



THE DEAL HOUND

Explore M&A Activity, Capital Market
Conditions and Current Trends for the
Pet Industry



1H 2023

SDR*Ventures*

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THE DEAL HOUND 1H23: WHAT TO KNOW

- ❑ Inflation is real, and costs are up, yet pet product revenue continues to rise due in part to those higher prices. Pet owners appear willing to keep spending as new products and services emerge and producers large and small are focused on innovation.
- ❑ Advancements in pet food is a trend worth watching. A bag of chow from the farm supply store doesn't cut it anymore. Think custom menus, fresh food subscriptions, raw goat milk, and probiotic digestive aids.
- ❑ Sustainable packaging is on the move, challenging producers and distributors to find better, more environmentally friendly ways to package and deliver products without sacrificing marketing and safety.

Pricier Pups, Costlier Kittens: Higher Costs Drive Pet Revenue

If pet parents are learning anything in this period of heightened inflation, it's that there's no such thing as a free puppy. The pet they got for nothing at a shelter or even from someone with a cardboard box on the roadside is going to cost plenty later in services, food, and supplements. This year, we're seeing that come to roost as higher prices – and higher priced food and supplements – drive revenue. True, the pet supply and services sector has traditionally proven resistant to inflationary pressures, and pet parents will pay to maintain their pet's health, but we're watching to see how much is too much. Are pet owners cutting back? We're not seeing it. During the pandemic, we saw a boom in pet acquisition. Amid post-pandemic inflation, shelters are anecdotally reporting an increase in pet relinquishments with some owners saying it's expensive to care for those newfound friends. But look beyond the anecdotes, and the numbers tell a different story as a wave of pet owners appear willing to pay whatever it costs.¹

Even as prices rise, people continue to treat their pets as members of the family, spending what it takes to keep them happy and healthy. The pet sector has been called "one of the most attractive and rapidly growing sectors in today's market," especially in franchise operations. Private equity has been exceptionally active in the sector, and the pandemic launched a string of acquisitions and rollups. We believe activity will continue to power M&A opportunities. While there are reports that units of pet products sold declined recently, we are seeing revenues in pet product sector increase, fueled by those rising prices as pet owners lean toward premium products and supplements. If trends continue, we'll keep watching for new niche products, things we never imagined. The pet industry continues to show promise, with some anticipating additional growth at least until 2030. There are 5 million more pets in the U.S. than before the pandemic. Pet owners are expected to spend, on average nearly \$2,000 a year, on their pets by the end of the decade. No doubt

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ABOUT SDR

Established in 2002, SDR Ventures has developed deep M&A and capital transaction knowledge and expertise. SDR offers transaction advisory, private capital formation and business consulting services across a wide range of industries. We serve business owners and operators of privately held companies and provide them with a professional-class experience.

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many will spend much more. We're intrigued by the evolution of fresh and customized meal plans for pets, pet health insurance, medicines, and topicals.^{2,3,4}

That doesn't mean we won't see some shifts. Legacy players may look to slim down and divest some lower margin positions and seek new products and niches, shedding older brands to focus on higher growth areas. But when there's a seller, there are buyers eager to get a foothold in the sector. We saw just that in a review of M&A activity in 1H23. Selling means buying, and that signals activity and openings for potentially smart moves.

We'll also be watching for tangential activity as producers look for more sustainable ways to package and move products, which may create opportunities for those in packaging developing and manufacturing. It seems everyone, big and small, is talking sustainability. Local, independent pet product retailers may position themselves as more sustainable through their local outlets as opposed to big box and online outlet sales with home delivery. But Amazon is making a splash with its 5,000 new EV delivery vehicles from Rivian. Pet owners are a big market, and big markets can throw their weight around. If Amazon starts touting environmentally friendly home delivery of sustainably produced and packaged pet supplies, and consumers respond, it's a sure bet Walmart and Costco will have to follow. Where will that lead? We'll be watching for opportunities in niche products, environmentally focused services and products, and continued gains.⁵

Producers are noticing and continue to add directors of sustainability to their leadership teams. Nothing stays the same. Today's pet owners are not your grandparents' pet owners. As Millennials delay or reduce the number of children, pets are filling a gap. And they're spending more on those pets than our parents. Opportunity may be waiting for those with their eyes, and mind, open to spot and embrace new ideas and trends.^{6,7}

Upscaling: Beyond the Soggy Tennis Ball and Catnip

We've talked about the emergence of new products for pets in the past. Items such as CBD infused products with a \$195 million market in 2022 are looking like a 30% compound annual growth rate (CAGR). But now we're watching high quality, nearly human-grade food for pets created with customizable menus and home delivered by subscription. Fresh from the fridge. Tune in to public radio and you can't get away from ads for the premium pet food supplier The Farmer's Dog pitching an alternative to the "burnt, brown ball" in the old school bags of pet food. While the company's website is packed with cute pictures and huggable pets, you've got to dig to find out what this "real food" costs. By one example, it's \$2.80 a day for an 11-pound ankle-biter and \$10.39 a day for a burly 75-pound retriever mix, so that's ... \$311 a month or, carry the one ... almost \$3,800 a year for that big boy. That's just in food, never mind veterinary care, grooming, medicines, and of course, more tennis balls.^{8,9}

