



THE DEAL HOUND

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QUARTERLY PET INDUSTRY REPORT

Volume 2, Issue 4, Q4 2011

Pet Industry Deal Activity – 2011

The fourth quarter of 2011 was marked with only a few pet transactions as many pet companies focused on organic growth. However, the overall 2011 calendar year was very strong for pet transactions as over 40 transactions were recorded. Private equity continued to pour into the industry while large and medium sized pet companies continued to purchase smaller competitors in order to gain market share. Venture capital made a rare appearance as new innovations in the pet industry came to market. The outlook for pet deal activity in 2012 is strong as mergers and acquisitions in general are expected to pick up in what should be a strong year for retail and consumer-driven industries.

Pet Deal Activity Highlights

Strategic Acquisitions

Pet Professionals Choice, has merged with **Pet Food Ltd., Inc.** Pet Professionals Choice is one of the premier distributors of natural and organic dog food, cat food, and pet products in the Southeast.
Doggyloot, a provider of discounts for dog owners, acquired **PetSimply**, a daily deals site for pet owners.
United Pet Group acquired **FURminator, Inc.**, a manufacturer of products that address the number one complaint of pet parents: shedding, for \$140 million.
Prince Agri Products acquired **Animate** from Granco Minerals. Animate is a premier technology for animal nutrition.

Financial Deals

Spectrum Brands, parent company of United Pet Group, raised \$200 million in senior secured notes.

Q4 2011 Pet M&A Activities

Seller	Buyer	Description	Deal Date	Deal Type
PetSimply	Doggyloot	Daily deals site for pet owners	12/14/2011	Acquisition
FURminator, Inc.	United Pet Group	Manufacturer of products that address the number one complaint of pet parents, shedding	12/6/2011	Acquisition
Pet Professional Choice	Pet Food Ltd.	Distributors of natural and organic dog food, cat food, and pet products in the Southeast	12/2/2011	Acquisition
Spectrum Brands	Various Investors	Parent company of United Pet Group raises \$200 million in senior secured notes	11/2/2011	Growth Capital
Animate	Prince Agri Products	A premier technology for animal nutrition	10/3/2011	Acquisition

Sniffing Out a Deal – Pet Professional’s Choice

December 2011
Pet Professional's Choice, Inc.
Has merged with
Pet Food Ltd., Inc.
 The undersigned served as exclusive advisor to
 Pet Professional's Choice, Inc.
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Acquisition Type:
Strategic

Top 5 Value Drivers:
*Quality Management Team
Successful Brands
Robust Growth Opportunities
Regional Focus
Strong Manufacturer Relationships*

Pet Professional’s Choice (“PPC”) is an established distributor of pet products and a distributor of Natura, FROMM, and Evanger’s Pet Foods. PPC has delivered thousands of products throughout Florida and enjoyed significant growth over the last few years, due in part to founder Brian Frohne’s commitment to quality, service, and customer relations.

“I am really looking forward to working with Bern and the whole Pet Food Limited Team said Brian. They have been a great competitor over the years.”

Merging with PPC is **Pet Food Limited**, a highly respected pet food distributor, headquartered in Tampa, FL. Pet Food Limited serves professional retail pet outlets throughout Florida and Georgia.

According to Bern Levine, CEO of Pet Food Limited, “We are very excited to have Brian as part of our team. The acquisition of PPC will allow us to offer even better selection, pricing, and service to our Florida customers.”



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Spotlight

2011 Deal Perspective: *An Interview with Carol Frank, Managing Director and Pet Industry Specialist*

1. What have been some of the most interesting deals in the pet category over the last 12 months?

The biggest deal in the pet category in terms of size over the past 18 months involved a multinational conglomerate with heavy presence in all types of specialty foods, including pet food. Del Monte Foods sold to KKR for \$5.3 billion in March of 2011. From there, the majority of impactful deals in the pet industry have been in the middle market.

The most interesting deal for pet owners is most likely the recent deal in which United Pet Group purchased FURminator, Inc for approximately \$140 million. FURminator is a great example of a pet company with a unique idea finding success because of the strong economics of the pet industry.

2. Why has there been a recent surge in deals in the pet industry? Why is this happening now?

Many of the deals of 2011 have been strategic deals between pet companies. These larger pet companies have a lot of cash on the sidelines and desire to buy growth rather than build it themselves. In particular, the parent company of United Pet Group recently raised \$200 million in capital of which \$140 million was spent on FURminator Inc. leaving around \$60 million of capital available to spend on other strategic initiatives.

To make sense of the recent surge in outside money entering the pet industry, you have to understand the dynamics within the private equity world. According to Pitchbook, Private Equity is sitting on approximately \$436 billion of dry powder that has a 5 year time clock attached. As corporate profitability returns, outside capital is being put to work in stable, well-positioned companies. The positive demographics of the pet industry are attractive to this capital.

3. Are there any parts of the pet business, like food or retailing, that seem more attractive to outside investors? Why?

Natural and organic foods are really attractive to institutional capital. Beyond the natural and organic play, the next most attractive characteristic of pet companies that are attracting outside capital is size. The challenge for many of these potential industry investors is finding a company, or group of companies, that allow for significant sums of capital to be put into the pet industry. Once a pet company reaches \$2million of EBITDA, the marketplace becomes extremely friendly.



