

Pet Industry Deal Activity – Q4 2010

The Pet Industry finished 2010 with a flurry of M&A activity involving financial and strategic industry insiders looking to grow through acquisition. The quarter-over-quarter increase in deal activity was driven primarily by strategic acquisitions in which acquirers bid on pet product companies that would expand existing product lines. Unique product and service offerings (i.e. Xena Care's acquisition of EstraPet) continued to dominate strategic activity and multiples paid.

As we saw in Q3 2010, high-performing companies were able to command price premiums while weak-performing companies needed unique deal aspects to consummate financial and capital transactions.

Pet Deal Activity Highlights

Strategic Acquisitions

Spectrum Brands Holdings Inc. acquired **Seed Resources LLC** for approximately \$12.5 million in a deal designed to support the company's entry into the wild bird market. Spectrum has openly stated that the company plans to continue to increase their presence in the pet supplies business with acquisitions and organic growth.

The Garmon Corp., manufacture of NaturVet pet supplements, acquired Overbay Farm for an undisclosed amount. Overbay provides a complimentary line of specialty joint supplements and treats that is natural fit with Garmon Corp.'s existing products.

Marshall Pet Products acquired **Earth's Balance** for an undisclosed amount. The deal will bring lawn care products to Marshall's existing pet products.

Phillips Feed and Pet Supply bought **Super-Dog Pet Food** for an undisclosed amount. The deal is expected to support the company's increased sales support and improve product offerings.

Xena Care Holdings Inc., a manufacturer of consumer healthcare products, acquired **EstraPet** in a unique attempt to enter the pet market through hormone related products.

Financial Deals

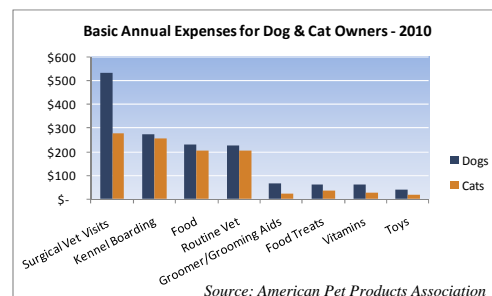
Chenango Valley Pet Foods, a leading manufacturer of holistic and organic pet food, obtained a \$3 million investment from **BHC Interim Funding**. The proceeds will be used to support sales growth and improve procurement processes.

Del Monte Foods, manufacturer of Meow Mix and Milk Bone, was acquired by **KKR & Co.** for \$5.3 billion. Despite having a long history in canned fruits, nearly half of Del Monte's 2010 revenues were from its pet lines.

Seller	Buyer	Description	Deal Date	Deal Type
Seed Resources LLC	Spectrum Brands	Wild bird seed cake producer	8-Dec-10	Leveraged Buyout
Del Monte Foods	KKR & Co.	Meow Mix and Kibbles n' Bits brands	19-Nov-10	Leveraged Buyout
Overby Farm	Garmon Corp.	Manufacturer of pet treats and supplements for joint health	9-Nov-10	Leveraged Buyout
Chenango Valley Pet Foods	BHC Interim Funding	Contract manufacturer of holistic and organic pet foods	4-Nov-10	Growth Capital
Earth's Balance	Marshall Pet Products	Manufacturer of lawn care and avian products	4-Nov-10	Asset Acquisition
Super-Dog	Phillips Feed	Distributor of pet supplies on East Coast	7-Oct-10	Leveraged Buyout
EstraPet	XenaCare	Producer of treats for dogs with age related health issues	6-Oct-10	Leveraged Buyout

Pet Transaction Takeaways

- The market was active in the 4th Quarter of 2010.
- Large deals and quality companies are going to market.
- Companies are looking to expand their pet product offerings.
- Financial investors and buyers are completing deals in the pet industry due to its resilience throughout the economic recession.
- Companies offering unique products particularly in the natural and organic sectors continue to attract attention from potential buyers.



Spotlight

Pet Executive of the Quarter: Dr. Steve Tsengas, Founder and CEO of OurPet's

An Interview with SDR's Carol Frank

CAROL: What is the largest change the industry has undergone since you began?

STEVE: I entered the industry in 1995 and didn't see anything very high tech. At the first APPMA show I attended there were primarily leashes, dog chews, water feeders, and cages. Of course now the industry has become much more high tech. Luckily for pets and owners, the industry is heavily innovation driven.



Dr. Steve Tsengas (Dr. Steve), founder and CEO of OurPet's, has had a keen interest in a holistic, integrated approach to health for over 35 years.