To help digest that delicious meal, consider the rise in "biotics." There are probiotics, live bacteria or yeasts that help pets digest food, and now prebiotics, fuel for those little beasties in your bestie's belly that activate the probiotics. Companies such as Solid Gold are pitching plant-based prebiotic formulas to pair with probiotics. How about some raw goat milk for digestive help? And keto for metabolic help? It's the "Keto Raw-Volution," according to one producer. A five-ounce can of goat milk for dogs or cats runs just under \$17 from Amazon where the site showed 4,300 customer ratings for the product. Think about that. That's half the size of a can of soda for \$17. People are showing a willingness to spend what it takes for the latest pet health trends.^{8, 10, 11, 12}

Developments worth watching include the development of raw and fresh foods, natural foods, foods made with meat, and foods made with meat alternatives like mealworms and crickets. There's home delivery, customized ("tailored") meal plans, "calming supplements," Omega-3s, puffed collagen balls, and food made from mushrooms (not the psychedelic kind). The \$200 million doggie daycare franchise Dogtopia announced the opening of its 500th center with plans for more. How deep is that consumer wallet? By one estimate, pet food is a \$144 billion global market, \$57 billion in the U.S. alone, and it's growing.^{13,14,15,16}

Paws for the Cause, The Drive for Sustainability

Pet owners, the people who buy all that stuff, are increasingly thinking about the kind of world they'll leave for their pets.



Or at least their pets' descendants. There's a growing concern for the environment, the planet, and how sustainable packaging for pet products fits in. For manufacturers, that's creating a delicate dance between sustainability and appealing, eye-catching packaging. The other challenge is finding the right materials that protect pet foods – keeping the pets who eat it safe – while somehow creating less trash and using less petroleum and chemical based packaging. That may create a drive for more-easily recycled materials and incorporating more recycled materials, “post-consumer waste.” One packaging giant, Pouches and Bags, has set a goal of 100% sustainable alternative packaging by 2025.

But sustainability goes beyond the material, the composability, inks and resins. Manufacturers are also looking at the size and form of the packaging. Simply moving from rigid containers to flexible packaging could save space and increase shipping efficiencies. Overseas many human products are already sold in flexible bags instead of cans and bottles, including laundry detergent, mayonnaise, jams, and pasta sauce. One nonprofit group, the Pet Sustainability Coalition, includes leaders in the pet care products field on its board of advisors and began in 2018 focusing on sustainable packaging. The organization urged leaders across the sector to sign its Packaging Pledge, a drive toward sustainable packaging by 2025, pushing pet product producers to move to 100% recyclable, reusable, or compostable packaging. The move has achieved acceptance and cooperation across the pet products industry.^{17,18}

Governments, too, are nudging manufacturers toward sustainability with regulations and even fines. Rising energy costs, hence rising prices, are also a “stick” prodding manufacturers to get their game on. And the carrot is consumer demand. Pet owners want sustainable packaging. More than 9 out of 10 pet product consumers told NeilsenIQ researchers that sustainability matters. The concept of sustainability covers a lot of ground. While it was slower to catch on in pet products than in human food, consumers are starting to demand reduced pollution, environment-friendly products, protection of natural resources, lower emissions up and down the chain, protection of wildlife, and even attention to social issues such as better working conditions, giving back to society, and better opportunities for minorities. Language on packaging is catching up, pitching moves to recycled and recyclable packaging, plastic-free, 100% recycled paper products, and the elimination of BPA, a chemical in plastics that presents potential health risks. Brands that are committing to sustainability and environmental responsibility are showing consumer gains.^{2,19}

