



THE DEAL HOUND

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

1H 2024

SDR*Ventures*

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THE DEAL HOUND 1H24: WHAT TO KNOW

- ❑ There's money in veterinary care, like all medicine, but without the same risks and costly barriers to entry. Private equity has taken notice and is actively pursuing both smaller chains and independent veterinary practices, building scale and adding services and new technologies.
- ❑ Even as the cost of vet care increases, pet lovers remain dedicated to their furry friends. At what point do they turn in large numbers to pet insurance for stability? Perhaps a telling sign, global insurance giants are getting into the game.
- ❑ Pets aren't going anywhere, driving a growing space that continues to show activity through mergers and acquisitions.

Pet Care Consolidation Driving Costs, Profits, And Insurance

If inflation, worries about the economy, or a slowdown (at last) in the red hot labor market gave reason for consumers cut back on spending, you wouldn't know it in the pet products and services market. Premiumization continued its march in the space and consumers continued to spend, even if they weren't thrilled about it, as prices for non-discretionary pet products and services are still rising faster than other consumer prices. "Petflation" refuses to sit. Bad dog.^{1,2}

While pet products and pet food prices climbed, the bigger story may be the rising cost of veterinary care, as private equity cash and corporate rollups caged smaller chains and independent care facilities. Owners are being offered increasingly complex and costly care options, including pet chemotherapy, cardio care, precision imaging, molecular diagnostics, and robotic surgical options. If the goal is to extract more kibble from pet owners' pockets, the industry isn't shy about it. As one vet-centered platform noted in a blog item, "this article discusses how you can use the latest veterinarian technology and trends to grow your veterinary business!"^{2,3}

Earlier this year, as the Consumer Price Index (CPI) continued show signs of cooling, veterinary care inflation was pushing 10% as Americans spent more than \$38 billion on pet healthcare in 2023, rocketing from \$29 billion annually just four years ago. And while we are in what's been called the era of "Big Vet" acquisitions, consumers may not even know what's going on behind the scenes as many acquiring operations continue to leave the original name of the practice on the door. But make no mistake, corporate involvement is driving up consumer prices. A veterinarian told The Atlantic magazine that after an acquisition, there is pressure to upsell clients. "You don't always need to take X-rays on an animal that's vomited just one

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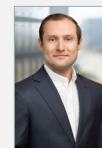
ABOUT SDR

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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time,” the vet told the magazine. “But there was more of that going on.”⁴

To help with the increasing sophistication, and cost, of pet care, insurance for pets is getting attention both from consumers and from insurance providers.⁵

As a recent study published in the Journal of the American Veterinary Medical Association finds, “Big Vet is changing the face of veterinary medicine.” It appears that opportunities in both veterinary care and pet insurance may be boosting each other and fueling M&A activity in both.⁶ Change is happening before our eyes.

Who’s A Good Pet Parent? Who’s A Good Pet Parent?

Never mind the costs, pet owners continue to spend. Maybe they aren’t thrilled, but spend they do. Pet owners report shelling out dough on doggie backpacks, pet lifejackets, and dog sunscreen; up to \$60 a night for boarding; and even costly medical procedures including ACL surgery, MRI exams, and pacemakers. And they spend even when they don’t have the money, racking up debt with interest as high as 30%. Some pet owners now advise families to build a “pet emergency fund” to cover costs, much like how financial advisors press human clients to build their own emergency fund should they lose a job or be hit with unexpected costs.^{7,8,9,10}

In the United States alone, even as Americans spent an estimated \$38 billion on vet care and services last year, there appears to be no end in sight with an expected continued compound annual growth rate (CAGR) in the sector of nearly 5%. Globally, look for a CAGR of more than 6% by 2030.¹¹

With a bright future, veterinary care and care centers have caught the eyes of investors (along with other specialty pet servicing ventures). Follow the money. We all know candy maker Mars for its treats such as M&Ms, Skittles, and Snickers. But Mars’ veterinary health arm has been gobbling up vet clinics for decades, making it the biggest corporate pet health buyer in the U.S. Not satisfied with its pet food brands (Pedigree, Whiskas, Kal Kan) the famously shy company has amped up its acquisitions of veterinary care and emergency pet clinics, including the massive VCA veterinary care chain. Of Mars’ global workforce, nearly half work under Mars Veterinary Health.¹²

