



# THE DEAL HOUND

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## QUARTERLY PET INDUSTRY REPORT

Volume 2, Issue 3, Q3 2011

### Pet Industry Deal Activity – Q3 2011

The pet industry showed its resilience in spite of market conditions again this quarter as mergers and acquisitions (“M&A”) in the pet industry outpaced M&A in most other sectors. In a quarter where the Saf U.S. macro economy threatened another downturn and high growth companies reevaluated their IPOs, private equity investors put their capital to work in the pet industry as a safe haven for positive returns. With over \$400 billion in private equity money on the sidelines and nearly \$1 trillion of corporate cash on corporate balance sheets, more and more investors will look at pet companies as strong acquisition candidates.

#### Pet Deal Activity Highlights

##### Strategic Acquisitions

**Petra Pet** acquired **Nutri-Vet**, provider of animal supplements and complementary products that promote health of dogs, cats, and horses.

**Quaker Pet Group** acquired **Watson’s Senior Pet Supplies**, a manufacturer of products for aging pets. This is Quaker Pet Group’s third acquisition in thirteen months.

**Petmate** acquired **Kennel-Aire**. Kennel-Aire is a manufacturer and distributor of high-quality wire crates, wire pet accessories, plastic pet carriers and other pet accessories.

**For the Earth Corporation** acquired **Miller’s Cats**, a manufacturer of cat furniture for mass merchandisers and pet specialty retailers

**VCA Antech** acquired **MediMedia Animal Health** for \$146 million. MediMedia is a specialty healthcare communications, publishing and medical education company.

##### Financial Deals

**Natural Pet Store** received growth capital from **Revelry Brands**. Natural Pet Store is a natural pet product and information e-commerce website with a flagship pet store in Boulder, CO.

**SimplyShe** received growth capital from **Harren Equity Partners**. SimplyShe is a designer, importer, and distributor of pet apparel and fashion accessories.

**PetSense Outlet** receives growth capital from **Winona Capital**. PetSense Outlet is a national chain of specialty pet supply retail shops.

**The Honest Kitchen** received growth capital from **Alliance Consumer Growth and White Road Group**. The Honest Kitchen produces a line of dehydrated human-grade whole foods for dogs and cats.

**PetFlow.com** received growth capital from **Lightspeed Venture Partners**. PetFlow.com is an online store that delivers pet food directly to the consumer.

#### Third Quarter 2011 Pet M&A Activities

Seller	Buyer	Description	Deal Date	Deal Type
Putney	Safeguard Scientifics & New Spring Health Capital	Developer of high quality pharmaceutical drugs for pets	9/29/2011	Growth Capital
Natural Pet Store	Revelry Brands	Natural pet product and information e-commerce website with pet store in Boulder, CO	9/15/2011	Growth Capital
SimplyShe	Harren Equity Partners	SimplyShe is a designer, importer, and distributor of pet apparel and fashion accessories	9/14/2011	Growth Capital
PetSense Outlet	Winona Capital	National chain of specialty pet supply retail shops	9/13/2011	Growth Capital
The Honest Kitchen	Alliance Consumer Growth & White Road Group	Producer of a line of dehydrated human-grade whole foods for dogs and cats	9/13/2011	Growth Capital
Nutri-Vet	Petra Pet	Provider of animal supplements and complementary products that promote health in pets	9/8/2011	Acquisition
MedRx Veterinary Division	DermaZoo	Provider of specialized diagnostic equipment and video imaging technology	8/23/2011	Acquisition
Provimi	Cargill	Producer of animal feed	8/15/2011	Acquisition
Watson’s Senior Pet Supplies	Quaker Pet Group	Manufacturer of products for aging pets	8/12/2011	Acquisition
Kennel-Aire	Petmate	Manufacturer and distributor of high-quality wire pet crates and accessories	7/25/2011	Acquisition
Pet Supply House	Ren’s Feed & Supplies	Provider of pet products to groomers and organizer of grooming events	7/18/2011	Acquisition
Miller’s Cats	For the Earth Corporation	Manufacturer of cat furniture for mass merchandisers and pet specialty retailers	7/12/2011	Acquisition
Fetch! Pet Care	Cybeck Capital Partners	Franchisor for professional pet sitting and dog walking services	7/11/2011	Recapitalization
MediMedia Animal Health	VCA Antech	Specialty healthcare communications, publishing and medical education company	7/10/2011	Acquisition
PetFlow.com	Lightspeed Venture Partners	Online store that delivers pet food directly to the consumer	7/6/2011	Growth Capital
Plasvacc Holdings	Bioniche Life Sciences	Equine and canine hyperimmune plasma production and distribution company	7/4/2011	Acquisition