From Chihuahuas to Great Danes: Mergers and Acquisitions, Big and Small

- ❑ As some of the larger players made deals in 1H23, we are seeing a renewed focus on paring down and finding efficiencies and profit in concentrated, growing niches. In April, the J.M. Smucker consumer goods conglomerate shed several pet food brands, including the Rachael Ray Nutrish, 9Lives, Kibbles 'n Bits, Nature's Recipe, and Gravy Train brands as well as its private label pet food business to Post Holdings, Inc. The \$1.2 billion deal included \$700 million in cash and about 5.4 million shares of stock of Post Holdings, Inc. The deal, which including Smucker's manufacturing and distribution centers, will allow the company to focus on pet treats, including Meow Mix and Milk Bones. Post Holdings, based in St. Louis, says the acquisition establishes a foothold in the pet food sector for the consumer packaged goods company, which produces ready-to-eat foods for people such as Peter Pan peanut butter.^{20,21}
- ❑ Also in April, we saw the private equity firm Gryphon Investors wolf down pet supplement producer Vetnique, based in Naperville, Illinois in an undisclosed deal rumored to be valued at \$140 million. Vetnique makes a variety of products including supplements and ointments for pet digestive health, allergy care, skin care, and ear care. Vetnique sells its products worldwide through veterinary offices, pet stores, and direct to consumer. Gryphon partner Mike Ferry said the acquisition represents Gryphon's belief the pet supplement sector is poised to grow. Vetnique founder and CEO, veterinarian James Bascharon, will remain with the company as CEO and retains a significant stake.²²
- ❑ It wasn't all about food and supplements. In May we saw a big move in the rapidly growing pet health insurance market. JAB Holding Company took a stake rumored to be around \$110 million in Pumpkin Insurance Services, a global player in the pet insurance industry. Zoetis, a publicly traded animal health company which launched Pumpkin in 2020, retains a minority stake. With the acquisition, JAB now insures more than 3.3 million pets with a goal of reaching 4 million by the end of next year. JAB Senior Partner Frank Engelen said the acquisition is part of the



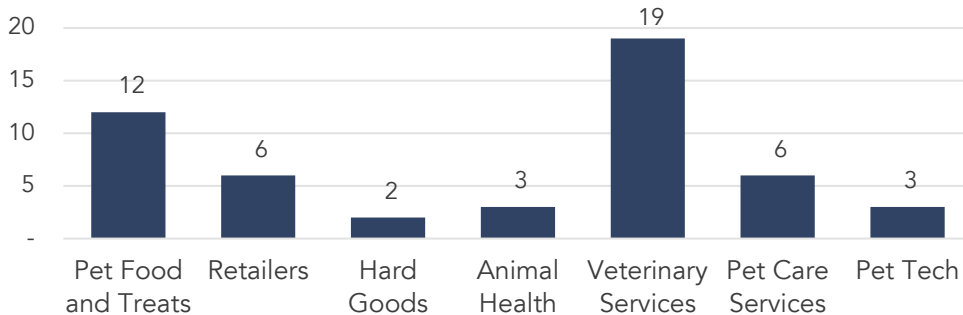
- ❑ company's plans to expand and capitalize on Pumpkin's existing tech, data, and diagnostics expertise. JAB is also a large holder in consumer products and services companies including Keurig, Dr. Pepper, Krispy Kreme donuts, Peet's Coffee, Panera Bread, as well as National Veterinary Associates.²³
- ❑ And it's not always about mega deals. Acquisitions in the sector run the gamut from small to big. In February, Feeders Pet Supply agreed to acquire Phydeaux Pet Shops, a small group of independent pet supply stores concentrated solely in North Carolina. The acquisition marked an acceleration of Feeders Pet Supply's steady expansion. With the recent announcement of a new Tennessee location, North Carolina marks the sixth state for Kentucky-based Feeders Pet Supply stores.²⁴

Like a Cat Chasing a Laser Pointer

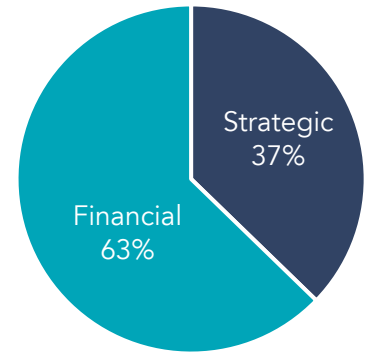
Monitoring the broad pet services industry, from fancy food to veterinary visits, takes a keen eye and sharp reflexes. But when things evolve this fast, opportunities are there to be discovered. As the sector – and consumer tastes – evolve, we're watching for new niches, products, services, and ways to better serve the world's growing population of pet owners. Pet health supplements and foods continue to surprise, whether that's what pets eat or how they eat it. (Remember "food mats" from last year? The mats owners smear food into for a dog to lick off?) Private equity remains intensely interested in buying up veterinary practices. And vets who want to take care of pets not deal with the headaches of running a small corporation are finding eager buyers with deep pockets. Consumers continue to demand producers meet them where they shop, whether that's online or in person, and omni channel marketing and delivery challenges perceptions at every turn. The pet sector has come a long way in a relatively short time from the neighborhood pet store. The pet sector is showing strong growth in the U.S. and abroad, and some of the biggest players in the industry are committed to innovation and new products pet owners may not even know they need, or at least want. Bird-dogging the latest trends, products, services, and consumer tastes is a never-ending pursuit.^{25,26,27}



