



Quarterly Pet Industry Report

Vol. 1, Issue 2: Q2 2015

Pet – Q2 2015

The second quarter of 2015 saw several notable M&A deals, stretching across the consumables, durables, veterinary, and retail segments of the pet industry. Among these deals, acquirers included both strategic (Patterson Companies' acquisition of Animal Health International) and financial buyers (Roark Capital's acquisition of Pet Supermarket) seeking to capitalize on the fragmented market and opportunity to gain scale via acquisitions. As was the case for the first quarter of 2015, the significant activity from both strategic and financial buyers is a testament to the attractiveness of the pet industry. In addition to M&A activity, Blue Buffalo - a Connecticut-based provider of premium food for dogs and cats - has filed its S-1 in advance of an upcoming IPO. Blue Buffalo is expected to raise up to \$500 million from its IPO and will list on the NASDAQ under the symbol "BUFF". In 2014, the Company reported revenue and net income of \$918 million and \$102 million, respectively.

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Pet Deal Activity Highlights

<p>Strategic Transactions</p>	<p>Announced – Worldwide, Inc., a manufacturer of pet products and toys, agreed to merge with Quaker Pet Group for an undisclosed sum. Worldwide is a current portfolio company of Mistral Equity Partners.</p> <p>Announced – Henry Schein, Inc., a provider of health care and veterinary products, agreed to acquire Jorgen Kruuse A/S, a Nordic-based distributor of veterinary supplies for an undisclosed sum.</p> <p>06/17/15 – Patterson Companies, a distributor of dental, veterinary, and rehabilitation supplies, acquired Animal Health International, a leading provider of animal health products and supplies, from Leonard Green & Partners for \$1.1 billion in cash. The deal represents a 0.7x multiple of LTM revenue and a 16.2x multiple of LTM EBITDA.</p>
<p>Financial Transactions</p>	<p>Announced – Pamplona Capital Management, a European private equity firm, has agreed to acquire Partner In Pet Food from Advent International for approximately \$343 million. The deal represents a 1.3x multiple of LTM revenue.</p> <p>5/29/15 – Vestar Capital Partners, a NY-based private equity firm, acquired Woodstream Corporation from Brockway Moran & Partners for an undisclosed sum. Woodstream offers products for pest and animal control needs.</p> <p>5/13/15 – Roark Capital, a GA-based private equity firm, acquired Pet Supermarket, an operator of pet retail stores, for an undisclosed sum. Penfund also provided additional capital to the Company.</p>

Giving You the Real Scoop – Worldwide, Inc.'s merger with Quaker Pet Group



Acquisition Type:
Strategic

Deal Metrics:
N/A

Transaction Rationale:

- Complementary product categories and ability to enter into new channels
- Ability to leverage overseas manufacturing and reduce combined overhead
- No sales channel conflicts
- Longstanding relationship between principals at both companies

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SPOTLIGHT

Aaron Easterly, CEO of Rover.com **An Interview by MHT MidSpan's Carol Frank**

Raising money for a growing pet company is a hot topic, and one of the things frustrating entrepreneurs is that Venture Capital is generally not available for traditional pet product companies. But if the product includes a technology play...now that is a different story! Investors are hungry to put capital into any credible business that successfully marries a pet product with technology.

This is the case with **Rover.com**, a website that connects dog parents with a nationwide network of dog lovers for hire, offering in-home dog boarding, dog sitting, and dog walking through their proprietary online technology. Rover.com recently announced they had raised \$25 million in VC, making the total they have raised in the last several years approximately \$50 million. With that kind of success, I wanted to tap their CEO, Aaron Easterly, for his insight into how and why Rover.com has continued to successfully raise capital for their rapidly growing pet-focused technology company.

Can you give us an overview of how Rover.com started?

The idea for Rover.com grew out of a negative experience co-founder Greg Gottesman had with his dog at a traditional kennel. He was on vacation when his dog, Ruby Tuesday, was injured at a high-end boarding kennel in Seattle. When his 9-year-old daughter said she would have paid to take care of someone else's dog, Gottesman saw a business. He and his team pitched the idea for Rover.com, a website connecting dog owners with dog sitters, at a 2011 Startup Weekend in Seattle and won top prize. He brought his idea back to the firm and brought me on as CEO. It was great timing since I had recently left Microsoft to work on start-up business ideas.