And it’s not just corporations that have noticed the profitability of veterinary and pet care services. Since the COVID-19 pandemic, private equity has taken an interest. PE groups have been involved in at least four major deals in 1H24 with more expected at EBITDA multiples of up to 20x, including investments in Ohio-based pet emergency and specialty care provider MedVet Associates. Veterinary clinics remain a space that is largely fragmented that offer investors a repeat-business model that is mostly cash-pay where, for many pet owners, care for their furry family members is not discretionary. Whether they want to or not, pet owners spend whatever it takes, and new PE owners aren’t shy about getting the most out of their investment. In some cases, through rollups, investors can even corner a regional market. As one veterinarian explained in an interview, “These funds are seeing veterinary medicine as a good profit center.” To be fair, investors note they provide an infusion of capital to grow a practice, provide better benefits for employees, are often willing to adapt to a practice’s existing culture and feel, and help care providers by taking on the mundane duties of running a business, allowing veterinarians and technicians to focus on what they truly love, caring for pets.^{13,14,15,16}

Rollups across the field of veterinary medicine are happening. That’s just a fact. Even the practice made famous in British author and veterinarian James Herriot’s classic “All Creatures Great and Small” has been rolled up.⁴

Reassurance With Pet Insurance

If prices are up, competition is down, and pet owners are increasingly “humanizing” their fur babies, what’s a logical next step? Maybe ... pet health insurance? (Spoiler alert: not maybe, definitely). In 2023 the global pet insurance market was valued at nearly \$11 billion, and by some accounts it is expected to experience up to 17% CAGR through this decade. Private equity and global corporations are taking notice and making moves. The industry is eyeing increased consumer awareness, advances in care management technology, growing investment interest, and a pretty attractive market with room for growth, as in the United States it’s estimated only about 3% of pet owners currently have pet insurance.^{17,18}



The industry reported 22% year-over-year revenue growth in 2023, pushing \$4 billion, across North America, the fifth year in a row of at least 20% year-over-year growth. North American Pet Health Insurance Association leaders are expressing optimism for continued growth as rising veterinary costs pressure pet owners just as few people relish the idea of paying for their own medical care out of pocket. Compared to the cost of pet care, the industry argues the average pet accident and illness insurance premium – \$675 a year or \$56 a month for dogs, and \$383 a year or \$32 a month for cats – is an affordable option (consider the average monthly cable/internet bill is nearly \$120 a month).^{19,20}

Advances in policy and claims management technology, standardization of billing codes, increased consumer awareness, rising veterinary costs, and strategic partnerships within the sector bode well for the field, industry groups say. We feel it's an area worth watching.²¹

Go Get Your Ball: Mergers & Acquisitions

- ❑ In April, Chubb, a global insurance carrier with operations in 54 countries announced the acquisition of Healthy Paws, a U.S. based pet insurance carrier, from global professional services carrier AON plc. Chubb has been the underwriter of Healthy Paws for the past decade. The pet insurer covers more than 500,000 dogs and cats in the United States. The deal extends Chubb's reach into what has been described as a lucrative niche market for the carrier. A Chubb spokesman said the service will protect pet owners from the rising cost of veterinary care. Terms of the deal were not immediately released.^{22,23,24}
- ❑ Earlier in the year, Canadian tech holding company Tiny Ltd., through its private partnership Tiny Fund, acquired pet product wholesaler WholesalePet.com (WSP) in a cash deal valued at more than \$9 million. WSP is one of the largest digital B2B pet wholesale marketplaces in the U.S. serving boutique pet stores and pet service providers including boarding and grooming. WSP operates as a marketplace and does not itself carry inventory and reports it has more than doubled its gross merchandise volume over the past 10 years. Tiny Fund purchased WSP from the e-commerce company Emerge.²⁵
- ❑ And as 1H24 closed, in June Belgium's United Petfoods made its entry into the U.S. market, acquiring an Indiana pet food production plant from Wellness Pet Company. United Petfoods said the deal was a "landmark moment" for the company which gains a foothold in the U.S. which the company said was a "key market." United Petfoods is a private label producer of dry and wet pet food, biscuits, and snacks, exported to more than 95 countries.^{26,27}

The Laser Dot: Chasing A Busy Sector

We're watching a couple of interesting – and potentially related – trends in 2024, trends that will continue to be worth our attention in the years ahead. Funny how two seemingly distant things, veterinary practice rollups and insurance, are coming together.

