



THE DEAL HOUND

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QUARTERLY PET INDUSTRY REPORT

Volume 2, Issue 2, Q2 2011

Pet Industry Deal Activity – Q2 2011

The Pet Industry continued its acquisitive growth in the second quarter though at a slower pace. As larger pet companies find it difficult to come up with innovative new products and services, they are looking to acquire smaller pet companies to fulfill that void. Further, companies and investors not in the pet business are looking to enter the pet industry by way of acquisition.

Pet Deal Activity Highlights

Strategic Acquisitions

PetCo acquired **Complete Petmart**, a 29-Store pet specialty chain, for an undisclosed amount. Complete Petmart is an industry leader in the pet specialty small box format.

For the Earth Corporation entered into agreement to acquire **Kat Box King** for \$500,000 in shares of For the Earth Corporation. The deal allows For the Earth Corporation to increase presence at mass retailers.

Contech Enterprises acquired U.S. pet health company, **G & B Marketing**. G&B Marketing is a family-owned business which develops products for health and wellness of pets.

Allflex acquired **Destron Fearing** for \$25 million in cash. Destron Fearing is the animal-identification branch of Digital Angel Corp. and provides RFID and software solutions for data collection on livestock and pets.

Garmin Ltd. acquired **Tri-Tronics**, a designer and manufacturer of electronic dog training equipment for an undisclosed amount.

Financial Deals

Worldwise was acquired by **Mistral Equity Partners**. Mistral Equity Partners has been seeking a platform company in the pet sector and is looking forward to partnering with Worldwise, a producer of sustainable and organic pet products.

Animal Health International finalized a merger agreement with **Lextron** under which Lextron acquired all of Animal Health International's outstanding common shares for \$4.25 per share. The newly combined company will operate under the Animal Health International name.

Seller	Buyer	Description	Deal Date	Deal Type
G&B Marketing	Contech Enterprises	Family-owned business which develops products for the health and wellness of pets	25-Jun-11	Acquisition
Tri-tronics	Garmin Ltd.	Designer and manufacturer of electronic dog training equipment	24-Jun-11	Acquisition
Animal Health International	Lextron, Leonard Green & Partners	Distributor of pharmaceutical products to the livestock market	10-Jun-11	Leveraged Buyout
Complete Petmart	PetCo	29-Store Pet Specialty chain	8-Jun-11	Acquisition
Destron Fearing	Allflex	Provider of RFID products and software solutions to automate the collection of critical livestock production information	14-May-11	Acquisition
Kat Box King	For the Earth Corporation	Develop, manufacturer, and distributor of cat care products	10-May-11	Acquisition
WorldWise	Mistral Equity Partners	Designer, manufacturer, and supplier of environmentally friendly pet products.	29-Apr-11	Acquisition

Sniffing Out a Deal – Garmin Ltd. Acquires Tri-tronics

June 24, 2011
Undisclosed

GARMIN

Acquires

TRI-TRONICS

Acquisition Type:
Strategic

Top 5 Value Drivers:
*Innovative Pet product lines
Respected Brand
Quality Management Team
Intellectual Property
Efficient Operations*

Garmin Ltd., a leader in satellite navigation, has acquired Tri-tronics Inc., designer and manufacturer of electronic dog training equipment.

Garmin entered the pet market in 2007 with Astro, a GPS dog-tracking system for hunters that pinpoints dogs' exact locations. The acquisition of Tri-tronics will expand Garmin's position in tracking and training of sporting dogs and household pets.

Tri-tronics, a Tucson, Arizona-based company, has been developing and manufacturing electronic dog training equipment for more than 40 years. Mike Romano, vice president and general manager of Tri-Tronics said "our combined team will work together to develop cutting-edge products that will help dog owners more effectively train their dogs and keep them safer."