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### Spotlight

**Pet Executive of the Quarter:** [Lucy Postins, Co-Founder of Honest Kitchen](#)

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

The major buzz going around Super Zoo last month was the minority investment in Honest Kitchen by The White Road Group and Alliance Consumer Growth. Dog food is among the hottest industry sectors in the eyes of Private Equity Groups, and few companies are "hotter" right now than the rapidly growing Honest Kitchen. I was fortunate to spend a few minutes talking to the co-founder, Lucy Postins, about their recent capital raise:

**CAROL:** *You were wooed by quite a few investment groups. What ultimately led you to the selection of White Road and Alliance Consumer Growth?*

**LUCY:** We spent a great deal of time interviewing nine different groups. Plus we exchanged e-mails with six more we never met with. The number one criterion was to find a group who aligned with our values and philosophies. We didn't want someone who was going to come in and change things. Certain groups would question our core philosophies and use of funds. One questioned our use of free-range chicken and asked us "couldn't you save money by going to factory farm chickens instead?" We showed those groups the door. White Road Investments and Alliance Consumer Growth (ACG) aligned nicely with our mission, vision, and values.

White Road was founded by Gary Erickson, who built Clif Bar from his kitchen into the amazing organization it is today, all while remaining true to his core values. He and his book, "Raising The Bar" have been a source of inspiration to my husband Charlie and me for years. ACG group has investments in similar companies to ours - Plum Organics and Pawgenics - which gave us comfort they would understand our business model and really buy into our strategy.

**Carol:** *Was there a lot of variance in between term sheets?*

**LUCY:** Not a huge amount. We didn't necessarily go for the best fiscal deal. There was one offer that was better financially, but the brains and the experience of White Road and ACG were more important. We felt we got a very good deal, but the money wasn't the main focus. It was having the correct expertise we could draw from.

**CAROL:** *What are the results you are trying to achieve by bringing in a minority investor?*

**LUCY:** Being minority, it means we remain at the helm. We have put our heart and soul into this business and having this growth capital means we can take it to a much higher level than we would have been able to do without it. We will be putting the money into an outside sales force and several



*The Honest Kitchen produces a line of dehydrated human-grade whole foods for dogs and cats, which are made with love in a human food facility (not in a pet food plant) for the*

*highest possible quality standards. The private, family-owned company is based in San Diego CA.*

marketing initiatives. Currently we are hiring regional sales managers for the Northwest, Northeast, and Southeast. We are looking for top-level talent with significant sales experience in the dog food arena. In addition, we are revamping our entire website, resulting in a more sophisticated online presence.

**CAROL:** *How have things gone so far?*

**LUCY:** We had our first board meeting in Las Vegas. Everything is going great. They have been extremely helpful in offering guidance but not micromanaging. We are most delighted.

**CAROL:** *If you had to do it all over again, what would you have done differently?*

**LUCY:** In hindsight we would have been a little stronger in saying "NO" sooner to some of the other groups. We lacked the confidence that a deal would eventually get done and as a result let conversations go longer than we should have, even when our gut told us it wasn't the right fit.

Charlie and I would like to have had a better understanding of some of the lingo involved in raising capital. The difference between a **term sheet** and a **Letter of Intent**, a stock purchase agreement and investor agreement, cap tables, disclosure schedules; this kind of investment banking knowledge would have been good to know up front, kind of a "Deal Terms 101."



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### Sniffing Out a Deal – Petra Pet Acquires Nutri-Vet

<p>September 8, 2011 <b>Undisclosed</b></p> <p><b>PETRA PET INC.</b></p> <p>A portfolio company of</p> <p><b>Imperial Capital*</b></p> <p>Acquires</p> <p><b>NUTRI-VET</b> The Best Animal Supplement Available</p>	<p><b>Acquisition Type:</b> <i>Strategic</i></p> <p><b>Top 5 Value Drivers:</b> <i>Innovative Products</i> <i>Multiple Sales Channels</i> <i>Quality Management Team</i> <i>Successful Brands</i> <i>Strong Retailer Relationships</i></p>
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Petra Pet, a portfolio company of Imperial Capital, has acquired Nutri-Vet., a leader in the pet nutraceutical sector and markets vitamin-supplements, joint-care, dental-care and other health-focused products for dogs, cats and equines.

