



THE DEAL HOUND

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QUARTERLY PET INDUSTRY REPORT

Vol. 4 | Issue 4 | Q4 2013

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PET INDUSTRY DEAL ACTIVITY – Q4 2013

M&A activity for the Pet industry has remained steady in Q4 2013, with 7 transactions announced. Once again strategic acquisitions continue to dominate deal activity. This follows the pattern of the overall market, which saw more strategic transactions (56%) in 2013. However, in 2014, Private Equity investments are predicted to increase, but so is demand for Private Equity financing.

Pet Deal Activity Highlights

STRATEGIC ACQUISITIONS

| | |
|-------------------|--|
| October 4, 2013 | Animal Supply Company , a wholesale distributor of pet supplies, acquired Elf Corporation , a wholesale distributor of pet food and supplies to independent pet retailers |
| October 27, 2013 | Oil-Dri Corporation of America , a leading manufacturer of cat litter, has acquired the assets of MFM Industries , a competitor manufacture of cat litter. |
| November 6, 2013 | PetAg , a pet healthcare product company, has been acquired by PBI-Gordon Corporation Consumer Animal Products business unit through an acquisition of all shares of the company's stock. |
| November 19, 2013 | Cherrybrook Premium Pet Supplies , a supplier of show dog and pet products, acquired Bird Dawg Embroidery , a comprehensive supplier of canine breed-specific embroidered apparel and accessories. |
| November 21, 2013 | Prince Corporation has acquired Siemer Enterprises , a midwest wholesale manufacturing distributor of lawn and garden, seed, greenhouse grower and pet products. |
| December 28, 2013 | Nestlé Purina PetCare Company , a subsidiary of Nestlé Holdings, Inc., acquired Zuke's , a manufacturer of all natural dog & cat treats. |

FINANCIAL DEALS

| | |
|------------------|---|
| October 10, 2014 | Dog Vacay an online marketplace that matches dog owners with pet caregivers received \$15 million in growth capital from Foundation Capital . |
|------------------|---|

Q4 2013 Pet M&A Activities

7 Total Transactions

6 Acquisition Deals

1 Financial Announcements

Sniffing Out a Deal – Animal Supply Co.

October 4, 2013

Undisclosed



Has acquired



Acquisition Type:

Strategic

Top 5 Value Drivers:

*Increasing Pet Portfolio
Successful Brands
Robust Growth Opportunities
Supply Chain Innovation
Strong Distribution Relationships*

Animal Supply Company is one of the nation's leading pet food and supply distributors, earlier this year it completed three acquisitions including the purchase of Summit Pet Product Distributors.

Summit, headquartered in Greensboro, North Carolina is a major player in the pet product distribution market. It distributes pet food and pet products throughout North and South Carolina, Virginia, West Virginia, Georgia, Alabama, Tennessee, Delaware, Maryland, the District of Columbia, New Jersey, Ohio and Pennsylvania.

That is why the purchase of Florida-based Elf Pet Products was a strategic fit for the Summit branch of Animal Supply. Elf has built a premier distribution platform for independent pet retailers in Florida, Georgia and the Caribbean/Latin American markets. This acquisition will allow for ASC/Summit to be the largest distributor in the Southeast market.



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M&A VALUE DRIVERS

An article by SDR's Ben Rudman

What Drives the Value of Your Business? (Part 1 of 3)

The pet industry is one of the most active corners of consumer products, an already active industry, for mergers and acquisitions. When pet industry owners see companies like FURminator trade for a rumored 3.0x to 3.5x revenue, they ask themselves whether their business could be valued in a similar fashion.

This is a question any business owner should ask, especially in an industry where premiums are flying around so frequently. Generally, however, people oversimplify valuation metrics and apply them across the board to companies that happen to be in the same industry. An industry can be a driver of valuation, but there is usually much more. True drivers behind premium pet industry valuations in a company include intellectual property or defensible niche position, revenue composition, and margins and scalability. In this installment, we will focus on intellectual property and defensible niche position.

A brand, a patent, a process, or all of the above support the company's ability to maintain and attract market share. The diagram below shows the market's view on providers of goods and services. Keep in mind that there is overlap among these quadrants from time to time, but this serves as a good visualization.