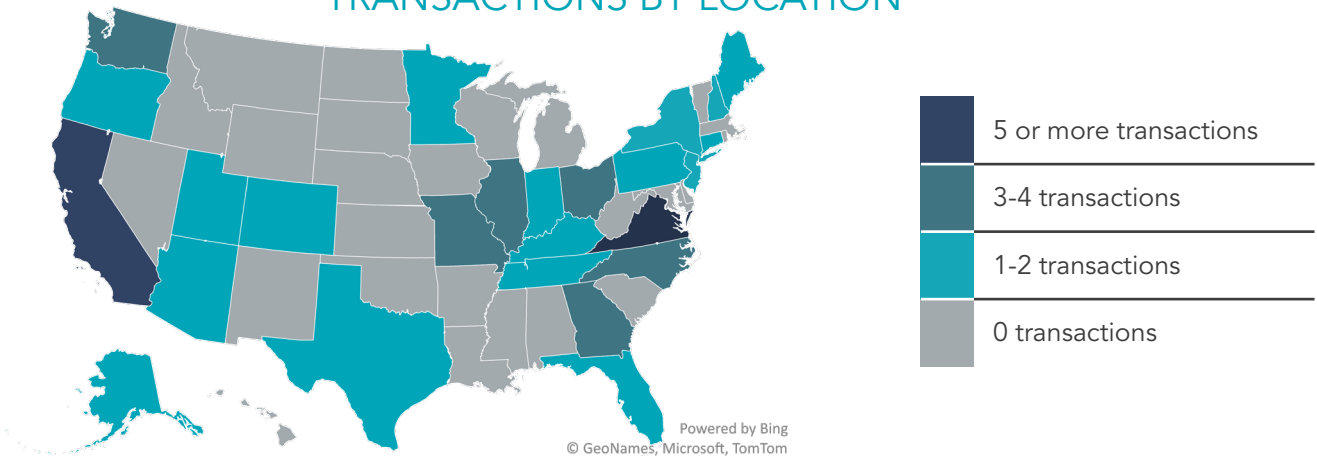
TRANSACTIONS BY SEGMENT



TRANSACTIONS BY TYPE



TRANSACTIONS BY LOCATION



TRANSACTION ACTIVITY

Date	Target	Buyer(s)	Segment	Amount (\$ in Mil)	TEV/ Rev	TEV/ EBITDA
6/21/2023	Pet Palace	Destination Pet, LetterOne	Pet Care Services	-	-	-
6/14/2023	Heska	Mars	Animal Health	1,374.79	5.4x	-
6/1/2023	Lifetime Animal Center	Abu Dhabi Investment Authority, AEA Investors, AmeriVet Veterinary Partners, FS KKR Capital BDC, MidCap Financial Investment BDC, OPSEU Pension Trust	Veterinary Services	-	-	-
5/17/2023	Toro Park Animal Hospital	Audax Group, Veterinary Practice Partners	Veterinary Services	-	-	-
4/28/2023	The J.M. Smucker Co	Post Holdings	Pet Food and Treats	1,209.57	-	-
4/28/2023	Wagz	Vynetic	Pet Tech	-	-	-
4/1/2023	Maxbone	Wagl	Hard Goods	-	-	-
3/23/2023	Kriser's Natural Pet	EarthWise Pet	Retailers	-	-	-
1/25/2023	Mason Animal Hospital	Shore Capital Partners	Veterinary Services	-	-	-
1/13/2023	Rocco & Roxie Supply Co	PetIQ	Pet Food and Treats	26.50	0.9x	-

If You Are a Business Owner Looking for Additional Transaction Activity Within Your Industry, Please Call Our Offices at 720.221.9220.

Source: PitchBook Financial Data and Analytics

Note: This data represents recorded transactions only, and is not all-inclusive. Nevertheless, they are typically representative of the industry.



ACTIVE BUYERS

MOST ACTIVE STRATEGIC BUYERS

FIRM	SELECT SUBSIDIARY BRANDS	
EARTHWISE Pet NUTRITION CENTER & WELLNESS SPA	KRISER'S NATURAL PET	See Spot Shop
Wag!	DogFoodAdvisor	maxbone
MARS	HESKA	

SELECT SPONSORS WITH ACTIVE PORTFOLIO HOLDINGS

FIRM	PLATFORM COMPANY	SELECT SUBSIDIARY BRANDS	
SHORE Capital Partners	SVP MVP	HAPPY TAILS MiVU Mobile Imaging Veterinary Ultrasound	Bedrock Veterinary Specialists MASON Animal Hospital The Village Vets
Audax Group	VPP	CARING HANDS ANIMAL HOSPITAL Rice Creek Animal Hospital	WHISPERING PINES veterinary services MONTPELIER VETERINARY HOSPITAL THE HIGHLANDS VETERINARY HOSPITAL TORO PARK ANIMAL HOSPITAL
LETTER ONE	DestinationPet™	PAWPRINTS of Vero Beach	Pet Palace PET BOARDING RESORT