Petra Pet Inc. is the owner of the Beefeaters brand and the PetraVet brands. The Beefeaters brand produces pet treats and chew products for dogs, cats, birds, and small animals. Imperial Capital acquired Petra Pet Inc. as their platform pet company in May of 2010.

Founded in 1996, Nutri-Vet is the owner of Nutri-Vet and Best Pet Health brands and has a long track record of superior quality and innovative products that are distributed by leading retailers throughout the U.S., Canada and Mexico. Dean Triandafellos, CEO of Petra Pet commented, "Nutri-Vet brings a comprehensive pet-wellness product offering to Petra Pet that will enhance the existing business."

## M&A Market Overview

### Pet Industry Outlook

Brian Beaulieu, a leading economist from ITR Economics, stated in a September presentation to over 500 Colorado CEOs that one of the top industries for the near future is the pet industry. Also according to IBISworld, the pet industry will remain to be strong through 2016 with an estimated average annual revenue growth rate of 4.2%. Along with the growth in industry revenue, IBISworld predicts that there will be more competitors entering the market who see the attractiveness of the industry.

### Deal Multiples Increasing

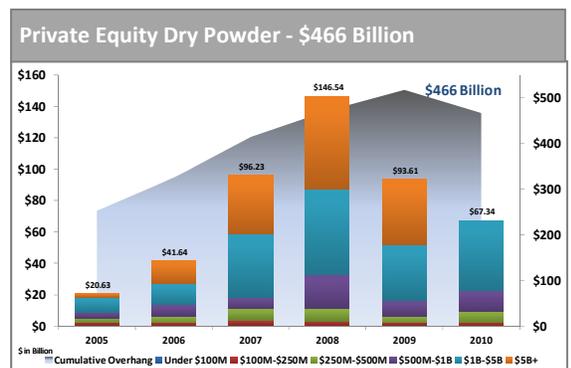
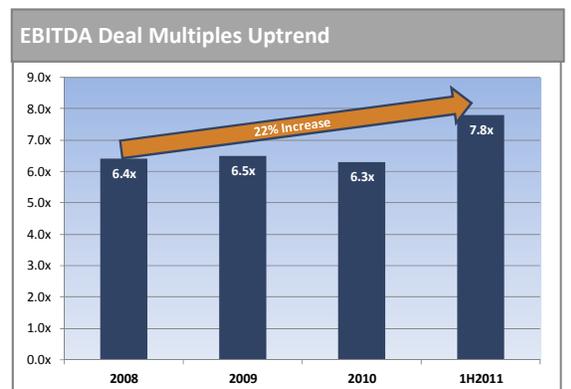
The time to sell a business or raise capital may be now, as deal multiples have increased remarkably during the first half of this year. According to GF Data Resources, average EBITDA multiples have grown to over 7.8x in the first half of 2011. Deal multiples have been fairly stagnant when comparing 2008 to 2010 but the large increase may be a sign that investors and buyers are now looking to put their money to work.

Companies in growing industries with a strong brand remain the highest valued and the most sought after. Pet businesses are positioned in an attractive industry but need to maintain strong fundamentals in order to attract a strong valuation.

### Cash on the Sidelines

In the previous Dealhound Newsletter, SDR found that the largest concern of private businesses owners is access to capital. However, according to Pitchbook there is about \$466 billion in private equity dry powder and Standard & Poors states that corporate cash balances have grown to over \$1.0 trillion. As seen by Honest Kitchen's capital raise this year, private equity firms are finding pet companies to be attractive investments. The Wall Street Journal even had an article titled, "September was Pet Month for Private Equity Firms." Though many investors may be interested in your pet company, finding the right partner is key to the success of your pet business.

Revenue	Annual Growth 06-11	Annual Growth 11-16
<b>\$14.6bn</b>	<b>4.4%</b>	<b>4.2%</b>
Profit	Wages	Businesses
<b>\$597.2m</b>	<b>\$1.9bn</b>	<b>15,769</b>



Sources: Pitchbook, Standard & Poors, GF Data Resources



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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