Carol Frank
With Murphy Green & Lola

Managing Director & Pet Industry Specialist

4. What do you see as significant changes that could result from this over the short-term? Over the long term?

Again, scale. Some of these companies have great products with A+ management teams. If they can get some scale and profitability of upwards of \$1-2 million EBITDA, they become extremely attractive. Since the market seems to have spoken on this, it should be of no surprise that we will see companies trend this way. Some of them will do it organically, while other will do it through mergers and acquisitions (which is why we have seen so much lower middle market strategic transactions).

5. What are some key things a manufacturer can do in 2012 to increase their EBITDA so they will be attractive to outside capital?

- Analyze process flow for possible bottlenecks
- Examine and renegotiate contracts with suppliers to reflect the “new economy”
- Raise prices and communicate the value of the product to consumers
- Make sure your team consists of A+ players
- Consider outside manufacturing sources if internal pressures becoming tight
- Maintain/pursue quality: don't let complacency set in
- Expand product lines organically or via acquisition



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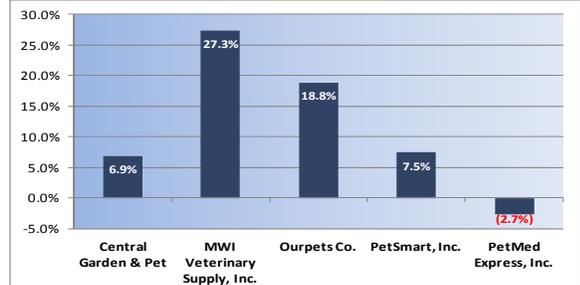
Volume 2, Issue 4, Q4 2011

M&A Market Overview

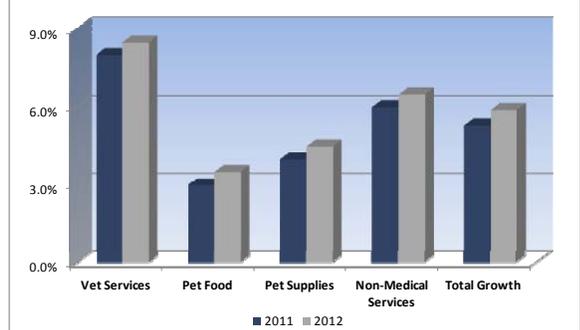
Public Market Basket Growth

The pet industry once again had strong growth in 2011. The public company basket that SDR Ventures tracks shows that on average public pet companies have grown 11.6% in top-line sales year over year. The stand outs of the group are OurPets and MWI Veterinary Supply who have both grown over 18% in top-line sales year over year. PetMed Express, a company that delivers pet medications direct to the consumer, has struggled in 2011 and had a decrease in sales of 2.7% year over year.

Public Pet Company Revenue Growth – 2010 - 2011



Pet Segment Growth – 2011 & 2012



Pet Industry Outlook 2012

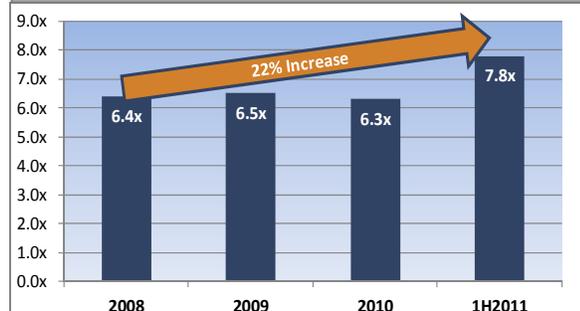
According to Packaged Facts Inc., a premier market research firm, 2012 U.S. pet retail sales is estimated to grow at 5.90%, a higher growth percentage than 2011. Total U.S. pet retail sales in 2011 grew at 5.30% compared 2010 and was one of the stronger performing sectors in terms of revenue growth.

The largest growth of the pet industry in 2012 is predicted to be seen in the Vet Services category. Pet food is predicted to have the slowest growth among the segments; however, companies that focus on natural and organic pet foods will have a clear advantage over other pet food companies.

Private Equity Outlook

The Capital Markets Report 2011-2012 by Pepperdine University surveyed 288 private equity participants and showed that in the next 12 months private equity is expecting deal multiples to increase, non-control investments to increase, and the value of portfolio companies to increase. This bodes well for pet companies who are desiring to simultaneously sell to private equity because they will benefit from higher valuations relative to previous years. The survey participants also predict a lower appetite for risk by private equity groups.

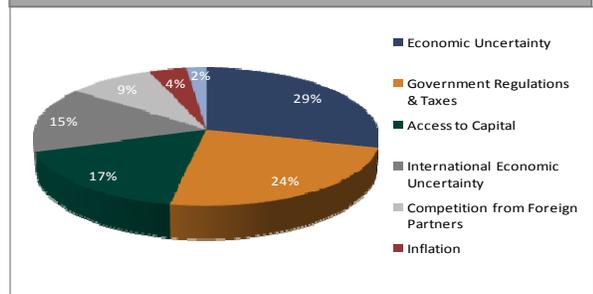
EBITDA Multiples



Emerging Issues Facing Privately Held Businesses

In the Q2 2011 Dealhound Newsletter, it was reported that the most important issue that privately held businesses face was “access to capital”. However, in the most recent Capital Markets Report, 253 investment banker respondents stated that the most important emerging issue facing privately held businesses is “economic uncertainty.” As many other industries struggle to figure out how the economy will react in the coming months, pet companies must hedge economic uncertainty by assessing the business cycle, and managing toward future prosperity.

Emerging Issues Facing Privately Held Businesses



Sources: Pepperdine Private Capital Markets
Packaged Facts Inc.
GF Data Resources



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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 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