Your solution either addresses customers that already exist or it creates a new customer base; similarly, you either make existing products/services, or you create new ones to service that customer base.

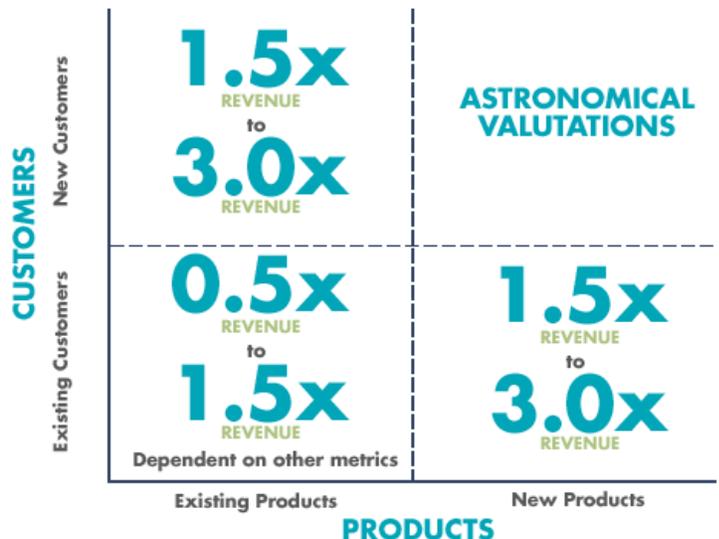
The lower left-hand quadrant is usually dominated by large players with plenty of capital and staying power to support marketing expense, competitive margin pressures, and organizational efficiencies that come with scale.

The upper left-hand quadrant is rare in the pet industry. For the most part, the existing customer base is the constituency of owners of a specific type of pet that your product addresses. A player in this space is taking existing solutions and attracting customers that would not otherwise be users of the solution. An example might be DogVacay. DogVacay innovatively attracts both dog owners who would otherwise kennel their dogs, and also dog owners that would not otherwise kennel their dogs. Thus, the dog kenneling

category does not have access to a significant part of DogVacay's customer base. This is an incredibly defensible position.

The lower right-hand quadrant is where many innovators land in the pet space. Sticking with the FURminator example, FURminator created a product that was simply "the better mousetrap" in the view of some consumers (enough to sell a rumored estimated \$45,000,000 worth prior to the sale to United Pet Group). Pet grooming and de-shedding tools existed before FURminator, but those existing customers bought FURminator products, perhaps to replace some of the vintage players in the industry.

The upper right-hand quadrant is the unicorn. Very few companies come around in any industry that provides such an earth-shattering solution that it creates a new market altogether. Facebook did this in tech, Apple did it with the iPad, and Thomas Edison did it with the light bulb. Realistically, though, if you think outside the box, your business may only be a few degrees off from achieving this. If I had any specific ideas, I would not be writing this article, but you know your industry and your products, so think about how you can attract new customers to the industry with innovative products, and remember to invite me on your European Yacht Tour in 5 years.





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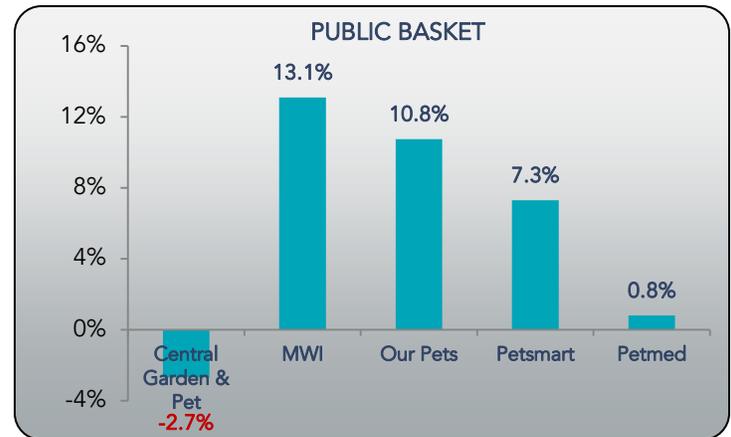
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M&A MARKET OVERVIEW