How did you get initial capital to launch the business?

Greg was a Managing Director at Seattle venture capital firm Madrona, and I was incubating marketplace business ideas at Madrona at the time. Consequently, the firm decided to give some seed capital.

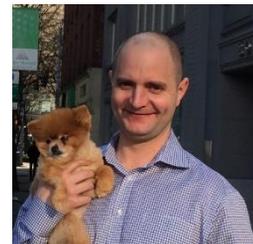
At what point did you decide to raise Venture Capital and how long did the process take?

As we were nearing the completion of our beta, we decided that there was enough positive response to seek additional funding (a formal Series A, the first formal round of funding). Madrona was interested in participating, but we looked at securing other investors as well. Eventually, Madrona led the Series A with contributions from Rolling Bay Ventures, CrunchFund, Andy Liu, Scott Howe, and myself. The Series A process took about two months. Subsequent rounds have taken a similar amount of time excluding the legal/paperwork component.

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Aaron Easterly

Aaron Easterly is the Chief Executive Officer of Rover.com, a sharing-economy marketplace that matches dog owners and dog sitters online. He brings 15 years of tech-industry experience to the company, which was named 2014 Startup of the Year by GeekWire.com.



Prior to Rover, Aaron was a General Manager at Microsoft, where he managed search, display, and contextual ad marketplaces worth \$3 billion. Ernst & Young announced that Easterly is an EY Entrepreneur of the Year 2014 Award winner of the Emerging category for the Pacific Northwest. He was recently named a "40 under 40" recipient by the Puget Sound Business Journal. Originally planning to be an academic economist, Easterly received an A.B. degree with honors in Economics from Harvard College.



Quarterly Spotlight (Continued)

How much VC money did you raise and why do you think Rover was successful raising that capital?

Our Series A was \$3.3 million. Greg's and my roles at Madrona were critical in getting the Series A done. It was not an easy pitch more broadly. Many investors still associated the category with the failure of companies such as Pets.com during the dot-com era. Interestingly, we actually received much more interest from Tier 1 investment firms than lesser-known firms.

Overall, we've announced about \$50 million in funding rounds. Each round had its own challenges. In the earliest rounds, market size and risk of disintermediation were investors' most common concerns. To address these concerns, we presented data on repeat usage and the size of shadow market (people that use friends, family, and neighbors to care for their dog when traveling) instead of focusing on the current commercial market (e.g. kennels).

Investors we spoke to in the more recent rounds were much more focused on unit economics (the value of a customer relative to the cost of acquiring them), the scalability of marketing channels, and competitive dynamics. Online marketplaces are often perceived to have great economies of scale, so many investors get nervous about putting large amounts of money to work in a company that is not the clear leader. Fortunately, as we've zoomed by copy cat companies and accumulated a larger set of historical data to back our assertions, these conversations have become much easier.

Overall, I think our super analytical culture, depth of understanding of the business, and transparency during the fundraising process have been the reasons we've been able to successfully raise money to date. On the flip side, I wouldn't consider myself to be a great pitchman. That probably made the earlier rounds more difficult.

The pet industry in general doesn't seem to attract Venture Capital. Do you think the reason Rover.com was successful is because it has a technology component?

Absolutely. Venture Capitalists have investment criteria. Although it varies from firm-to-firm, they generally want to see the potential to earn back a multiple of their investment (e.g. 5X) in some finite period of time. They also care about the defensibility of the business (How easy will it be for more competitors to enter?). Businesses that do not have clear economies of scale (aspects of the business get noticeably better as the business gets larger) are more difficult to grow, defend, and exit. Oftentimes, but not always, getting strong scale economies require an important technical component to the business.

I doubt Rover would have been funded by the group of investors we have if it wasn't for this technical component. In fact, Rover has a shockingly large amount of technical and analytical complexity behind the scenes. This aspect to the business is actually one of the items investors find most compelling.

