



# THE DEAL HOUND

Powered by... **SDR Ventures** *the next step*

## QUARTERLY PET INDUSTRY REPORT

Volume 3, Issue 1, Q1 2012

### Pet Industry Deal Activity – Q1 2012

Pet Industry M&A is off to a hot start in 2012, featuring ten announced transactions. Pet deals varied in size and segment with deals in pet product manufacturing, pet food distribution, pet related websites, veterinary products and services, animal health, and pet retail. Phillips Feed and Pet Supply, a pet food distributor, closed two deals in the first quarter of 2012 and expanded their distribution network in the Northeast. Strategic acquisitions dominated the first quarter; however, financials continue to be interested in innovative pet companies as seen in the Dog Vacay deal.

#### Pet Deal Activity Highlights

##### Strategic Acquisitions

**Felines, Inc.** has been acquired by **Pioneer Pet Products**. Felines, Inc. DBA Stick Paws is a manufacturer of pet products in the cat behavior modification category.

**Phillips Feed and Pet Supply** acquired **Mike's Feed Farm Wholesale Distribution**, a distributor pet food based in Paterson, New Jersey.

**Phillips Feed and Pet Supply** acquired **C&K Distributors**, a distributor of pet food based in Glendale, New York.

**Coupaw** acquired **MyPetHabit.com**, a pet focused daily deal site.

**Kemin** acquired **Genesis**, a manufacturer of companion animal supplements under the brand RESOURCES™.

**Cargill** acquired an **Emporia Pet Food Plant** from Emporia Pet Food Products.

**Vets First Choice** acquired **VetCentric**, an online veterinary pharmacy.

**Henry Schein, Inc.** acquired Oak Hills Capital Partners' remaining interest in **Butler Schein Animal Health**, a distributor of animal health services and products, for \$155 million in cash.

**Pet Supplies Plus** acquired 12 Pet Supplies Plus stores based in northeast Pennsylvania owned by their largest franchisee.

##### Financial Deals

**First Round Capital & Other Investors** invested in **Dog Vacay**, a provider of an online marketplace that connects dog owners with qualified pet caregivers.

#### Q1 2012 Pet M&A Activities

Seller	Buyer	Description	Deal Date	Deal Type
C&K Distributors	Phillips Feed and Pet Supply	Distributor of pet food	3/22/2012	Acquisition
MyPetHabit.com	Coupaw.com	Daily deals site for pet owners	3/21/2012	Acquisition
Dog Vacay	First Round Capital & Other Investors	Provider of online marketplace that connects dog owners with qualified pet caregivers	3/21/2012	Growth Capital
Genesis Ltd.	Kemin	Manufacturer of companion animal supplements under the brand RESOURCES™	3/5/2012	Acquisition
Mike's Feed Farm Wholesale Distribution	Phillips Feed and Pet Supply	Distributor of pet food	2/22/2012	Acquisition
Emporia Pet Food Plant	Cargill	Pet food plant in Emporia	2/15/2012	Acquisition
Felines, Inc. DBA Sticky Paws	Pioneer Pet Products	Manufacturer of pet products in the cat behavior modification category	2/1/2012	Acquisition
Largest Franchisee of Pet Supplies Plus	Pet Supplies Plus	Largest franchisee of Pet Supplies Plus, a retail and wholesale store of pet products & supplies	1/31/2012	Acquisition
VetCentric	Vets First Choice	Online veterinary pharmacy	1/17/2012	Acquisition
Butler Schein Animal Health	Henry Schein, Inc.	Distributor of animal health services and products	1/5/2012	Acquisition

#### Sniffing Out a Deal – Felines, Inc. DBA Sticky Paws



##### Acquisition Type: *Strategic*

**Top 5 Value Drivers:**  
*Quality Management Team*  
*Successful Brand*  
*Patent Protected Products*  
*Multiple Distribution Channels*  
*Manufacturing Expertise*

Founded in 1996, **Felines, Inc. DBA Sticky Paws** produces pet products in the cat behavior modification category. Sticky Paws patented and patent-pending products are the only effective and viable alternative to the process of de-clawing.

Bonnie Pemberton, Owner and President of Sticky Paws reflected her enthusiasm for Sticky Paws' future with the Pioneer Pet. "I believe Pioneer Pet Products will be good stewards for my product. John Lipscomb's wife is a renowned cat behaviorist and longtime supporter of Sticky Paws, so I believe its continuation in the market place will be secured for years to come."

Acquiring Felines, Inc. is **Pioneer Pet Products**, a highly respected cat, dog, and aquatic pet product manufacturer, headquartered in Cedarburg, WI. Pioneer Pet Products manufactures their products in-house in both the U.S. and China, and distributes them across the country.