Source: PitchBook Financial Data and Analytics

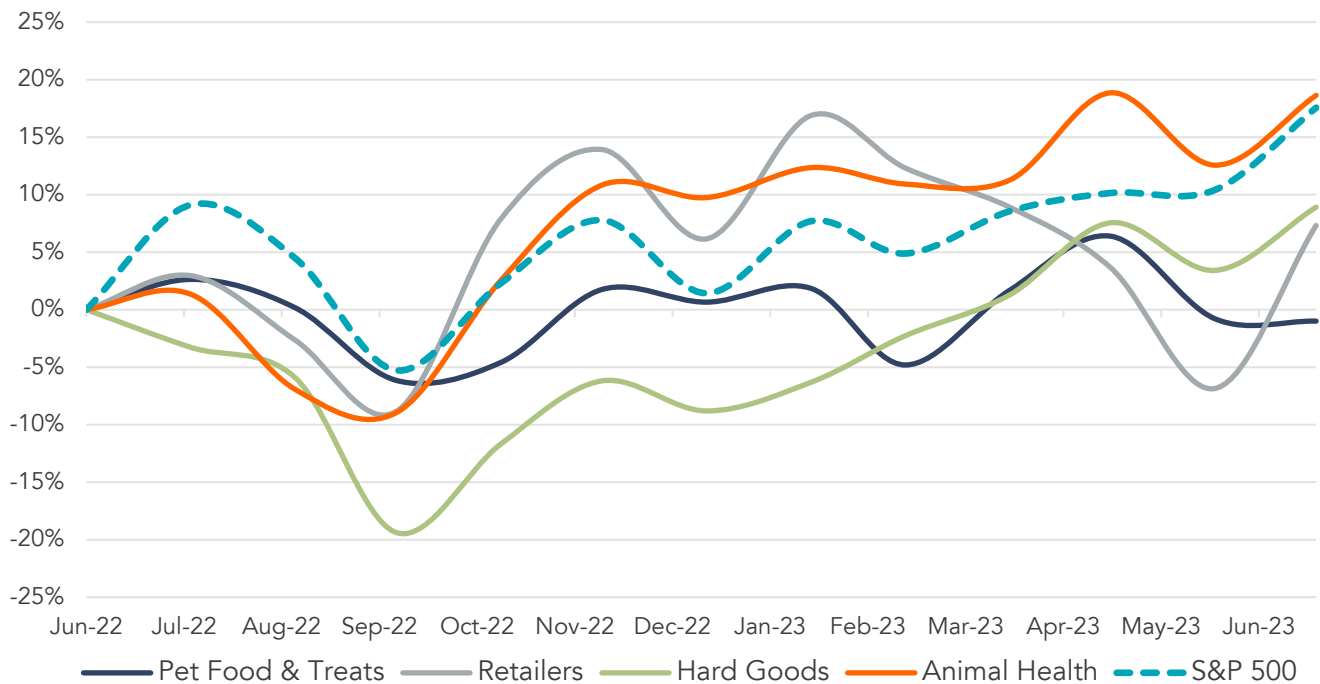
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PUBLIC BASKET

PET SEGMENTS VS. S&P 500

Segment Market Cap Performance – Running 12 Months



PET FOOD AND TREATS

Company Name	Symbol	Market Stats					Operating Stats		LTM Multiples			NTM Multiples	
		Market Cap (\$ in Mil)	Price (\$)	LTM Change	YTD Change	% of 52 Week High	Est. Revenue Growth	EBITDA Margin	TEV/ Rev	TEV/ EBITDA	Price/ EPS	TEV/ NTM Revenue	TEV/ NTM EBITDA
Nestlé	NESN	\$ 319,249	\$ 119.65	(1.9%)	3.1%	90.9%	15.6%	16.7%	3.7x	22.4x	33.4x	3.2x	15.2x
Colgate-Palmolive	CL	63,910	77.04	2.5%	(2.2%)	91.9%	6.5%	17.1%	3.9x	23.0x	40.1x	3.7x	15.3x
General Mills	GIS	44,884	76.70	(10.3%)	(8.5%)	84.4%	3.1%	20.3%	2.8x	13.9x	17.8x	2.7x	13.4x
The J.M. Smucker Co.	SJM	15,078	147.67	(6.2%)	(6.8%)	90.6%	(10.1%)	6.7%	2.2x	32.0x	NM	2.4x	11.1x
Freshpet	FRPT	3,167	65.81	(0.6%)	24.7%	89.6%	33.8%	(2.2%)	5.0x	NM	NM	3.8x	38.4x
Central Garden & Pet	CENT	2,002	38.77	(5.6%)	3.5%	84.5%	4.7%	8.9%	1.0x	11.5x	18.4x	1.0x	NM
Segment Average				(3.7%)	2.3%	88.6%	8.9%	11.3%	3.1x	20.6x	27.4x	2.8x	18.7x
Segment Median				(3.8%)	0.4%	90.1%	5.6%	12.8%	3.3x	22.4x	25.9x	3.0x	15.2x