As private equity takes interest in veterinary care – largely a non-discretionary cash-pay medical field with a relatively low malpractice liability risk – it's natural investors would seek to expand services and maximize returns. At the same time, devoted pet owners committed to their pets' health are being stretched by rising costs. And pets will continue to do unexpected things, like getting bitten by rattle snakes or "messaging around and finding out" with porcupines, pushing pet owners toward pet insurance policies. When massive insurance players such as Chubb and Nationwide (which recently unveiled a cobranded pet insurance service with Petco) put skin in the game, it's worth our attention.^{28,29}

Of course, nothing this seismic goes unnoticed by Uncle Sam. The Federal Trade Commission (FTC) has taken an interest in not only large veterinary care acquisitions, but also smaller "stealth" acquisitions of individual practices. It has been noted, the FTC's interests may extend beyond the impact on veterinary care to include the relationship between veterinary care companies and pet medical device makers and pet insurance providers. But while the FTC has been active under the current presidential administration, the outcome of the election in 2H24 could alter the environment. Just another wrinkle to follow.^{30,31}

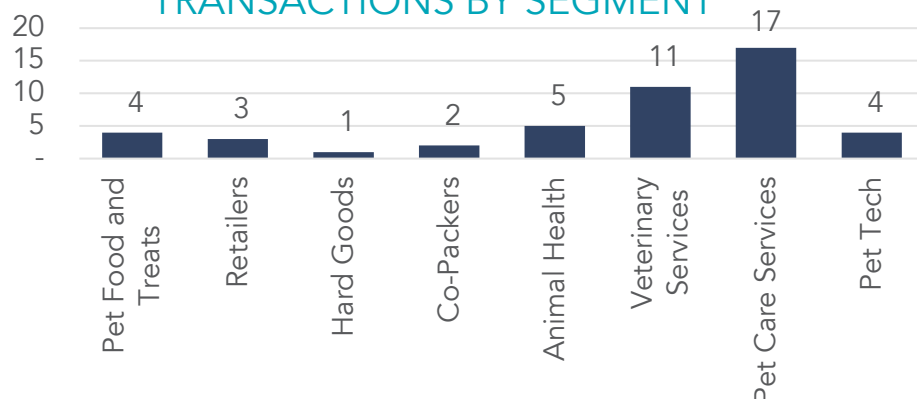


To be sure, the trend of pet humanization isn't limited to vet visits and their cost. Pet owners continue to spend on a variety of premium pet pampering services and items, which is what makes the sector so fascinating, and perhaps enticing, for investors. This year we've seen online consumer pet product peddler Chewy chase its old owner PetSmart into the pet medicine field with brick-and-mortar care centers. Pet products, from organic foods to luxury collars and bedding to wearable pet health tech continue to capture consumer attention. How high can it all go? Maybe the sky truly is the limit as pet "care package" subscription company Bark Box recently launched "Bark Air" pet charter flights, so Mr. Bigguns doesn't have to fly in the belly of an airplane.^{32,33,34}

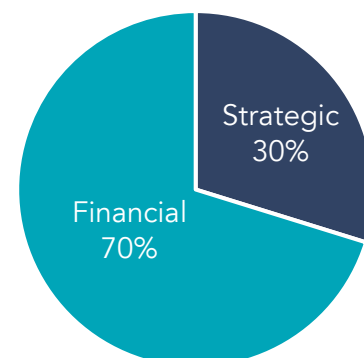
As pet owners continue to spend, we believe investors will continue to chase those dollars like ... SQUIRREL!