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### Spotlight

**2012 Deal Perspective: An Interview with Jennifer Baxter, Principal at TSG Capital Partners**

**An Interview with SDR's Carol Frank**

#### **1. Why do you think that the pet industry is so popular with private equity?**

From our standpoint, the pet industry is very attractive because it is a large, stable, and growing category. The trend of people treating their pets as "part of the family" continues to increase every year. From a category standpoint, it has a strong tailwind. Even during recession we saw a lot of stability in the pet category versus other consumer categories that were hit harder by the recession such as apparel and beauty.

#### **2. What pet companies do you have in your portfolio? What was appealing to you about those particular investments?**

**Pet Safe/Radio Systems** was a 2006 investment and is a very strong and well-run company. We were attracted not only to the brand, but also to the business owner and company itself. The owner, Randy Boyd, needed capital and a partner to acquire his largest competitor, Invisible Fence. Radio Systems is now a multi-brand company with a strong management team that has continued to acquire new brands.

**Dogswell** was a 2008 investment and has been a great growth story. We thought pet treats as a category was very attractive, plus they experience higher margins than pet food. One of the reasons we like Dogswell is because it has functional benefits (i.e. Happy Hips) for specific needs for pets. They have diversified distribution channels with a hold in both the independent and mass market which is very appealing to TSG.

#### **3. What does TSG look for in a potential pet industry investment?**

TSG looks for brands that are differentiating, that have a reason for being on the shelf. It's a crowded space and there must be a good reason to pick up the product. The pet industry has become so competitive.

Having a strategy around distribution is important. If you are locked into one channel or another, there is a limit on how much you can grow. So we look for diversified distribution under a single brand umbrella. Dogswell is a great example of that. In general, TSG prefers to invest in consumables (food, beverage, personal care). We look to invest a minimum of \$20 million in capital per investment.

#### **Jennifer Baxter**

*Principal, TSG Consumer Partners*

*Responsible for originating new investment opportunities, conducting due diligence, structuring transactions, and working with TSG companies.*



*Before joining TSG Consumer Partners, Jenny was a consultant at Bain & Company where she worked in several industries, including consumer products and retail. Jenny received a dual degree from Stanford University and an MBA from Harvard Business School.*

#### **4. What can a company do to make themselves attractive to a private equity firm?**

Again, having a point of differentiation is critical. You must have figured out your "reason for being" and clarified that through brand messaging.

Have a well thought out sales/distribution plan and be able to demonstrate the ability to grow.

Gross margin is very important! Be able to manage price point, cost of goods, and expenses to maintain a healthy margin. Very lean margins are a tough place to be because then you are not generating enough cash flow to grow the brand.

#### **5. What is the benefit of selling to a private equity firm versus a strategic or other type of financial buyer?**

Taking on private equity capital allows a company to fund organic growth, make acquisitions, and/or take some of their personal chips off the table. Sometimes owners put their whole heart and soul into the business and never get to realize the fruits of their labor until they sell part or all of their business.

Further, if an owner wants to eventually sell to a strategic, private equity investment could be a step in between to make them the most appealing to a strategic buyer.



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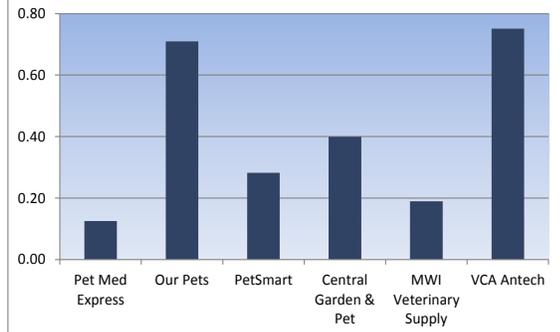
### M&A Market Overview

#### Public Pet Basket VS S&P 500

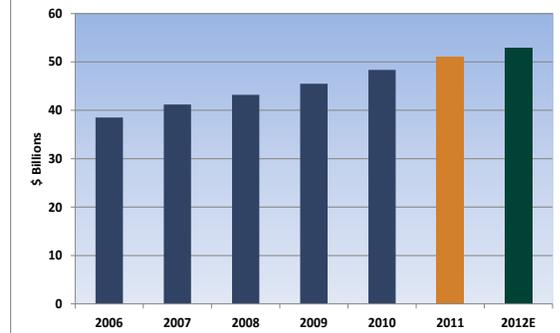
Pet companies are known to be resilient to market conditions and offer lower risk for investors. A way to measure the risk of pet companies is their correlation to the S&P 500. Correlation is a measure of how associated stock prices are to the overall market.

The closer to one each company's correlation is, the more like the S&P 500 it has performed. As the graph shows, the average correlation between public pet companies and the S&P 500 is 0.41. Put simply, on average if the market decreases 1% then a public company would decrease only 0.41%. Therefore, in a market downturn, the average pet company will not be as affected.