RETAILERS

Company Name	Symbol	Market Stats					Operating Stats		LTM Multiples			NTM Multiples	
		Market Cap (\$ in Mil)	Price (\$)	LTM Change	YTD Change	% of 52 Week High	Est. Revenue Growth	EBITDA Margin	TEV/ Rev	TEV/ EBITDA	Price/ EPS	TEV/ NTM Revenue	TEV/ NTM EBITDA
Tractor Supply	TSCO	\$ 24,226	\$ 221.10	(5.9%)	(1.7%)	88.0%	8.0%	12.4%	2.0x	16.0x	22.7x	1.8x	14.3x
Chewy	CHWY	16,871	39.47	5.6%	6.4%	74.6%	11.0%	1.3%	1.6x	NM	NM	1.4x	NM
Petco Health & Wellness Compar	WOOF	2,376	8.90	(1.1%)	(6.1%)	52.0%	3.3%	6.4%	0.9x	13.5x	38.7x	0.8x	10.2x
Petz	PETZ3	626	1.35	11.3%	14.0%	56.6%	42.9%	15.4%	1.1x	8.0x	54.2x	0.8x	NM
Segment Average				2.5%	3.2%	67.8%	16.3%	8.9%	1.4x	12.5x	38.5x	1.2x	12.2x
Segment Median				2.2%	2.4%	65.6%	9.5%	9.4%	1.4x	13.5x	38.7x	1.1x	12.2x

Source: PitchBook Financial Data and Analytics



PUBLIC BASKET (CONTINUED)

HARD GOODS

Company Name	Symbol	Market Stats					Operating Stats		LTM Multiples			NTM Multiples	
		Market Cap (\$ in Mil)	Price (\$)	LTM Change	YTD Change	% of 52 Week High	Est. Revenue Growth	EBITDA Margin	TEV/ Rev	TEV/ EBITDA	Price/ EPS	TEV/ NTM Revenue	TEV/ NTM EBITDA
Church & Dwight Company	CHD	\$ 24,483	\$ 100.23	13.4%	24.3%	99.8%	6.6%	15.4%	4.8x	31.5x	60.0x	4.5x	19.7x
The Clorox Company	CLX	19,661	159.04	0.5%	13.3%	89.2%	3.9%	6.4%	3.2x	48.9x	NM	3.0x	18.5x
Spectrum Brands	SPB	3,200	78.05	17.9%	28.1%	92.8%	1.8%	1.2%	2.1x	NM	NM	2.0x	19.7x
Central Garden & Pet	CENT	2,002	38.77	(5.6%)	3.5%	84.5%	4.7%	8.9%	1.0x	11.5x	18.4x	1.0x	NM
Oil Dri Corporation Of America	ODC	422	58.99	41.8%	75.9%	98.3%	NM	11.0%	1.1x	9.9x	17.7x	NM	NM
Dogness (International) Co.	DOGZ	29	0.73	(1.5%)	(25.5%)	38.4%	236.5%	-4.6%	2.1x	NM	NM	0.6x	NM
Segment Average				11.1%	19.9%	83.8%	50.7%	6.4%	2.4x	25.5x	32.0x	2.2x	19.3x
Segment Median				6.9%	18.8%	91.0%	4.7%	7.7%	2.1x	21.5x	18.4x	2.0x	19.7x