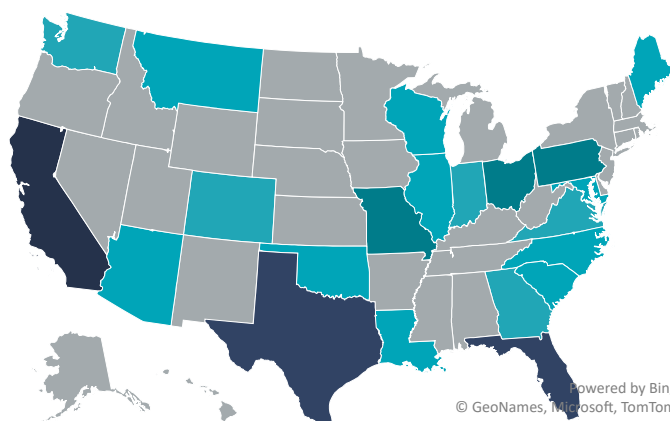
TRANSACTIONS BY SEGMENT



TRANSACTIONS BY TYPE



TRANSACTIONS BY LOCATION



TRANSACTION ACTIVITY

| Date | Target | Buyer(s) | Segment | Amount (\$ in Mil) | TEV/ Rev | TEV/ EBITDA |
|-----------|---------------------|-----------------------------------|---------------|--------------------|----------|-------------|
| 5/28/2024 | Connoils | CoreFX Ingredient | Animal Health | - | - | - |
| 5/9/2024 | Plush Paws Products | Undisclosed | Hard Goods | - | - | - |
| 5/1/2024 | Ultra Pet Company | Oil Dri Corporation Of America | Animal Health | 46.00 | - | - |
| 4/12/2024 | AmeriPac | Clayton, Dubilier & Rice, Veritiv | Co-Packers | - | - | - |
| 2/27/2024 | Rover Group | Blackstone , True Wind | Pet Tech | 2,146.04 | 9.9x | - |
| 1/31/2024 | WholesalePet.com | Tiny Capital | Retailers | 9.25 | - | - |

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 |
|---|--|
|  |  |
|  |  |
|  |  |

SELECT SPONSORS WITH ACTIVE PORTFOLIO HOLDINGS

| FIRM | PLATFORM COMPANY | SELECT SUBSIDIARY BRANDS |
|--|---|--|
|  |  |         |
|  |  |      |
|  |  |      |

Source: PitchBook Financial Data and Analytics

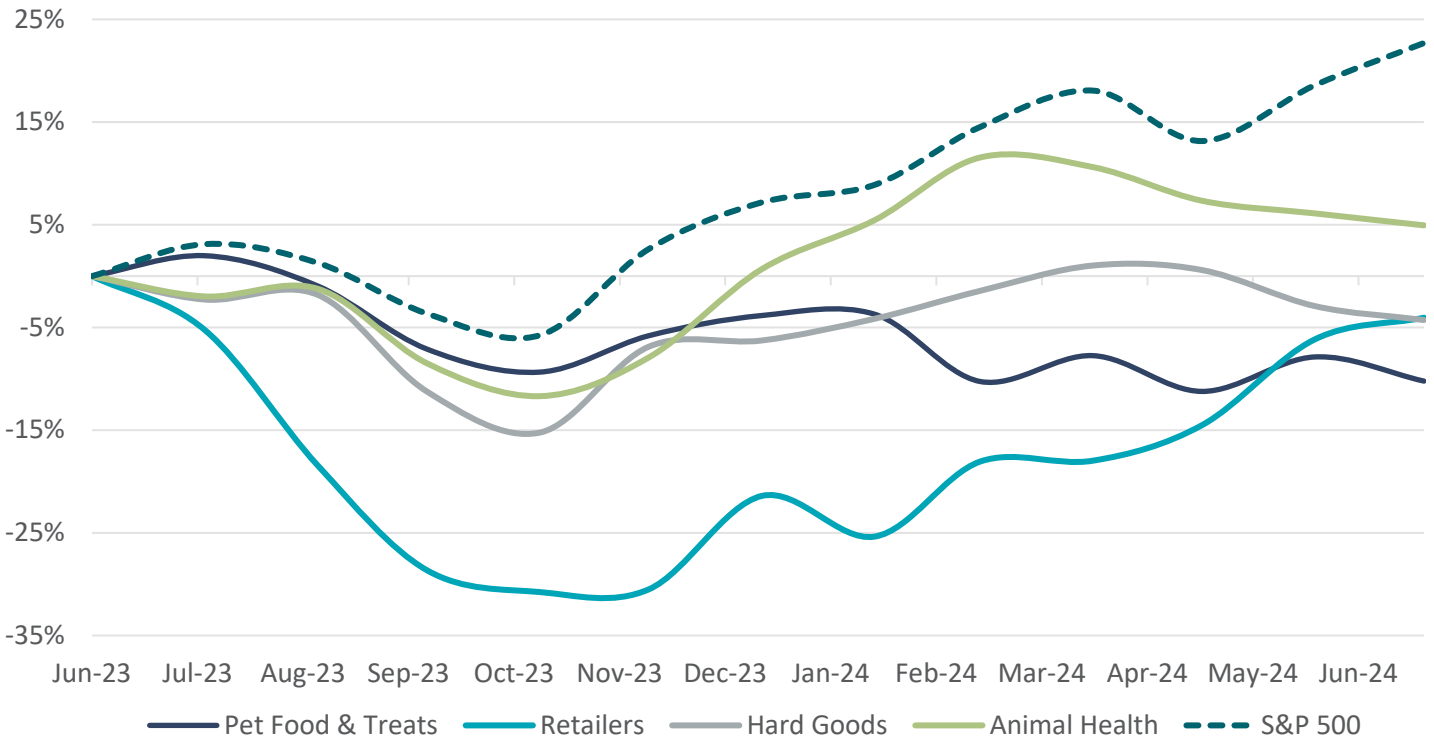
Note: This data represents recorded transactions only and is not all-inclusive. Nevertheless, they are typically representative of the industry.