His interest in holistic health, combined with his love of pets, led him to develop pet accessories and consumable products aimed at improving the health, safety, comfort and enjoyment of pets. His unique and innovative pet products have been issued dozens of patents.

CAROL: Where will the pet sector be in the years to come?

STEVE: The pet industry has a very healthy growth rate of about 6% a year. The accessory sector is growing around 10% a year, but OurPet's wants to grow at 2 to 3 times that rate. However, it will be a tough road to navigate for growth. I think the number one problem will be foreclosures because people that rent are less apt to have pets. The economic situation will definitely have an impact.

Currently the most active pet owners are from ages 35 to 55. I believe the trend will be towards smaller breed dogs because they are lower maintenance. Furthermore, I think there will be a strong demand from the elderly looking for companionship and social interaction. Elderly people tend to buy more cats than dogs, so I think cats will continue to gain popularity. One concern that I have is that as baby boomers retire, they will have the attitude of, "the kids are gone, now I'm free... maybe they don't want to be tied down by Fluffy or Fido."

CAROL: What advice would you give to the owner of a small or mid-sized pet company in terms of maximizing the value of their business?

STEVE: Differentiate and establish a significant market advantage. Don't be a "me too" kind of company because life is too short for that. Ask yourself, "How can I be different in terms of a product offering?" Develop a team approach for innovating and creating new products.

Be in a growth mode in terms of revenue and profitability. Make sure you have accurate numbers and your accounting and financial records are in good shape. If you're planning to sell our business, have a good and honest reason as to why you're selling.

CAROL: What are some of the biggest lessons you have learned since starting the business?

STEVE: You'd better have good attorney if you want to do business in the U.S. pet industry. We just got through a long patent infringement battle with a competitor. Fortunately the outcome was positive, but it was very, very expensive.

"Ask yourself, 'How can I be different in terms of a product offering?'"

Sniffing Out a Deal – An Insider's Look

SDR's Deal Hound tracks the **KKR & Co.** acquisition of **Del Monte Foods Company**

November 19, 2010
\$5,300,000,000



Acquires



Acquisition Type:
Financial

Purchase Price:
\$5,300,000,000

Structure:
\$4,000,000,000 Cash
\$1,300,000,000 Debt

Publicly traded Del Monte Foods was purchased by private equity group KKR in a deal worth approximately \$5.3 billion. Del Monte is most widely recognized for its canned vegetables and fruits, but the company boasts a large pet product division. In fact, almost 50% of the company's revenue comes from their pet sector which includes the well-known brands Meow Mix and Milk-Bone.

Although the transaction allows Del Monte to solicit alternative proposals from third parties through January 8, 2011, no additional bids to buy the Company had been submitted at the time of press. With this acquisition and the Q1 2010 acquisition of Pets at Home Ltd., KKR has sent a clear message that they like the macro trends of the pet industry.

M&A Market Overview

Deal Activity

Chenango Valley was one of many pet industry companies involved in capital raises in Q4 2010. As the disparity in capital demands and traditional lending supply continues, SDR expects to see additional capital formation momentum from growing pet companies and struggling pet companies alike.

In September 2010, Pepperdine University conducted a survey of 388 privately held businesses and found that 66% of all respondents were in need of additional outside capital. Of the 256 businesses who indicated they will be raising capital in 2011, 75% indicated they will be raising capital at levels of \$5 million or less.

Capital Sources

Respondents to the same Pepperdine University study indicated that friends and family were the most popular source of capital in 2010. This is commensurate with investments under \$500,000 being the most common expected amount raised, as amounts up to \$1 million are much more easily secured from friends and family investor than institutions. Private investors, for the same reason as friends and family, were the second most popular capital source in 2010.

Deal Multiples

Deal multiples have been fairly stable since 2009 with the exception of companies ranging from \$50 – \$100MM in EBITDA. Recent activity suggest that buyers are willing to pay approximately 5.0x – 6.5x EBITDA in the majority of transactions.

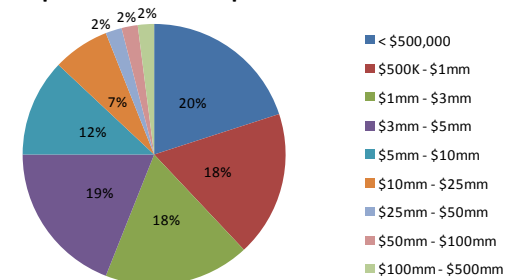
In the next year multiples can be expected to rise for quality companies, especially those with high growth potential. Coming out of the recent recession investment is heavily focused on companies with above average performance. The current climate is ideal for the pet industry given its strong performance over the past year and heightened interest from both a financial buyer perspective and a strategic buyer perspective.