ANIMAL HEALTH

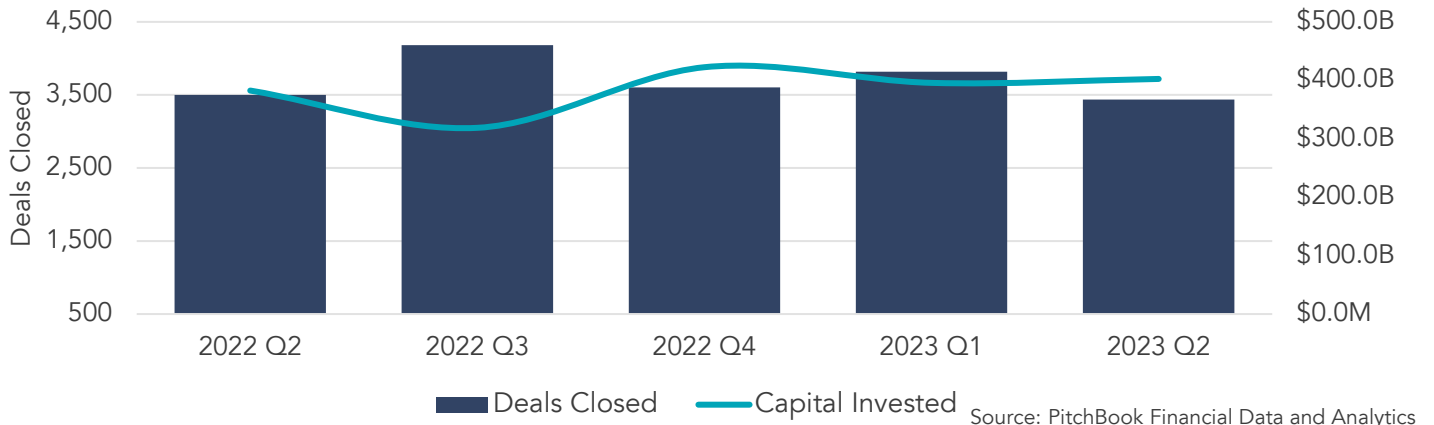
Company Name	Symbol	Market Stats					Operating Stats		LTM Multiples			NTM Multiples	
		Market Cap (\$ in Mil)	Price (\$)	LTM Change	YTD Change	% of 52 Week High	Est. Revenue Growth	EBITDA Margin	TEV/ Rev	TEV/ EBITDA	Price/ EPS	TEV/ NTM Revenue	TEV/ NTM EBITDA
Merck & Co.	MRK	\$ 292,795	\$ 115.39	8.5%	4.0%	96.4%	2.9%	34.1%	5.4x	15.9x	22.5x	5.3x	NM
Zoetis	ZTS	79,580	172.21	3.5%	17.5%	91.7%	11.2%	40.1%	10.4x	25.9x	39.0x	9.4x	NM
Idexx Laboratories	IDXX	41,688	502.23	0.4%	23.1%	97.4%	12.2%	30.4%	12.5x	41.1x	60.4x	11.1x	32.9x
Dechra Pharmaceuticals	DPH	5,295	46.49	41.7%	47.3%	95.6%	19.7%	23.1%	6.5x	28.1x	105.1x	5.4x	20.3x
Elanco Animal Health	ELAN	4,955	10.06	7.0%	(17.7%)	48.0%	(0.2%)	20.2%	2.4x	11.9x	NM	2.4x	10.6x
Neogen	NEOG	4,703	21.75	17.4%	42.8%	88.2%	31.3%	12.5%	7.5x	59.8x	NM	5.7x	22.7x
Virbac	VIRP	2,482	293.96	(8.9%)	21.0%	74.7%	9.7%	18.2%	1.9x	10.3x	19.4x	1.7x	10.3x
Vetoquinol	VETO	1,175	99.33	2.9%	6.4%	76.4%	NM	14.6%	1.9x	13.2x	23.3x	1.7x	7.8x
Trupanion	TRUP	811	19.68	(54.1%)	(58.6%)	23.9%	17.6%	(4.4%)	0.7x	NM	NM	0.6x	NM
Swedencare	SECARE	555	3.50	42.3%	19.0%	39.2%	19.4%	18.3%	3.8x	20.7x	82.8x	3.2x	12.6x
Phibro Animal Health	PAHC	555	13.70	(10.6%)	2.2%	66.7%	3.5%	9.4%	1.0x	10.8x	19.6x	1.0x	7.9x
PetIQ	PETQ	442	15.17	32.6%	64.5%	82.4%	10.2%	2.6%	0.9x	36.2x	NM	0.9x	9.4x
Segment Average				6.9%	14.3%	73.4%	12.5%	18.3%	4.6x	24.9x	46.5x	4.0x	14.9x
Segment Median				5.2%	18.3%	79.4%	11.2%	18.2%	3.1x	20.7x	31.1x	2.8x	10.6x