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 | \$ 267,352 | \$102.04 | (3.5%) | (11.7%) | 81.1% | 4.3% | 18.8% | 3.1x | 16.8x | 21.7x | 3.0x | 14.2x |
| Colgate-Palmolive | CL | 79,616 | 97.04 | 7.8% | 21.7% | 97.9% | 3.8% | 23.4% | 4.4x | 19.0x | 30.7x | 4.3x | 17.1x |
| General Mills (Food Products) | GIS | 35,308 | 63.26 | (9.6%) | (2.9%) | 81.5% | 0.1% | 20.4% | 2.4x | 11.9x | 14.7x | 2.4x | 11.8x |
| The J.M. Smucker Co | SJM | 11,606 | 109.04 | (13.4%) | (13.7%) | 70.8% | 9.8% | 20.7% | 2.5x | 11.9x | 15.3x | 2.2x | 9.6x |
| Freshpet | FRPT | 6,266 | 129.39 | 11.7% | 49.1% | 97.4% | NM | 8.4% | 7.8x | NM | NM | 6.0x | 44.5x |
| Central Garden & Pet | CENT | 2,296 | 38.50 | (10.1%) | (4.0%) | 81.1% | 1.1% | 9.8% | 1.0x | 10.4x | 17.4x | 1.0x | 9.5x |
| Segment Average | | | | (2.9%) | 6.4% | 85.0% | 3.8% | 16.9% | 3.6x | 14.0x | 19.9x | 3.2x | 17.8x |
| Segment Median | | | | (6.5%) | (3.4%) | 81.3% | 3.8% | 19.6% | 2.8x | 11.9x | 17.4x | 2.7x | 13.0x |

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 | \$ 29,109 | \$270.00 | 3.2% | 25.6% | 93.0% | 4.7% | 13.0% | 2.3x | 17.9x | 26.3x | 2.2x | 17.0x |
| Chewy | CHWY | 11,874 | 27.24 | 71.2% | 15.3% | 68.5% | 5.8% | 1.3% | 1.0x | NM | NM | 0.9x | 21.9x |
| Petco Health & Wellness Company | WOOF | 1,032 | 3.78 | 65.8% | 19.6% | 38.8% | -0.5% | -16.5% | 0.6x | NM | NM | 0.6x | 11.4x |
| Petz | PETZ3 | 297 | 0.66 | NM | (19.4%) | 43.2% | NM | 14.3% | 0.8x | 5.5x | NM | NM | NM |
| Segment Average | | | | 46.7% | 10.3% | 60.9% | 3.3% | 3.0% | 1.2x | 11.7x | 26.3x | 1.3x | 16.8x |
| Segment Median | | | | 65.8% | 17.4% | 55.8% | 4.7% | 7.1% | 0.9x | 11.7x | 26.3x | 0.9x | 17.0x |

