



THE DEAL HOUND

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QUARTERLY PET INDUSTRY REPORT

Volume 3, Issue 2, Q2 2012

Pet Industry Deal Activity – Q2 2012

Pet Industry M&A activity cooled off a little in the second quarter, with 8 announced transactions compared with 10 in the first quarter. Pet deals varied in size and segment with deals in pet product manufacturing, pet food distribution, pet related websites, grooming shows, pet safety, and pet retail. Both strategic and financial buyers were active in the second quarter, with strategic acquisitions accounting for 62% of the total transactions.

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Pet Deal Activity Highlights

Strategic Acquisitions

- April 12, 2012 **Westland Horticulture Ltd.** acquired **Cranswick Pet Products**. Cranswick is a leading manufacturer in the wild bird and small animal markets.
- April 16, 2012 **Merrick Pet Care** acquired **Caster and Pollux**, a leading pet food manufacture best known for their line of organic pet food.
- May 10, 2012 **American Distribution and Manufacturing Company** acquired **Premier Distribution**, a leading distributor throughout the Midwestern states.
- June 8, 2012 **Barkleigh Productions, Inc.** has acquired the **All American Grooming Show**. Barkleigh Productions, Inc. is the producer of Groom Expo, Groom & Kennel Expo, Pet Boarding & Daycare Expo, and other grooming trade shows.
- June 21, 2012 **Pet 360, Inc.** acquired **PetStyle**. PetStyle publishes lifestyle and entertainment articles on topics including pet-friendly vacation ideas, travel tips, celebrity gossip, and pet horoscopes.

Financial Deals

- March 29, 2012 **Altor Equity Partners** acquired **Haarslev Industries**. Founded in 1973, Haarslev Industries is a cleantech business dedicated to manufacturing processing equipment for organic by-products, including slaughterhouses and water purification plants.
- April 25, 2012 **Pangea Investors LLP and other sponsors** invested in **Austria Pet Food GmbH**. Austria Pet Food is active in the manufacturing and distribution of private label dog and cat food with a focus on Austria and other central and eastern European countries.
- May 14, 2012 **Angel Investors** invested in **PetHub**. PetHub utilizes a combination of online pet profiles and scannable ID tags that allow anyone with a mobile phone to quickly access everything there is to know about their pets.

Q2 2012 Pet M&A Activities

8 Total Transactions

6 Acquisition Deals

2 Growth Capital Deals

Sniffing Out a Deal – Westland Horticulture

May 12, 2012

\$18 million



Has been acquired by



Acquisition Type:
Strategic

Top 5 Value Drivers:
*Quality Management Team
Successful Brands
Multiple Distribution Channels
Manufacturing Expertise
Global Sourcing*

Westland has made a significant investment with the purchase of Cranswick Pet Products, a leading manufacturer in the wild bird and small animal markets; Cranswick Pet Products is based at Drifffield, East Yorkshire England.

This investment follows the successful launch into the wild bird market Westland made this year with Peckish, which is making huge strides within the category. By joining together with Cranswick Pet Products and its brands including Bucktons and Nature's Feast, Westland will have access to market leading knowledge, expertise, infrastructure and world leading manufacturing facilities.



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Jason Wagner, CPA
Tax Partner, EKS&H,
Denver CO

As a partner in the tax service area, since 1994, Jason has been serving public and private companies in all stages of the business life cycle.

Jason's expertise is in telecommunications, technology, manufacturing, distribution, construction, real estate, healthcare, hospitality, entertainment and service industries, as well as extensive experience in transaction advisory services.

Jason can be reached at: JWagner@eksh.com

Spotlight

2012 Deal Perspective: An Interview with Jason Wagner, Tax Partner at EKS&H
An Interview with SDR's Carol Frank

1. What is the most significant development for 2012 and beyond in tax legislation for small and midsize business owners?

It depends on your situation, industry, or the life cycle stage of your business. However, when I think about the current tax climate, the combination of the rising individual tax rate as it contrasts with the reducing of corporate tax rates comes to mind. For example, the highest federal individual tax rate is approximately 43.4% (beginning in 2013, including the income tax rate of 39.6%, plus the additional healthcare reform tax of 3.8%). Then consider Obama's perspective that the US corporate tax rate (among the highest in the world) must be reduced (proposing the rate be reduced to 28%). So in my opinion, the most important tax legislation question facing business owners is: should successful flow-through businesses (S-Corps and LLC's) pay 150% of the taxes that corporations pay? Stay tuned as this issues develops.

2. Given the legislation that has recently passed, are shareholders who are considering a sale well suited to consider doing so prior to year end?