Correlations to S&P 500 (Inception - Present)



Pet Industry Expenditures: 2006 – 2012E



EBITDA Multiples: 2008 - 2011



#### \$50 Billion Pet Industry

The pet industry tops \$50 billion in total expenditures in 2011 according to the 2011 – 2012 APPA National Pet Ownership Survey. Total pet industry spending increased 5.4% in 2011 compared to 2010. In 2012, pet industry expenditures are estimated to continue to increase to about \$53 billion. Though spending on pets will increase, it will increase at a slower pace in 2012 than in 2011 at a growth rate of about 4.0% compared to this year's 5.4%.

According to the 2011- 2012 APPA National Pet Ownership Survey, the largest percentage of pet spending in 2012, making up about 20.5% of pet spending, will continue to be in the pet food segment. The largest growth is estimated to be experienced in the Pet Services: Grooming & Boarding segment with a estimated growth rate of about 8.5%. As evidenced by the Dog Vacay deal, institutional capital is attracted to high growth segments within the industry.

#### Middle Market Deal Multiples

In the first time since the recession in 2008, EBITDA multiples in the middle market are above 2008 levels in all company sizes. The largest increase in multiples has been experienced by companies in the \$100 - \$250mm range. EBITDA multiples for companies in the \$10 - \$25m surprisingly remained consistent in the past four years.

*Sources: 2011 -2012 APPA National Pet Ownership Survey, CapitalIQ, Pepperrine Capital Markets, GF Data Resource*

### Current Deal in the Market – Domestic Plastic Pet Products Manufacturer

#### Company Facts

Location: United States  
 Financials:  
 \$5.43mm Revenue  
 \$2.72mm Gross Profit  
 \$447K EBITDA  
 Q1 '12 YoY Rev. up 18.5%

Active SKUs: 350+ SKUs  
 Markets: Plastic Pet Products

**Acquisition Type:**  
 Strategic or Financial

**Differentiators**  
 Extensive Product Line  
 Made in the U.S.A  
 High Volume, High Margin Products  
 Leading Brand  
 Injection Molding Expertise

The Company is a domestic plastic pet products manufacturer based in the United States. The Company focuses on the non-dog-and-cat categories of the pet industry and has established itself as one of the leading brands in those segments.

The Company has a branded solution, strong industry reputation, and fully integrated plastic injection molding and extrusion capabilities. The Company has built relationships with some of the largest pet companies in the industry.

Contact Carol Frank for more information at [cfrank@sdrventures.com](mailto:cfrank@sdrventures.com)



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### SDR Ventures: The Investment Bank to the Pet Industry



**Carol Frank** ([cfrank@sdrventures.com](mailto:cfrank@sdrventures.com)), *Managing Director*

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. She also holds a Series 79 license, as a registered investment banker.

#### 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 36 subordinated debt deals and invested a total of over \$40.8 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

<p>March 2012 \$5,000,000 Senior Debt Financing Provided to</p> <p>Denney Transport, LTD Capital provided by Mutual/OmahaBank</p> <p>SDR Ventures</p>	<p>February 2012</p> <p>Sticky Pet Petries, Inc. 4300 State Farm Has been acquired in a stock sale by</p> <p>Petland Petland Pet Products, LLC The undersigned acted as financial advisor to</p> <p>SDR Ventures</p>	<p>January 2012</p> <p>HEALTHTRANS HEALTHTRANS, LLC Has been acquired by</p> <p>SXC Health SXC Health Services Corp The undersigned acted as financial advisor to</p> <p>SDR Ventures</p>	<p>January 2012</p> <p>SOUTHWESTERN Southwestern Investment Company, LLC and Wilshire Holdings, LLC Has acquired</p> <p>Pinnacle Apartments 4300 State Apartments from Wilshire Land Company, LLC</p> <p>SDR Ventures</p>	<p>December 2011</p> <p>Petland Petland Pet Products, LLC The undersigned acted as financial advisor to</p> <p>SDR Ventures</p>
<p>December 2011 Equity Placement</p> <p>Worster Investors LLC Equity financing provided by</p> <p>SDR Ventures</p>	<p>December 2011</p> <p>DS Waters DS Waters of America, Inc. The undersigned acted as financial advisor to</p> <p>SDR Ventures</p>	<p>August 2011 \$3,500,000 Equity Financing</p> <p>Petland Petland Pet Products, LLC Has been provided by SDR Ventures</p> <p>SDR Ventures</p>	<p>August 2011 \$1,000,000 Acquisition Capital</p> <p>Petland Petland Pet Products, LLC Acquisition Capital provided by</p> <p>SDR Ventures</p>	<p>June 2011 Expansion Capital</p> <p>ARCSTONE PARTNERS Expansion Capital provided by</p> <p>SDR Ventures</p>