



PET INDUSTRY REPORT VOLUME 8

MARKET UPDATE

IN THIS ISSUE

Pet M&A activity has remained relatively active through the end of Q3 and into Q4 2017. In particular, pet services companies, including technology platforms that facilitate pet food purchases and the location of qualified dog sitters, pet insurance providers, and kennel / boarding services, have drawn interest from a multitude of strategic and financial acquirers. Several notable retail transactions have also occurred, including TA Associates' acquisition of Pet People Enterprises, and Pedigree's acquisition of Just for Pets.

- 01 – DEAL ACTIVITY
- 02 – QUARTERLY SPOTLIGHT
- 04 – PUBLIC MARKET OVERVIEW
- 05 – M&A MARKET OVERVIEW
- 06 – ABOUT MHT PARTNERS

SELECT PET M&A ACTIVITY

Strategic Buyer

11/08/17	Consumables	Corta-Fix , a global supplier of equine and canine health supplements, was acquired by Manna Pro Products .
10/10/17	Retail	Just for Pets , a chain of pet superstores located in the United Kingdom, was acquired by Pedigree Wholesale .
09/19/17	Consumables	PetzLife Products , a marketer of pet care products, was acquired by Manna Pro Products .
09/18/17	Services	Taddy's Pet Services , a provider of in-home pet sitting and care services, was acquired by Park Cities Pet Sitter .
08/31/17	Services	Healthy Pets , a provider of pet insurance products and services, was acquired by The Ardonagh Group .
07/31/17	Durables	i4c Innovations (dba Voyce) , a manufacturer of pet health monitoring solutions, was acquired by One Health Group .
07/11/17	Retail	Pet Empawrium and Spaw and Pet Things , two Colorado-based pet retailers, were acquired by Bentley's Pet Stuff .

Financial Sponsor

11/06/17	Consumables	Ark Naturals , a producer of natural wellness products for pets, received a growth equity investment from Azalea Capital .
11/01/17	Veterinary	Advanced Animal Hospitals Group and Progressive Pet Animal Hospitals , a group of veterinary hospitals, were acquired by Shore Capital Partners .
09/14/17	Consumables	Mountain Dog Enterprises , a producer of pet food, was acquired by Dan Creek Capital .
09/10/17	Retail	Pet People Enterprises , an operator of pet food and supply stores, was acquired by TA Associates .
08/31/17	Durables	Armitage Pet Products , a manufacturer of pet accessories, was acquired by Rutland Partners .



Quarterly Spotlight

Brock Weatherup | EVP of Strategic Innovation and Digital Experience at Petco

Brock was CEO and Co-Founder of PetCoach, a company revolutionizing the Pet Health Care experience, when it was acquired by Petco. Brock is a CEO, entrepreneur, angel investor, builder of enterprise value, and passionate advocate for the consumer and their interactions with digital media and Ecommerce. Brock is also Managing Partner of Atai Ventures Angel Investments, co-founder of ICONYC (an early stage NYC-based Israeli accelerator), and an investor / advisor / board member for over seven startups, which include VeryApt, SideCar, Social Ladder, and Ethology. He is also an industry advisor for VC firms EQT Partners, MissionOG, and SafeGuard. Previously, Brock was SVP / Chief Digital Officer of Petsmart after selling Pet360, where he was CEO. Brock was also CEO of Fathead and held several leadership positions with InterActiveCorp (Ticketmaster, Match.com, CitySearch, ReserveAmerica). A graduate of University of Colorado Boulder, Brock sits as a board member of the Nature Conservancy.



An Interview with Brock by MHT Partners' Carol Frank

You began your pet industry career in 2009 when you founded Pets360. Your background before that was in entertainment, sports, and recreation – including a stint with Up with People. Why the pet industry?

It wasn't about the pet industry – it was about customer engagement leveraging technology. I was just lucky enough to be focused on technology enabled consumer engagement in categories that I happened to personally love. Up With People – community service and entertainment, Fathead – sports, ReserveAmerica – outdoor recreation/camping and Pet360 and most recently PetCoach = Pets.

My excitement professionally about the pet industry is the wonderful emotional engagement of people and their pets. The human animal bond is a wonderful area to be a part of and the opportunity to be helpful via education/content is very deep.

To what do you attribute your success right out of the gate with Pet360 and PetCoach?