Traditional pet companies are valued per a multiple of EBITDA. What are the metrics used to value a pet technology company such as Rover.com

Tech companies typically have larger fixed costs than pure service businesses. This is due to many reasons, but the cost of hiring software engineers to build scalable systems is a big piece of it.

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Quarterly Spotlight (Continued)

Consequently, tech businesses often operate unprofitably until they reach a certain size. Valuation is part art and part science. It is not that EBITDA is ignored, but it is a forward-looking view of it (i.e. What will the EBITDA of this company look like years down the line taking into account risk and future dilution?). To try to get a sense of this, investors often care about size of the addressable market, growth rates, and unit economics (profitability on a per customer basis). The larger each of these factors are the higher potential for the size of future EBITDA. In marketplace businesses like Rover, investors also looked at GMV (Gross Merchandise Value or Gross Market Value) which is a measure of the total dollars flowing through the platform. Due to accounting rules, not all the dollars flowing through necessarily count as revenue, so GMV is used as a measure of size.

At what valuation did you go out for your last round of financing?

As a private company, we generally don't disclose this number publicly. However, I can say that, as of the close of our last round, we were valued in the nine figures. We are approximately three times bigger now than when the last round closed.

How will Rover.com deploy the new Venture Capital? What are your growth plans?

Moving forward, we want to continue to expand our service offerings. Currently, more than 50% of sitters listed on Rover offer multiple services. The most common include: doggie day care, dog walking, grooming, training and cat care. Because of the segment of dog owners that use friends, family, and neighbors for their pet setting, many potential customers don't currently search for a commercial solution. A chunk of our capital will be used to expand awareness of the offering. At some point, it is likely we will expand internationally. At Rover, our mission is to make it possible for everyone to have a dog in their life. Everything we do is aimed at achieving that goal.



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Pet M&A Overview Select Q2 2015 Deals

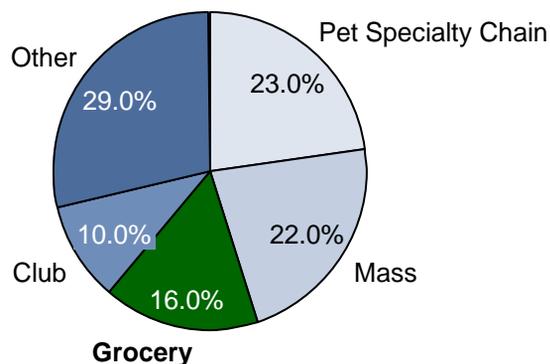
Date	Target	Acquirer	Target Description	Enterprise Value	Enterprise Value / Revenue	EBITDA
Announced	Jorgen Kruse A/S	Henry Schein, Inc.	Jorgen Kruse A/S is a leading distributor of veterinary supplies in the Nordic countries and a growing international provider of veterinary products and services.	-	-	-
Announced	V.I.P. Petfoods (Aust.) Pty. Ltd.	Quadrant Private Equity Pty Limited	V.I.P. Petfoods (Aust.) Pty. Ltd. produces and markets fresh chilled pet foods in Australia.	313.6	-	8.2
Announced	Martha Stewart Living Omnimedia Inc.	Sequential Brands Group, Inc.	Martha Stewart Living Omnimedia, Inc. provides lifestyle products and content, including functional pet products.	300.3	2.4x	NM
Announced	Partner in Pet Food Kft.	Pamplona Capital Management	Partner in Pet Food Kft. produces and supplies private label wet and dry pet food products in Europe.	343.0	1.3x	-
Announced	Quaker Pet Group, LLC ⁽¹⁾	Worldwise, Inc.	Quaker Pet Group, LLC manufactures products for pets and their pet-parents.	-	-	-
Announced	Dover Saddlery, Inc.	Webster Capital	Dover Saddlery, Inc. operates as a specialty retailer and omni-channel marketer of equestrian products in the United States.	73.1	0.7x	17.2
6/17/2015	Animal Health International, Inc.	Patterson Companies, Inc.	Animal Health International, Inc., together with its subsidiaries, distributes animal health products and supplies.	1,100.0	0.7x	16.2
5/29/2015	Woodstream Corporation	Vestar Capital Partners, Inc.	Woodstream Corporation manufactures and markets solutions for the lawn and garden, birding, pet, rodent control, hobby farm, and animal control needs of consumers.	-	-	-
5/13/2015	Pet Supermarket, Inc.	Roark Capital; Penfund	Pet Supermarket, Inc. operates retail stores that sells pet products.	-	-	-

(1) The transaction was a cashless merger.