Source: PitchBook Financial Data and Analytics



PUBLIC BASKET (CONTINUED)

HARD GOODS

| Company Name | Symbol | Market Cap (\$ in Mil) | Market Stats | | | | | Operating Stats | | LTM Multiples | | | NTM Multiples | |
|--------------------------------|--------|---------------------------|--------------|------------|------------|-------------------|---------------------|-----------------|----------|---------------|------------|------------------|-----------------|-------|
| | | | 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 | \$ | 25,352 | \$103.68 | (0.6%) | 9.6% | 94.0% | 5.2% | 22.2% | 4.6x | 20.6x | 32.9x | 4.4x | 18.6x |
| The Clorox Company | CLX | | 16,948 | 136.47 | (10.9%) | (4.3%) | 80.7% | -2.4% | 9.3% | 2.8x | 29.6x | NM | 2.8x | 14.2x |
| Spectrum Brands | SPB | | 2,505 | 85.93 | (3.5%) | 7.7% | 88.8% | 2.8% | 3.2% | 1.0x | 29.4x | NM | 0.9x | 7.9x |
| Central Garden & Pet | CENT | | 2,296 | 38.50 | (10.1%) | (4.0%) | 81.1% | 1.1% | 9.8% | 1.0x | 10.4x | 17.4x | 1.0x | 9.5x |
| Oil Dri Corporation Of America | ODC | | 467 | 64.09 | (14.0%) | (4.5%) | 73.4% | NM | 16.0% | 1.1x | 6.9x | 11.0x | NM | NM |
| Dogness | DOGZ | | 220 | 17.28 | NM | NM | 84.5% | NM | -29.3% | NM | NM | NM | NM | NM |
| Segment Average | | | | | (7.8%) | 0.9% | 83.7% | 1.7% | 5.2% | 2.1x | 19.4x | 20.4x | 2.3x | 12.5x |
| Segment Median | | | | | (10.1%) | (4.0%) | 82.8% | 1.9% | 9.5% | 1.1x | 20.6x | 17.4x | 1.9x | 11.8x |