Focusing on something that matters is the core of what makes anything successful. Pet360 was how to bring personalization, education and content to the pet industry, which is a foundational challenge as expressed by consumers. PetCoach was focused on the gap of easy access to expert advice versus an option consisting exclusively of Dr. Google (unknown expertise and bad info) or the high bar of cost and time to go visit a vet for simple advice. When you drive clear focus into a consumer pain point and deliver 100% to that you can create surrounding success.

Why did you decide to exit Pets360 to Petsmart? Is there anything you can share with our readers about the transaction?

It was the right time and right situation when we looked at both the market dynamics and what our growth goals were. You never know exactly when the right time or the right situation is, but you ALWAYS have to be ready if the right opportunity is presented to take action on it. You can't build to an outcome, you must only build an outcome to great customer value (customer or business) and then the exit will present itself.

You owned PetCoach for less than a year before it was acquired by Petco. Obviously there must have been some very compelling reasons for you to exit so quickly?

Petco presented a unique and compelling platform with which the PetCoach team felt we could execute our plan faster, stronger and better. There was a unique set of circumstances to bring our consumer health engagement platform to Petco who was already starting to push much further into that space. When you add to that market opportunity the fact that the leadership team was made up of amazing people, it was easy to say yes even though it was much quicker than expected.



Quarterly Spotlight

Brock Weatherup | EVP of Strategic Innovation and Digital Experience at Petco

Traditional pet companies are valued per a multiple of EBITDA. What are the metrics used to value a pet technology company such as Pets360 or Pet Coach?

Value in startup or high growth companies is highly subjective to the situation. What is the future value? What is the synergistic value? How much can it impact the enterprise directly or indirectly? Or.....something else when there isn't a history of consistent earnings and it is NEW in its category. The foundation HAS to be why does it bring unique and differentiated value to the customer.

Why do you think there hasn't yet been a true breakthrough company in pet tech? There seems to be a ton of startups, but no one is leading the pack.

It depends on what you think breakthrough is. If it is around hardware you can discuss things like Whistle and Petnet that have shown great results. If it is about website/technology connection you can look at things like Rover or platforms like Vet's First Choice. I think there have been many people who have tried to do pet apps or websites that get excited about customer engagement (pet parents LOVE engaging around their pet) but then realize there are limited \$\$'s to support it.

You are a true pioneer in the pet space. Do you have an opinion on what the "next big thing" in the pet industry will be?

If I told you then I would be giving away how we are building a future-proof business within Petco to win against the enormous competition we face from both Amazon and Walmart/Target. Those two platforms are currently winning in the pet space and the industry (ranging from food manufacturers to retailers to independent pet shops to ecommerce platforms) are threatened by those two key players.

Can you share what you consider the biggest mistakes and corresponding lessons learned from your years as an entrepreneur?

I am not sure about the biggest mistakes, but instead I'll focus on the many little mistakes you make. Being an entrepreneur is about making LOTS of small mistakes as you try new things. IF there is any theme on mistakes that have been bigger than expected, it always comes down to thinking you KNOW what the outcome or need is versus testing into it. That is where the largest and most expensive time and dollar resources are wasted.

You are passionate about helping early stage pet-focused entrepreneurs gain traction. What are some of the ways you are going about giving back?

I have been very active as a mentor and as an angel investor and try very hard to always take calls or answer emails from individuals or teams that are trying to make a go of it. This past summer Ben Jacobs of Whistle/Mars background and I met at the Veterinary Innovation Conference and with the support of Petco, PetCoach, Whistle & Mars we decided to do something about the lack of support available for start-up pet entrepreneurs. During that time we discussed the issue of pet industry entrepreneurs not having lots of support or somewhere to go, so we started the Pet Project, a 'pitch competition' for early stage startups which we held over the summer that coincided with Super Zoo in Las Vegas. The response was overwhelming and wonderful so we are going to continue it with one during the winter/spring focused on Pet Health/Vet and another during the summer for Consumer. There are people and resources, you just have to look extra hard for them in the pet industry.



PET INDUSTRY REPORT

VOLUME 8

Public Market Overview

During the past year, our pet industry index was up approximately 13%, compared to the S&P 500 Index, which was up approximately 21%. While traditional pet products companies have generally performed well, larger consumer products companies (of which notable pet products and brands are part of) have grown at a much slower pace, bringing the overall index performance down. The strongest performers in the pet index were OurPet's Company and Freshpet, whose stocks were up approximately 69% and 65% over the last twelve months, respectively.