Public Market Basket Growth

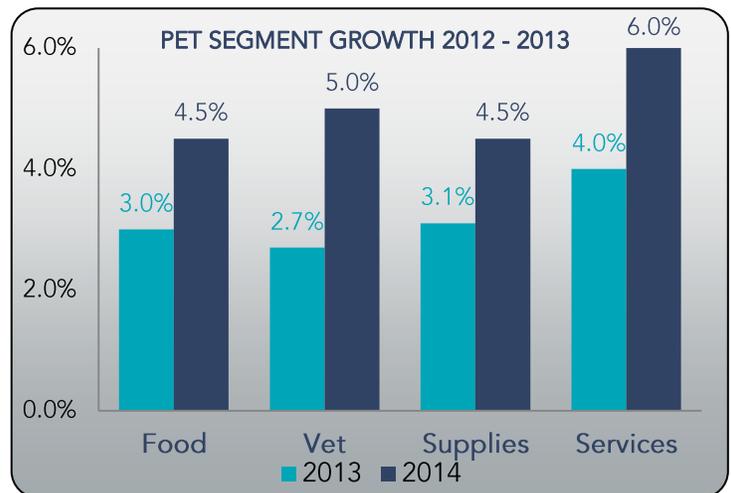
The pet industry once again had growth in 2013. The public company basket that SDR Ventures tracks shows that on average public pet companies have grown 5.85% in top-line sales year over year. The stand out of the group is MWI Veterinary Supply who has grown over 13% in top-line sales year over year. While Central Garden & Pet, a producer of consumer and professional lawn & garden products and pet supplies, had a decrease in sales of 2.7% year over year, the decline was a result of their garden division. Their pet division earned \$100 million in 2013.



Pet Industry Outlook 2014

According to Packaged Facts Inc., a premier market research firm, pet consumer spending will reach a value of around \$62 billion by the end of 2013, rising 4.7% over the 2012 value. Although the industry did expand, growth had slowed significantly from earlier years. Total U.S. pet retail sales in 2012 grew at 5.9% compared 2011.

Going forward, growth in the pet industry is projected to be 4% annually through 2017 reaching \$75.09 billion. Pet ownership is the key to increased growth in the industry. Supplies for pets had the largest increase in 2013 at 4.8% growth, but the real segment to watch is specialty pet services, which have been the fastest growing segment in the industry, according to forecasts from IBISWorld report. This segment will continue to grow as more pet owners consider animals to be valued members of their families.



Private Equity Outlook

The Capital Markets Report 2014 by Pepperdine University surveyed 64 private equity participants and showed that in the next 12 months private equity is expecting further increases in demand for private equity, deal multiples, value of portfolio companies and improving business conditions. 88% of respondents are planning to make one or more investments in 2014, and 12% of which will be in the consumer goods and services (pet) industry and another 28% in manufacturing. Average EBITDA multiples for 2014 are expected at 7.1x in consumer goods & services industry.



Sources: IBISWorld Industry Report, Pet Stores in the U.S., U.S. Pet Market Outlook, 2013-2014,

SDR VENTURES: THE INVESTMENT BANK TO THE PET INDUSTRY

Carol Frank (cfrank@sdrventures.com), Managing Director



Prior to joining SDR Ventures in 2009, Carol developed three multi-million dollar pet companies in retail, manufacturing, and distribution. She successfully built and sold all three companies, and possesses the rare combination of investment banking expertise and transactional experience in the pet industry.

Carol began her career as a CPA with Ernst & Young and also spent three years as an executive recruiter for Robert Half International. She has a BBA in accounting from The University of Texas at Austin and an MBA from Southern Methodist University. Carol is a former board member of PIDA, PIJAC and The Pet Care Trust. As a registered investment banker, she also holds Series 79 and 63 licenses.

SDR Core Services
Transaction Advisory

Pet Industry Sell-Side

As former owners and operators, our principals have experienced the M&A world from the trenches. As investment bankers, our principals have gained the experience necessary to maximize value and facilitate a successful transaction. We know how to run an efficient and effective process, how to avoid pitfalls, how to maximize shareholder value, and how to minimize operational distractions.