ANIMAL HEALTH

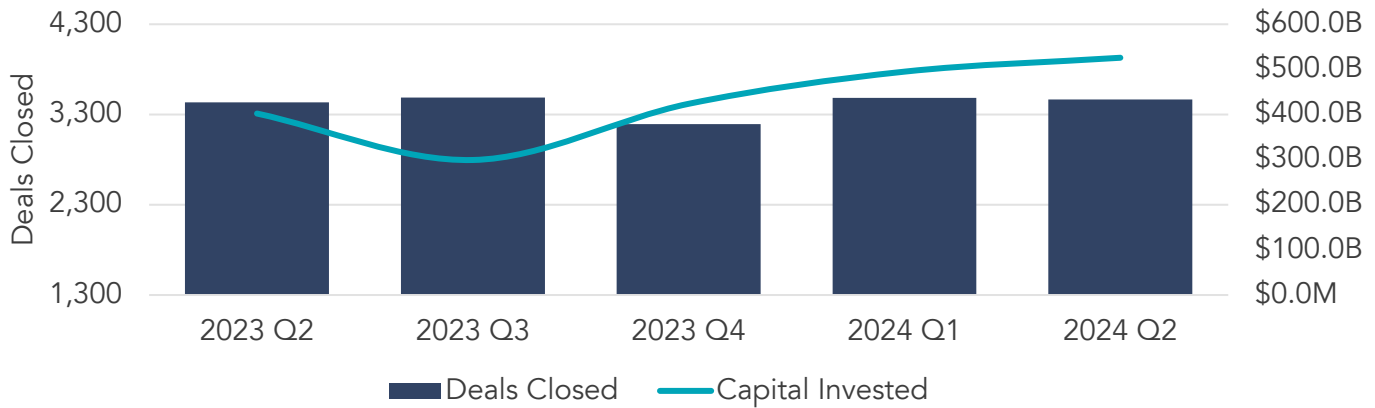
| Company Name | Symbol | Market Cap (\$ in Mil) | Market Stats | | | | Operating Stats | | LTM Multiples | | | NTM Multiples | | | |
|--------------------------|--------|------------------------|--------------|------------|------------|-------------------|---------------------|---------------|---------------|-------------|------------|------------------|-----------------|-------|-------|
| | | | 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 | \$ | 313,561 | \$123.80 | (6.2%) | 13.6% | 92.0% | 8.4% | 14.1% | 5.6x | 39.5x | NM | 5.1x | NM | |
| Zoetis | ZTS | | 79,103 | 173.36 | 2.5% | (12.2%) | 85.9% | 7.5% | 41.4% | 9.6x | 23.2x | 33.4x | 8.9x | NM | |
| Idexx Laboratories | IDXX | | 40,237 | 487.20 | (9.8%) | (12.2%) | 83.5% | 10.6% | 33.1% | 11.0x | 33.2x | 47.2x | 9.9x | 28.2x | |
| Elanco Animal Health | ELAN | | 7,131 | 14.43 | (11.4%) | (3.2%) | 76.8% | 5.1% | (7.4%) | 2.9x | NM | NM | 2.7x | 12.4x | |
| Neogen Corporation | NEOG | | 3,386 | 15.63 | (1.0%) | (22.3%) | 64.9% | 0.9% | 19.9% | 4.4x | 22.5x | NM | 4.4x | 18.5x | |
| Virbac | VIRP | | 2,928 | 349.62 | (6.5%) | (12.1%) | 86.3% | 16.6% | 17.8% | 2.1x | 12.0x | 22.5x | 1.8x | 9.4x | |
| Trupanion | TRUP | | 1,235 | 29.40 | 6.5% | (3.6%) | 80.2% | 12.7% | (0.1%) | 0.9x | NM | NM | 0.8x | NM | |
| Vetquinol | VETO | | 1,187 | 100.34 | (6.7%) | (11.5%) | 84.0% | 7.3% | 20.6% | 1.8x | 8.8x | 19.7x | 1.7x | 8.6x | |
| Swedencare | SECARE | | 881 | 5.55 | (7.6%) | (9.1%) | 82.6% | 14.4% | 21.0% | 4.5x | 21.2x | NM | 3.9x | 15.3x | |
| Phibro Animal Health | PAHC | | 679 | 16.77 | 29.7% | 44.8% | 89.7% | 5.0% | 7.9% | 1.1x | 14.0x | 50.8x | 1.1x | 10.3x | |
| PetIQ | PETQ | | 651 | 22.06 | 20.7% | 11.7% | 96.0% | 7.1% | 7.8% | 1.0x | 12.6x | 100.3x | 0.9x | 9.0x | |
| Zomedica Pharmaceuticals | ZOM | | 143 | 0.15 | 0.2% | (27.0%) | 59.7% | 41.1% | NM | 2.4x | NM | NM | 1.7x | NM | |
| Segment Average | | | | | | 0.9% | (3.6%) | 81.8% | 11.4% | 16.0% | 3.9x | 20.8x | 45.7x | 3.6x | 14.0x |
| Segment Median | | | | | | (3.6%) | (10.3%) | 83.8% | 8.0% | 17.8% | 2.6x | 21.2x | 40.3x | 2.3x | 11.4x |

