health International
Division of Royal Health

a portfolio company of

Charlesbank

CAPITAL PARTNERS LLC

is pleased to announce the acquisition of

Kane Veterinary Supplies

MHT MIDSPAN

AHI

Animal Health International
Division of Royal Health

a portfolio company of

Charlesbank

CAPITAL PARTNERS LLC

is pleased to announce the acquisition of

Veterinarian's Outlet of Sunnyside

MHT MIDSPAN

AHI

Animal Health International
Division of Royal Health

a portfolio company of

Charlesbank

CAPITAL PARTNERS LLC

is pleased to announce the acquisition of

Cattleman's Supply Inc.

MHT MIDSPAN

AHI

Animal Health International
Division of Royal Health

a portfolio company of

Charlesbank

CAPITAL PARTNERS LLC

is pleased to announce the acquisition of

Farm City Animal Supply

MHT MIDSPAN

- ✓ Superior transaction execution
- ✓ Exceptional client service
- ✓ More robust M&A strategies
- ✓ "One stop shop" for middle market companies
- ✓ Unique resource for middle market management teams
- ✓ Ability and desire to serve as advisors to companies even if there is no imminent transaction

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