Featured Trend

Grocery Resurgence – Historically, higher-end pet products have been predominantly found in the pet specialty channel. However, that trend is beginning to change, as grocery retailers are increasingly offering affordable products with the look and feel of a premium product. In addition to price, consumers also value the convenience of being able to shop for their pet at the grocery store, as they can shop for both themselves and their pet at the same time, eliminating the need to make an additional trip to the pet specialty store. According to Packed Facts, only 15% of pet shoppers agree that natural products sold in pet stores are superior to those available in the mass channel. Currently, the grocery channel represents 16% of U.S. retail sales of pet products, and looking ahead, expect increased growth in the grocery channel, as retailers continue to compete with pet specialty stores over high-end products.

U.S. Retail Sales of Pet Products (2013)





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Public Basket

For the last twelve months, the pet industry has consistently tracked the growth of the S&P 500 Index, as the health of the overall economy influences consumer spending within the pet industry. Through the second quarter of 2015, our pet industry index experienced growth of approximately 4%, compared to the S&P 500 Index, which is nearly breakeven. Notable performers in the second quarter of 2015 include Eli Lilly and Company, which was up over 16%, and Spectrum Brands, which was up over 14%.

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
Pet Products										
Central Garden & Pet Company	\$1,056	\$552	\$10.56	98.7%	16.0%	1.7%	0.7x	0.6x	9.1x	8.9x
Freshpet, Inc.	590	623	18.60	71.8%	NA	NA	6.2	5.1	NM	43.7
OurPet's Company	17	13	0.72	69.2%	(23.4%)	67.4%	0.7	--	8.5	--
Consumer Products Companies w/ Pet Lines										
Nestlé S.A.	245,306	229,842	72.09	87.7%	(1.7%)	19.4%	2.7	2.5	14.0	13.2
Colgate-Palmolive Co.	64,465	59,168	65.41	91.4%	(4.1%)	25.7%	3.8	3.9	14.0	14.2
Uni-Charm Corp.	14,446	14,297	23.79	85.6%	44.6%	92.0%	2.4	2.3	14.5	15.2
Spectrum Brands Holdings, Inc.	9,319	5,987	101.99	97.1%	18.6%	213.1%	2.1	2.0	14.1	11.6
JAKKS Pacific, Inc.	342	231	9.89	98.0%	27.8%	(38.2%)	0.4	0.5	5.3	5.8
Oil-Dri Corp. of America	219	215	30.38	88.9%	(0.6%)	38.7%	0.8	--	9.6	--
Animal Health										
Eli Lilly and Company	92,657	88,552	83.49	95.7%	34.3%	94.6%	4.7	4.7	19.3	17.1
Zoetis Inc.	27,221	24,108	48.22	87.1%	49.4%	NA	5.7	5.8	20.2	19.2
VCA Inc.	5,271	4,508	55.19	94.3%	92.0%	199.0%	2.7	2.5	14.6	13.8
Virbac SA	2,082	1,803	213.87	74.4%	13.8%	47.2%	2.2	2.0	12.4	11.6
Trupanion, Inc.	200	232	8.24	69.0%	NA	NA	1.6	1.4	NM	NM
Median:	\$3,676	\$3,156	\$39	88.3%	17.3%	47.2%	2.3x	2.4x	14.0x	13.8x

Source: Capital IQ. As of 06/30/2015.

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

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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
Durable Company

has been recapitalized by
encore
consumer capital
MHT MIDSPAN

AHI
Animal Health International
Sustains & Animal 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
Sustains & Animal 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
Sustains & Animal 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
Sustains & Animal 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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