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Spotlight

Pet Executive of the Quarter: Bob Vetere, President of the American Pet Products Association
An Interview with SDR's Carol Frank

CAROL: *The pet industry has been hot, hot, hot over the last several years. Do you see that growth continuing? What areas are you seeing the strongest growth potential?*

BOB: I honestly do see the growth continuing because the segment that is feeding it is baby boomers whose kids have left home. Helicopter parents who are looking for something to hover over are turning to pets. Now that they are empty nesters with some discretionary income to spend, they are looking for convenience-based products and services such as feeders, doors, pet sitters and pet walkers that are designed to make their life easier. According to statistics, the largest chunks of boomers become empty nesters in 3 to 5 years which should continue to fuel the growth of the pet segment.

The other products that are going to see some growth are niche, higher end boutique products. Although people have turned to their pets in a huge way, for the last several years folks haven't been able to take as good care of them as they used to because of the recession. Now they are feeling guilty. So as the recovery continues, expect people to "reward" their pet in human terms.

"People have to recognize their limitations. A great idea doesn't sell itself. You must know what to do with a great idea."

CAROL: *Why do you think the pet industry has been the focus of so much attention by private equity groups (PEGs)?*

BOB: I have been getting more and more calls over the last six to nine months from PEGs. Folks are fed up with other consumer segments and they continue to see the recession resistance of the pet industry. However, the challenge for private equity groups is the industry is so fragmented, so it gets a little bit tricky and difficult to navigate.

CAROL: *Do you still continue to get calls from investors interested in the pet industry?*

BOB: Just recently I did a teleconference for Wells Fargo Securities and we had the highest number of participants for a teleconference that I can remember. 75 people were on the call. So, the answer is Yes. I tell people that they need to focus on specific segments i.e. dogs, collars, housing, etc. and that the industry is not an easy retail segment to invest in. It requires a lot of studying and the more you drill down on the industry, the more you realize you are trying to grab a handful of jello.



Bob Vetere, Carol Frank, Murphy Green

Bob Vetere has been serving in the APPA for nearly 10 years and was recently named President of the association. He has made his mark in the industry as APPA's chief spokesperson with guest columns in publications including *Pet Business* and *Pet Product News* and television appearances on such acclaimed shows as *CNNFN*, *ABC's World News Tonight*, and *CNBC*.

CAROL: *Why do you think the pet industry is "the place to be" from an investor standpoint?*

BOB: Unless things dramatically change, the industry has proven itself to be recession resistant with good reason for continued optimism. Plus, there are several industry initiatives that are addressing segments of the population that is currently underrepresented in the pet space. Most notably kids, African Americans, Hispanics, and Asians all lag in pet ownership.

CAROL: *Any war stories/lessons learned that you can share with the readers?*

BOB: I don't have a war story, but I do have a story about just how this industry can provide an incredible opportunity for a creative think who knows how to execute:

A few years ago, a kid and his father came up with the idea of coating one side of a giant mitt so you can "pet" your dog clean. It was very creative. Within the first two hours at Global Pet Expo, they had sold their annual production potential. They were even spotlighted on the Today Show. The guy excitedly called me eight months later to let me know that he had just sold his company for \$8 million. That's the kind of opportunity available in this industry.

CAROL: *Any words of wisdom you can give a business owner in terms of increasing/maximizing their company's value?*

BOB: People have to recognize their limitations. A great idea doesn't sell itself. You must know what to do with a great idea. Take expert advice. Even if you have to pay for it. You do not get too many chances to make a first impression.

And, of course, join American Pet Products Association and take advantage of all the incredible member benefits designed to take your business to the next level.



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M&A Market Overview

Pet Industry Growth Trend

As other industries struggle to recover, the pet industry has been extremely resilient and continued to grow throughout the past year. The public company basket that SDR Ventures tracks shows that on average public pet companies have grown 13% in top-line sales quarterly year over year. The stand outs of the group are OurPets and MWI Veterinary Supply who both have grown about 30% in top-line sales quarterly year over year. Acquisitions have been a key source of growth for many pet companies including OurPets who recently acquired Cosmic Pet in the third quarter of 2010 just before their 30% growth in revenue.