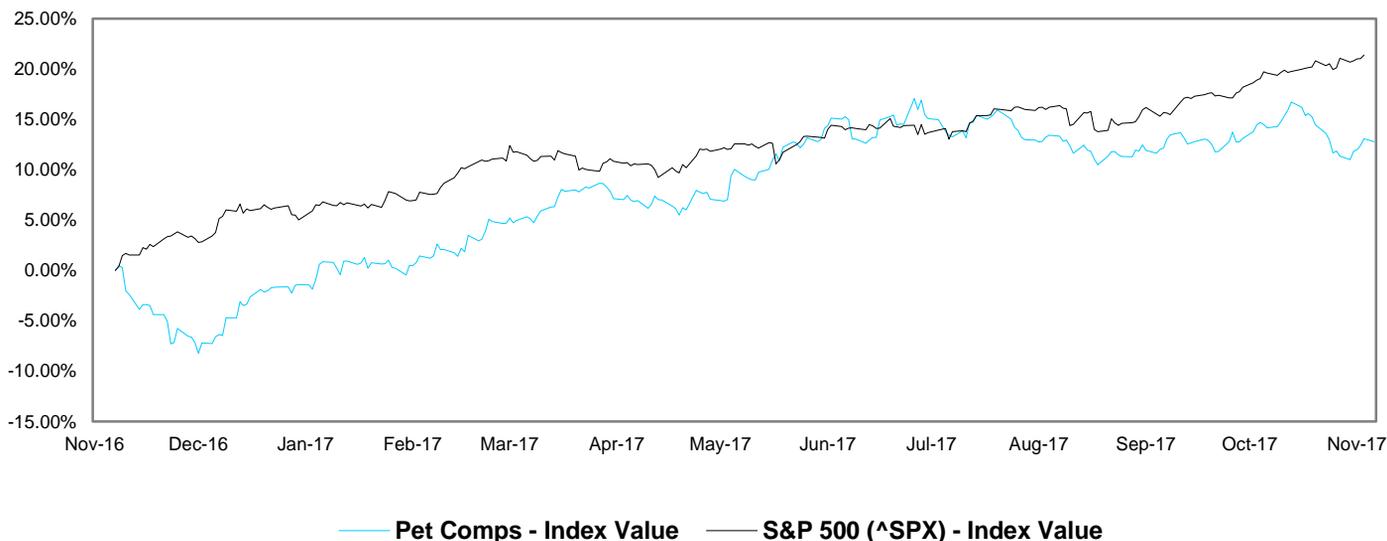
Public Company Set

(\$ IN MILLIONS, EXCEPT FOR PER 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	2017E	LTM	2017E
PET PRODUCTS										
Blue Buffalo Pet Products, Inc.	\$4,559	\$4,515	\$22.75	82.7%	(3.7%)	NA	3.9x	3.6x	16.2x	14.6x
Central Garden & Pet Company	2,059	1,568	31.18	79.3%	34.9%	245.7%	1.0	1.0	10.2	10.5
Freshpet, Inc.	562	558	16.15	96.0%	65.3%	NA	3.9	3.6	69.7	33.0
OurPet's Company	29	25	1.52	90.4%	68.8%	56.6%	1.0	1.0	9.0	--
CONSUMER PRODUCTS COMPANIES WITH PET LINES										
Nestlé S.A.	281,157	264,495	85.36	95.8%	9.0%	18.4%	3.0	3.1	15.6	16.5
Colgate-Palmolive Company	70,634	65,311	73.86	95.6%	0.8%	7.3%	4.6	4.6	16.1	16.0
Unicharm Corporation	14,709	14,565	24.87	91.5%	20.3%	36.5%	2.5	2.6	15.0	14.7
Spectrum Brands Holdings, Inc.	11,061	7,374	124.81	85.4%	8.2%	41.5%	2.2	2.2	12.8	11.7
Oil-Dri Corporation of America	291	311	41.83	97.7%	20.4%	34.9%	1.1	--	10.4	--
ANIMAL HEALTH										
Eli Lilly and Company	93,801	86,995	82.65	95.3%	3.8%	31.1%	4.2	4.1	15.1	14.5
Zoetis Inc.	34,606	30,758	62.83	98.4%	32.3%	90.9%	6.8	6.6	19.2	17.5
Virbac SA	2,021	1,347	159.83	71.2%	(13.5%)	(12.7%)	2.0	2.0	15.9	15.5
Trupanion, Inc.	650	667	22.17	94.7%	61.7%	NA	2.8	2.7	277.8	112.8
Median:	\$4,559	\$4,515	\$42	94.7%	20.3%	35.7%	2.8x	2.9x	15.6x	15.5x

Source: Capital IQ. As of 11/09/2017.