Pet Industry Buy-Side

Whether growing your company organically with a well-planned acquisition strategy or initiating an executive search to find the right company to buy and operate, our buy-side search process has proven extremely effective at generating responses, identifying "off-the-radar" opportunities, negotiating favorable deal terms and closing deals in a timely manner.

Capital Formation

Placement Agent

In the event that our debt solutions are not a fit for your strategic goals, SDR will act as a finder for debt and equity capital. Our goal is to identify the right capital and the right capital provider based on your needs.

“SDR can be your outsourced Mergers & Acquisitions team.”

Strategic Advisory

Unlike traditional investment banks, SDR views each client as a relationship rather than a transaction. Our passion is helping business owners maximize value in their business. While this often takes the form of advising on acquisitions, sales, and recapitalizations, we realize that not every business is ready for such a transaction.

Our advisory services are designed to add value. Advisory engagements include (but are not limited to):

- Company Valuation
- Capital Strategy
- Exit Planning
- Shareholder Strategy

RECENT TRANSACTIONS

| | | | | |
|--|--|---|--|--|
| <p>September 2013 Transaction Advisory Buy Side</p> <p>PET FOODS PET FOODS, INC. Has acquired the assets of Zeus 201 Company Pet Food Company, Inc. The undersigned served as exclusive advisor to Condit Capital, LLC</p> <p>SDR Ventures</p> | <p>September 2013 Capital Formation Debt Financing provided to</p> <p>condit CONSTITUTIONAL CAPITAL, LLC</p> <p>The undersigned served as exclusive advisor to Condit Capital, LLC</p> <p>SDR Ventures</p> | <p>September 2013 Capital Formation Debt Financing provided by</p> <p>HALKER Halker Consulting, LLC</p> <p>Colorado Business Bank Colorado Business Bank Colorado Business Bank</p> <p>The undersigned served as exclusive advisor to Halker Consulting, LLC</p> <p>SDR Ventures</p> | <p>May 2013 Transaction Advisory Buy Side</p> <p>SECURE PLACE SECURE PLACE, LLC SECURE PLACE, LLC SECURE PLACE, LLC</p> <p>Has been acquired by Private Investors</p> <p>The undersigned served as exclusive advisor to private investors</p> <p>SDR Ventures</p> | <p>November 2012 Transaction Advisory Buy Side</p> <p>Western Paper Distributors Western Paper Distributors, Inc.</p> <p>Has Acquired High Quality Paper Distributors High Quality Paper Distributors, Inc.</p> <p>The undersigned served as exclusive advisor to Western Paper Distributors</p> <p>SDR Ventures</p> |
| <p>August 2012 Capital Formation Principal</p> <p>Debt Financing provided to</p> <p>Joyce Homes, Inc.</p> <p>Financing Provided by SDR Ventures</p> | <p>June 2012 Transaction Advisory Sell Side</p> <p>All used Fulfillment</p> <p>Has been acquired by newISTICS newISTICS, LLC newISTICS, LLC</p> <p>The undersigned served as exclusive advisor to newISTICS, LLC</p> <p>SDR Ventures</p> | <p>May 2012 Transaction Advisory Buy Side</p> <p>Mountain Tech Mountain Tech, LLC</p> <p>Has been acquired by Cohio Ventures LLC</p> <p>The undersigned served as exclusive advisor to Cohio Ventures, LLC</p> <p>SDR Ventures</p> | <p>February 2012</p> <p>Stitch Fix Stitch Fix, Inc.</p> <p>Has been acquired in a stock sale by Private Investors</p> <p>The undersigned served as exclusive advisor to the Private Investors, Inc.</p> <p>The undersigned served as exclusive advisor to the Private Investors, Inc.</p> <p>SDR Ventures</p> | <p>The undersigned acted as a member of a search committee</p> <p>September 2012</p> <p>CSF CSF, Inc.</p> <p>Has been acquired by Private Investors</p> <p>The undersigned served as exclusive advisor to the Private Investors, Inc.</p> <p>The undersigned served as exclusive advisor to the Private Investors, Inc.</p> <p>SDR Ventures</p> |