Deal Multiples Increasing

The Summer 2011 Pepperdine Capital Markets Study interviewed 245 investment banks, who indicated that deal multiples from financial buyers have increased in 2011. Recent activity suggests that buyers are willing to pay approximately 4.3x – 10.0x EBITDA in the majority of transactions across all industries compared to 4.0x – 8.0x just six months ago.

As financial buyers pay higher multiples, so will strategic buyers in order to compete for attractive companies. According to the Pepperdine Capital Markets Study, 50% of the strategic acquirers are willing to pay a premium of up to 20%. Overall, the environment is improving for a company looking to sell because of higher multiples in the marketplace.

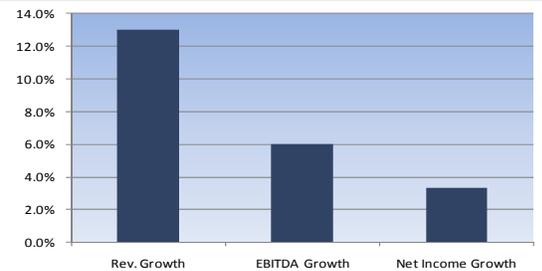
Access to Capital Still a Concern

In the Summer 2011 Pepperdine Capital Markets Study, 245 investment banks stated that the largest concern their private business clients face is access to capital. According to the study, about 95% of the private business respondents have growth strategies in place but 53% report that they do not have the financial resources to execute their plans. In an environment where capital is difficult to access, pet companies need to maintain pristine books and records and understand the form of capital that suits them best in their unique situation.

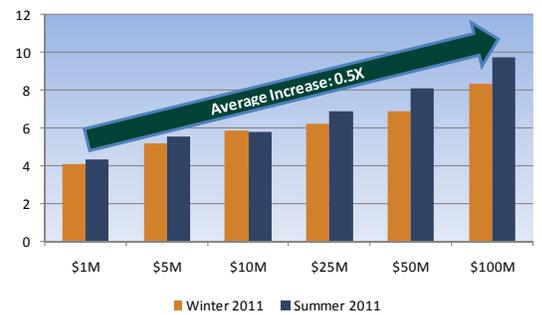
Private Cost of Capital

As the pet industry grows, private business owners in the pet industry will need access to liquidity to prosper along with industry cohorts. The Summer 2011 Pepperdine Capital Markets Study, shows expected cost of capital for different capital providers. The cheapest form of capital is asset-based lending with over \$25M in assets backing the loan. The more common form of capital that many private business will approach first are bank loans. However, as banks tighten their lending requirements private businesses may need to look into other forms of financing like mezzanine debt or be willing to give up a portion of their company to equity investors like private equity groups, venture capitalists, and angel investors.

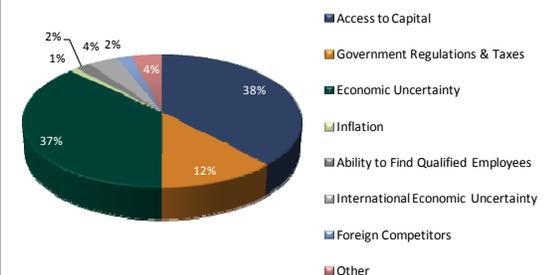
Public Pet Company Growth – Q2 2011/ Q2 2010



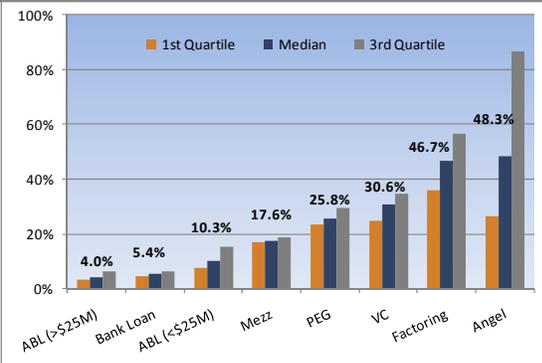
EBITDA Deal Multiples – By Company Size



Number One Concern for Privately Held Businesses



Private Cost of Capital





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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 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