Transaction volumes are trending up substantially and I expect them to stay that way through year-end. Considering personal long-term capital gains tax rates are increasing 33% in January 2013 (from 15% to 20%, for federal tax rates), I have been advising my clients who are contemplating a sale to investigate the possibility of doing it before year end to save substantially on taxes. I also advise them not to wait much longer, because buyers understand sellers needs to close the transaction before year-end and may use this in negotiations if the deal is being rushed.

3. It has been said that from a tax perspective, an asset sale is more beneficial to the buyer and a stock sale to the seller. Why is that?

Generally yes, asset sales are more beneficial for buyers and stock sales for sellers. For a buyer, they generally want an asset transaction because they get a tax step-up in basis and future tax deductions (a "step-up"). For a seller, they generally want a stock sale because it minimizes their tax rate on the sale of an investment that qualifies for long-term capital gains treatment. A buyer in a stock

acquisition generally does not get a step-up in tax basis in assets and takes a carryover basis (which can be substantially reduced, negligible or even negative in some cases). The secret is for buyers and sellers to understand and structure the deal to obtain efficiencies, given the overall situation. Quite often, with the conflicting bias of the seller and buyers, there is no simple (or more specifically, no perfect) answer.

4. What sorts of things can shareholders do to minimize the tax effect from an asset sale? Stock sale?

Minimizing the tax impacts is very specific to each situation. My advice is to go through a planning process with a qualified tax professional that specializes in this area. Ensure you set up and sell from the right structure, in the right way, considering after-tax proceeds and retain a tax advisor who can help evaluate the myriad of complex possibilities. A common planning opportunity in an asset sale is making sure the purchase price allocation is completed and negotiated early. There are countless other planning opportunities and after transaction tax planning, sellers often have unrelated planning opportunities that can sometimes offset and mitigate the taxes related to the sale.

5. Compare and contrast the 2011 tax environment to 2012 for business owners contemplating a transaction.

2011 was another year of strict bank lending relative to many transactions and therefore financial buyers (private equity, private investors) were cautious. Strategic buyers were trying to grow despite the economic headwind, and, as it relates to lending, had more conservative traditional collateral and lending capacity as compared to private equity. In summary, 2011 was, in general, a landslide victory in the transaction markets going to strategic buyers. Halfway through 2012, the edge may still go to strategic buyers, but it is a more balanced year with increased activity coming from banks in a lending capacity to close deals, as well as significantly increased private equity activity. To any businesses expecting to close a deal in 2012, my most important advice is to start as soon as possible.

To every business owner interested in this article, I wish you the best of luck and if there is anything I can do to help, please don't hesitate to contact me.



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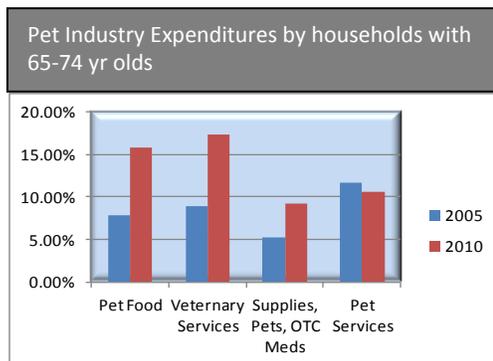
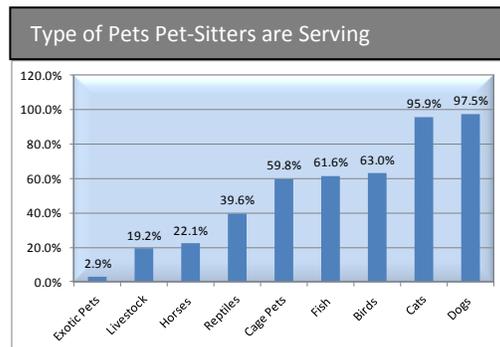
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Industry Trends

Pet Care Industry Outlook

According to Pet Sitters International (PSI) 2011 survey, respondents performed 18.5 million pet-sitting visits generating \$325 million in revenue. The survey found that 98.6% of pet sitting businesses are independently owned, 84.3% are owned by women, and 84.5% carry both liability and bonding insurance. The survey found that the respondents averaged top line revenue of \$48,635 with an average of 2,606 pet sitting assignments, resulting in an average of \$18.66 per pet sitting assignment. On the right, you can see a breakdown of the type of pets the pet sitters are serving. You can notice that almost all sitters take care of dog and cats with the larger and more exotic pet segment being served by a smaller percentage of sitters.

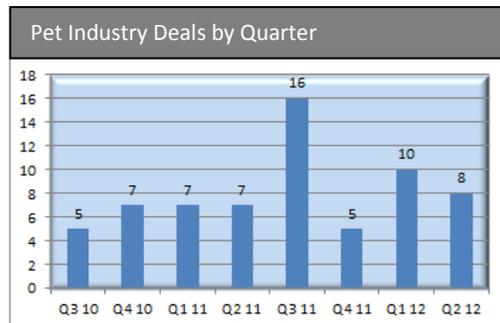


Who is driving the growth in the pet industry?