Buyers

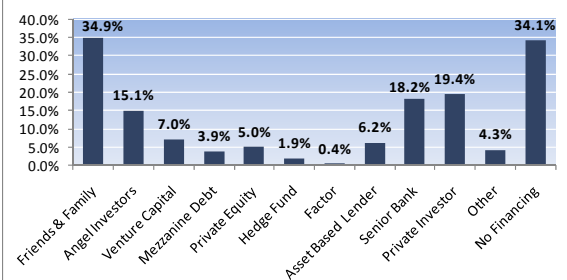
The Pepperdine study also indicated that of the 245 investment banks surveyed, 75% of the businesses sold by investment bankers to strategic buyers received a premium. The largest group witnessed average premiums of 10-20%, but it is not uncommon for premiums to be as high as 50%.

In SDR's experience, pet businesses that have a unique product offering and are organized and well-run receive the largest premiums. This highlights the importance of building one's business such that it is always ready to be sold, even when a sale is not planned. In an attractive and growing industry like the pet industry, it pays to be organized and prepared from a financial reporting perspective.

Expected Level of Capital to Raise in 2011

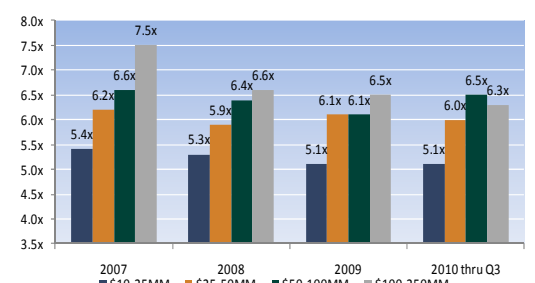


Investment or Financing Source in 2010

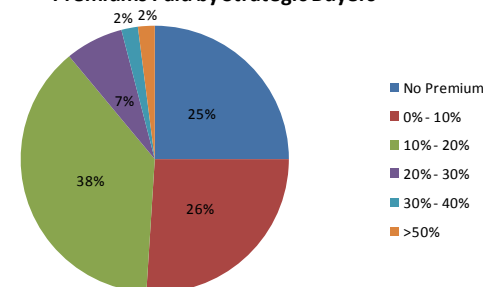


Source: Pepperdine University

EBITDA Multiples



Premiums Paid by Strategic Buyers



Sources: GF Data Resources
Pepperdine University

SDR Ventures: The Investment Bank to the Pet Industry



Carol Frank (cfrank@sdrventures.com)

Carol has 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 also a former board member of PIDA, PIJAC and The Pet Care Trust.

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.

Capital Formation

Principal

In 2008 we established a dedicated fund, committed to providing liquidity to privately held companies. To-date we have funded 26 subordinated debt deals and invested a total of over \$32.5 million.

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

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.

“SDR can be your outsourced Business Development team.”

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.

Recent Transactions

December 2010 Merrill Lynch EVOLVE SDR Ventures	November 2010 EVOLVE SDR Ventures	November 2010 Digital Petcare Alliance SDR Ventures	April 2010 Chocoverse SDR Ventures	September 2009 Enterprise Valuation SDR Ventures	April 2009 Enterprise Valuation SDR Ventures	April 2009 Enterprise Valuation SDR Ventures	April 2009 Enterprise Valuation SDR Ventures	November 2008 Enterprise Valuation SDR Ventures
December 2009 Enterprise Valuation SDR Ventures	November 2009 Enterprise Valuation SDR Ventures	November 2009 Enterprise Valuation SDR Ventures	June 2009 Enterprise Valuation SDR Ventures	May 2009 Enterprise Valuation SDR Ventures	April 2009 Enterprise Valuation SDR Ventures	March 2009 Enterprise Valuation SDR Ventures	August 2008 Enterprise Valuation SDR Ventures	
December 2008 Enterprise Valuation SDR Ventures	November 2008 Enterprise Valuation SDR Ventures	November 2008 Enterprise Valuation SDR Ventures	February 2008 Enterprise Valuation SDR Ventures	November 2007 Enterprise Valuation SDR Ventures	April 2007 Enterprise Valuation SDR Ventures	November 2006 Enterprise Valuation SDR Ventures	February 2007 Enterprise Valuation SDR Ventures	