Source: PitchBook Financial Data and Analytics



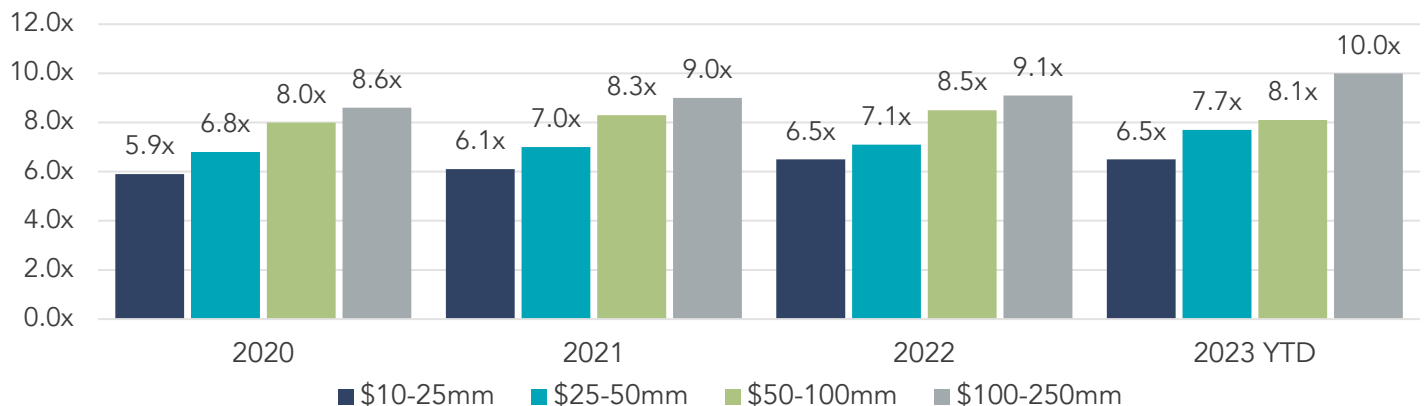
U.S. M&A ACTIVITY SNAPSHOT

OVERALL U.S. M&A ACTIVITY

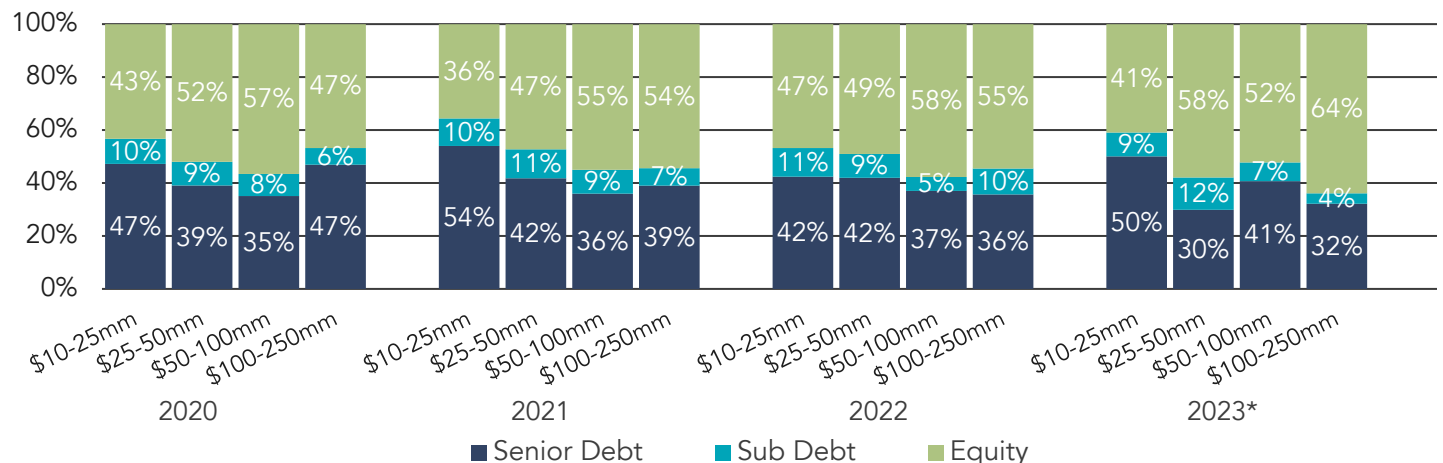


LOWER MIDDLE MARKET PRIVATE EQUITY TRANSACTION MULTIPLES

EBITDA Multiples By Transaction Size



CAPITAL BREAKDOWN – LOWER MIDDLE MARKET PRIVATE EQUITY TRANSACTIONS



Note: The most current source of GF Data is as of May 2023.

Source: GF Data®



COMPREHENSIVE PET EXPERTISE

The pet industry has become a hot space in recent years, but we have been involved in the industry for over a decade. Our experience and drive have placed us at the leading edge of information in the market, giving you an advantage when the time comes to buy, sell or seek investments to grow your pet-related business.

Our pet industry investment banking expertise includes the following segments:

- ❑ Pet Food
- ❑ Retailers
- ❑ Hard Goods
- ❑ Animal Health
- ❑ Veterinary Services
- ❑ Pet Care Services
- ❑ Co-Packers
- ❑ Pet Treats
- ❑ Pet Tech

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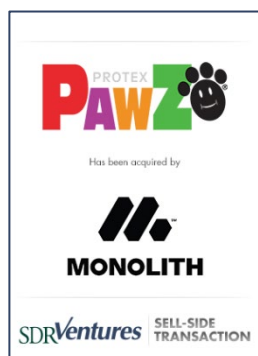
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SELECT TRANSACTION EXPERIENCE

SDR has completed numerous transactions throughout the pet industry, including:



2022



2022



2022



2021



2020

SDR SERVICE OFFERINGS



SELL-SIDE ADVISORY



PRIVATE CAPITAL FORMATION



BUY-SIDE ADVISORY



STRATEGIC CONSULTING



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