As our nation ages and the baby boomers are reaching retirement age, data indicates that they are accounting for a larger percent of total pet industry expenditures and driving growth in the industry. Total U.S. pet industry expenditures grew at a 5.90% compound annual rate from \$36.3 billion in 2005 to \$48.35 billion in 2010. Data from the Department of Labor Bureau of Labor Statistics and Dillon Media shows that households with 65-74 year olds are driving this growth, accounting for a larger percentage of Pet food expenditures, veterinary services, supplies, pets, and OTC Meds in 2010 than they did in 2005. Data also shows that households with 25-34 year olds accounted for a smaller percentage of expenditures in every category measured from 2005 to 2010.

Number of Pet Industry Deals by Quarter

In Q2 of 2012 there were 6 announced pet industry transactions, which are down from 10 deals in Q1 of 2012. Over the past 8 quarters there has been an average of 8 pet industry deals per quarter, with a high of 16 deals in Q3 of 2011, and a low of 5 deals in both Q3 of 2010 and Q4 of 2011. To learn more visit www.thedealhound.wordpress.com.



Business Owners: The Clock is Ticking on Taxes

The current tax environment represents significant opportunities for business owners, but the clock is ticking and these opportunities are set to expire on January 1, 2013. Due to the changing capital gains tax conditions, right now is a great time to sell your business or raise capital. Also, with the qualified dividends tax set to increase by more than twofold, now is the time to put excess cash to work.

Category	2012 Tax Rate	2013 Tax Rate ¹
Capital gains	15%	20.0%
Qualified dividends	15%	39.6%
Unearned investment income	-	3.8%
Pease limitation	-	1.2%
Gift, Gst and estate taxes	35%	55.0%
Lifetime exemptions	\$5.12 million for individual \$10.24 million married couple	\$1 million for individual \$2 million for married couple

Sources: 2011 -2012 APPA National Pet Ownership Survey, CapitalIQ, Department of Labor Bureau of Labor Statistics, Dillon Media



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SDR Ventures: The Investment Bank to the Pet Industry



Carol Frank (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 37 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>June 2012 Transaction Advisory Sell Side</p> <p>ALL-Last Fulfillment</p> <p>Has been acquired by newistics</p> <p>The undersigned served as exclusive advisor to ALL-Last Fulfillment</p> <p>SDR Ventures</p>	<p>May 2012 Transaction Advisory Buy Side</p> <p>Mountain Tech</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>April 2012 Preferred Equity Financing</p> <p>Provided to SecurCare Self Storage</p> <p>SecurCare Oklahoma A+ Portfolio, LLC</p> <p>Equity provided by Private Investors</p> <p>The undersigned served as exclusive advisor to SecurCare Self Storage, Inc.</p> <p>SDR Ventures</p>	<p>March 2012 Senior Debt Financing</p> <p>Provided to DEZNEY</p> <p>Dezney Transport, LTD</p> <p>Capital Provided by Mutual/OmahaBank</p> <p>Member of Omaha Bank</p> <p>The undersigned served as exclusive advisor to Dezney Transport, LTD</p> <p>SDR Ventures</p>	<p>February 2012</p> <p>Sistity Petcare</p> <p>Petcare, Inc. (aka Sistity Petcare)</p> <p>Has been acquired in a stock sale by SDR Ventures</p> <p>SDR Ventures</p>
<p>January 2012</p> <p>HEALTHTRANS</p> <p>Has been acquired by SXC Health Solutions Corp</p> <p>The undersigned served as exclusive advisor to HealthTrans LLC</p> <p>SDR Ventures</p>	<p>January 2012</p> <p>SOUTHWESTERN</p> <p>Southwestern Investment Advisors, LLC and Wellness Holdings, LLC</p> <p>Has Acquired Primmer Apartments (aka The Apartments)</p> <p>Wilson Land Company, LLC</p> <p>The undersigned served as exclusive advisor to Southwestern Investment Advisors, LLC</p> <p>SDR Ventures</p>	<p>The undersigned served as exclusive advisor to One Step Pet Care</p> <p>One Step Pet Care, Inc.</p> <p>The undersigned served as exclusive advisor to One Step Pet Care, Inc.</p> <p>SDR Ventures</p>	<p>December 2011 Equity Placement</p> <p>Worstar Investments LLC</p> <p>Worstar Investments, LLC</p> <p>Equity financing provided by SDR Ventures</p> <p>SDR Ventures</p>	<p>December 2011</p> <p>DS Waters</p> <p>Has been acquired by DS Waters</p> <p>DS Waters of America, Inc.</p> <p>The undersigned served as financial advisor to DS Waters of America, Inc.</p> <p>SDR Ventures</p>