Source: PitchBook Financial Data and Analytics



U.S. M&A ACTIVITY SNAPSHOT

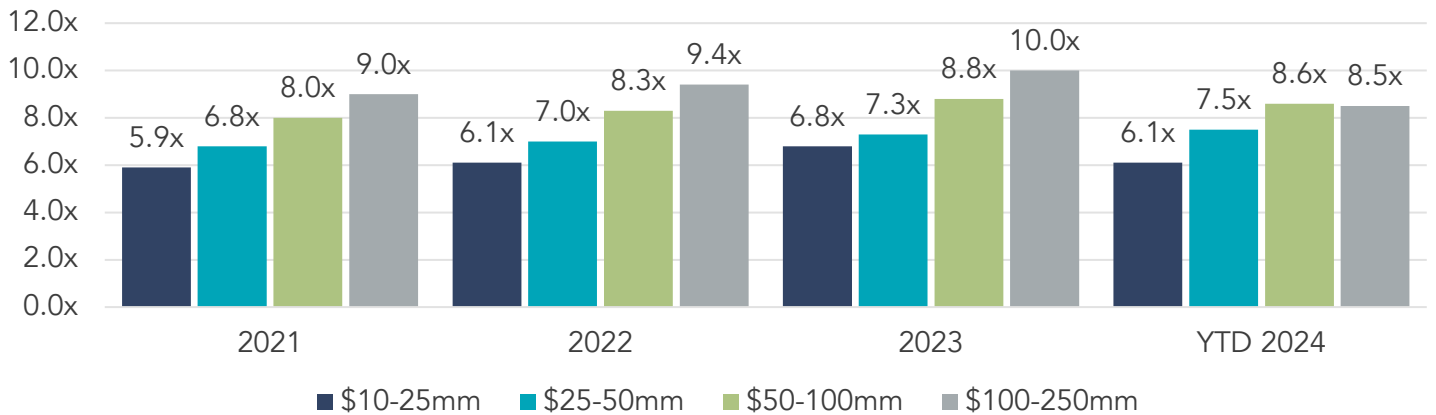
OVERALL U.S. M&A ACTIVITY



Source: PitchBook Financial Data and Analytics

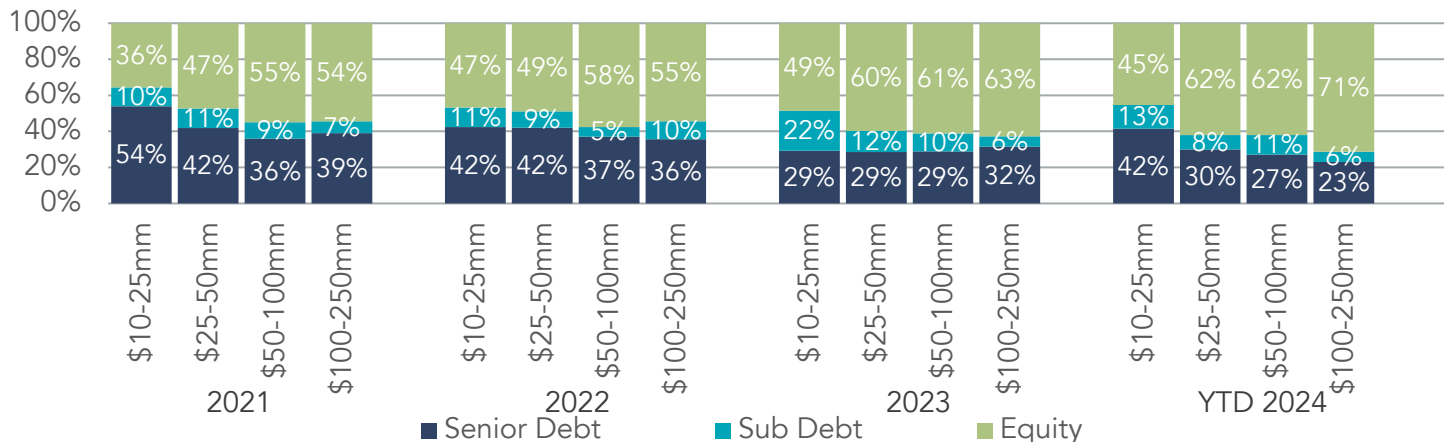
LOWER MIDDLE MARKET PRIVATE EQUITY TRANSACTION MULTIPLES

EBITDA Multiples By Transaction Size



Source: GF Data®

CAPITAL BREAKDOWN - LOWER MIDDLE MARKET PRIVATE EQUITY TRANSACTIONS



Note: The most current source of GF Data is as of May 2024.

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

CONTACT US



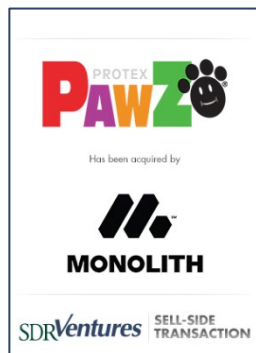
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SELECT TRANSACTION EXPERIENCE

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



SDR SERVICE OFFERINGS



SELL-SIDE ADVISORY



PRIVATE CAPITAL FORMATION



BUY-SIDE ADVISORY



EXIT PREPARATION



ADDITIONAL REFERENCES

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