Pet Industry vs. S&P 500 (Last Twelve Months)



Note: chart is weighted by market capitalization.



PET INDUSTRY REPORT VOLUME 7

Pet M&A Overview – Select Q3 and Q4 Deals

Target	Acquirer	Target Description
Buddies Enterprises Limited	Legal & General Group Plc	Buddies Enterprises Limited provides pet insurance services in the United Kingdom.
Corta-Fix, Inc.	Manna Pro Products, LLC	Corta-Fix, Inc. produces joint supplements for animals.
Advanced Animal Hospital Group and Progressive Pet Animal Hospitals	Shore Capital Partners, LLC; Shore Capital Partners Fund II, L.P.	Advanced Animal Hospital Group and Progressive Pet Animal Hospitals represent veterinary hospitals.
Just For Pets Ltd	Pedigree Wholesale Limited	Just For Pets Ltd. operates a chain of pet superstores in the United Kingdom.
Gingr LLC	Togetherwork Holdings, LLC	Gingr LLC develops software solutions for dog daycare, pet boarding kennel management, and dog grooming business.
PetzLife Products, Inc.	Manna Pro Products, LLC	PetzLife Products Inc. markets pet care products.
Taddy's Pet Services, Inc.	Park Cities Pet Sitter, Inc.	Taddy's Pet Services, Inc. provides in-home pet sitting and care services.
Mountain Dog Enterprises Inc.	Dane Creek Capital Corp.	Mountain Dog Enterprises Inc. produces pet food.
Pet People Enterprises LLC	TA Associates Management, L.P.	Pet People Enterprises LLC operates stores that sell pet foods and supplies.
Armitages Pet Products Limited	Rutland Partners LLP; Rutland Fund III	Armitages Pet Products Limited manufactures and distributes pet accessories and treats in the United Kingdom and internationally.
Healthy Pets Limited	The Ardonagh Group Limited	Healthy Pets Limited provides pet insurance products and services.
Eaton Veterinary Pharmaceutical, Inc.	Direct Vet Marketing, Inc.	Eaton Veterinary Pharmaceutical, Inc., doing business as Roadrunner Pharmacy, operates veterinary compounding pharmacies.
i4c Innovations Inc.	One Health Group, LLC	i4c Innovations Inc., doing business as Voyce, manufactures a pet health monitoring solution.
Pet Empawrium and Spaw and Pet Things	Bentley's Pet Stuff	Pet Empawrium and Spaw and Pet Things are two Colorado-based pet retailers.

Manufacturers: Want Retailers to Love You? Adhere to MAP Pricing.

If you really want an independent pet specialty retailer to enthusiastically sell your product, roll out a strongly-enforced Minimum Advertised Pricing program (MAP). We've seen a slew of manufacturers stop selling to Amazon directly ("Vendor Central") and instead move to a "Seller Central" model where the manufacturer controls the sale process because Amazon won't follow MAP pricing if there is another site selling it for a lower price. There's also been an exodus on selling to Jet.com for the same reason. Finally, Chewy.com also does not like to adhere to MAP but will do so as long as all other e-commerce sites are adhering to MAP. If their software finds the product being sold at a lower price, they will match. We find that manufacturing companies with solid MAP programs attract the strongest buyer interest because there is loyalty from the retailers.





IN THE DEAL HOUSE



PET INDUSTRY REPORT VOLUME 8

MHT PARTNERS – THE LEADING MIDDLE MARKET PET INVESTMENT BANK

MHT Partners is a leading national middle market investment bank focused on high-growth companies and industry leaders. The team at MHT Partners 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 Partners have completed over 100 deals, including over 15 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.



THE MHT PET TEAM



Carol Frank, Managing Director – Business Development
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At MHT Partners, Carol focuses exclusively on deals to the pet industry and has participated in over a dozen pet industry transactions over the last several years. Prior to her investment banking career, Carol founded and sold four successful pet companies in the retail, wholesale, manufacturing, and e-commerce spaces. A former CPA, Carol holds an MBA from Southern Methodist University and a BBA from the University of Texas at Austin.



Craig Lawson, Co-Founder and 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 Partners' Consumer Growth industry practice. Within the Consumer Growth practice he has a particular focus on the pet space, having closed several deals over the past few years, including leading the Thundershirt, PulseVet, Dogswell, and K&H Manufacturing transactions, and presently working with several other pet companies. Prior to co-founding MHT Partners, Craig served as a senior banker in the San Francisco office of Harris Williams & Co, and was previously with Banc of America Securities and Bear Stearns. 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.