



THE DEAL HOUND

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QUARTERLY PET INDUSTRY REPORT

Volume 3, Issue 4, Q4 2012

Pet Industry Deal Activity – Q4 2012

M&A Pet Transactions remained steady in the fourth quarter of 2012, with 7 announced transactions. Once again strategic acquisitions accounted for the majority of the transactions (85%); reinforcing the notion that now might be the time to sell.

Some good news for the industry: in October, Forbes Magazine announced that there is a growing pet industry sector, including franchising of pet services, such as dog-walking franchises, pet sitting franchises and pet hotels. Other pet-based businesses that are picking up momentum in the franchise sector include health insurance for pets and animal identification tags. Be on the lookout for companies in this sector to make noise in the New Year.

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Curious About Pet M&A?

Meet Carol Frank at next month's Global Pet Expo. She is offering a complimentary one-on-one 30 minute session to answer your questions about M&A and other financing related topics. Schedule your appointment today, Contact Mindy Headrick (mheadrick@sdrventures.com).

Pet Deal Activity Highlights

Strategic Acquisitions	November 9, 2012	Wynnstay Group PLC , an agricultural and specialist retail group, has acquired Banbury Farm & General Supplies Limited , a hardware and agricultural inputs supplier for \$1.05 Million USD.
	November 9, 2012	Animal Supply Co. , a Seattle-based pet food supplier, acquired Lone Star Pet Supply Inc. , a wholesale pet product distributor.
	December 10, 2012	Radio Systems Corporation – owners of PetSafe , has acquired Lucky Littler, LLC , the makers of ScoopFree and FroliCat, which are produced under the brand name Brilliant Pet.
	December 17, 2012	Animal Supply Co. announced that it has completed the acquisition of the California operations of Zeus and Company .
	December 17, 2012	JW Pet Co. Inc. and a smaller manufacturer, Canine Hardware Inc. , were acquired by Arlington, Texas-based Petmate .
	December 21, 2012	Animal Supply Co. announced that it has acquired the North Carolina-based Summit Pet Product Distributors .
Financial Deals	November 13, 2012	Benchmark Capital invested \$6 Million USD in DogVacay , a provider of an online marketplace that connects dog owners in need of pet-care services with qualified pet caregivers.

Q4 2012 Pet M&A Activities

7 Total Transactions	6 Acquisition Deals	1 Growth Capital Deal
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Sniffing Out a Deal – Animal Supply Co.

December 17, 2012
Undisclosed



has acquired the California Operations of



Acquisition Type:
Strategic

Value Drivers:
Access into Growing Market
Leveraged Distribution Channels

Animal Supply Co., headquartered in Federal Way, Washington, was founded in 1987 to serve independent pet specialty retailers with unique and innovative pet specialty products. Since then, the company has become one of the nation's leading pet food and supply distributors.

The acquisition of Zeus and Company enables Animal Supply Co. to expand service to the entire states of California and Nevada and to represent Champion Dog food products in Southern California. Backed by Private Equity Firm, Halifax, Animal Supply has been experiencing rapid growth, this marks the second of three Animal Supply acquisitions in only three months. Its first acquisition of Lone Star extended Animal Supply's reach to six new states and the final acquisition of Summit Pet Products has expanded Animal Supply's reach to 30 states, representing over 300 pet products manufactures and delivering to more than 5,000 pet retail stores.



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Spotlight

2013 Deal Perspective: *Talking M&A with Joe Messner, CEO of Petmate* An Interview with SDR's Carol Frank



Joe Messner is the CEO of Petmate, a Wind Point portfolio company. Previously, he was CEO of Bushnell Outdoor Products. Prior to Bushnell, Joe was President and CEO of First Alert, a THL portfolio company, and held a variety of management positions at Bushnell/Bausch & Lomb, Prindle, Weber & Schmidt and Hertz Corporation. Joe previously served on the board of directors of Pacific Cycle. He holds a BA from Stonehill College and an MBA from Suffolk University.

1. You recently announced the acquisition of both JW Pet and Canine Hardware (manufacturer of Chuck-It). What was it about those companies that appealed to Petmate?

Either one is enough to get excited about, but having both together was very impressive. We saw this as an opportunity to help build awareness of Petmate's strength in the pet toy segment.

When we looked at the product segments, we targeted toys as one that should be a significant component of our overall businesses. We wanted brands that were familiar, desired by consumers, and highly respected by the trade; there just aren't many branded products out there.

JW appealed to us because of their broad distribution, the high level of customer satisfaction they consistently achieve, and their strong growth. Chuck-It has a very strong brand and they've done a good job of brand positioning and communicating the benefit the pet owner receives by using the product.

2. How long did the process(es) take?

Both companies have been great to work with!

With JW, we have had contact with Jon Willinger for a long time (one of our board members, Bob Devine, serves as a close advisor to Jon) and by the time Jon was ready to sell, it only took 4 to 5 months to complete the transaction. The same was true with Canine Hardware: we invited them to come to Dallas and meet us, so they could understand our character and culture. One of the most important aspects of an M&A transaction is to make sure the buyers can get to the finish line. They have to be committed and willing to communicate. In the case of JW and Canine Hardware, this was no problem.

3. How do you plan to integrate the two companies into Petmate?

Both businesses will be integrated into Arlington, TX (corporate headquarters) so customers can place just one order and have everything shipped at the same time. This will take approximately three months. Jon will also be staying on as Vice President of Pet Toys and Accessories, but will work remotely from New Jersey. Ken Oh, VP of Sales and Marketing at JW, will be staying on as well.

4. What were the biggest acquisition-related challenges during the processes?

Things went pretty smoothly. It's a good time with banks, so the financing part was relatively straight forward.

The legal aspect for a first time seller can be challenging, so it's important that they be ready and prepared. For less experienced owners, working through an asset purchase agreement can be a daunting task. When you have proprietors working six days a week, it's hard to find the time to do all the extra work. This makes having a team of advisors on your side incredibly valuable.

5. What advice would you give to a pet company owner in terms of maximizing the value of their business?

In today's world, the most critical aspects are growth and the value of brand. Having a private label can be ok, but there is a premium for building a strong brand.

Be realistic about how long you can build a small business before you face consolidation or need to hire someone with a different skill set to grow the company. Set a reasonable goal – "I want to build my business to this level," then take it to the next level by selling it.

So many entrepreneurs have a "wait and see" attitude. We don't want to buy your company when you don't have that next idea. In order for a company to be attractive enough to demand a premium multiple, you must leave something on the plate.

6. What steps can a company take to make themselves most attractive to a buyer?

We primarily price deals off cash flow, so the better your cash flow, the more attractive you are. The most important thing to a strategic buyer like Petmate is the contribution that your gross margin will add. EBITDA is important, but it's not as critical as gross margin. Additionally, we look at:

- **SIZE** - The larger the company, the higher the multiple. We consider anything under \$25 million to be a small company.
- **GROWTH** - There is a premium for achieving several years of significant growth.
- **ABILITY TO ACHIEVE SYNERGIES** – Synergy is the reason a strategic buyer is willing to pay more than a financial buyer.
- **BRAND. BRAND. BRAND.** Build your brand, and they will come.

7. In which segments do you see the best growth opportunities in the pet industry in the next few years?

The trends that we are seeing make for interesting marketing opportunities. Particularly, the humanization of pets; how we spend money to support our pets. Pets are treated like children, which has created opportunity from a marketing perspective in terms of how a pet cohabitates in a home.

The categories that positively impact the humanization of pets provide the most opportunities for Petmate. For example, bedding is growing faster than outdoor igloos. Most of the outdoor products have been affected by the increasing humanization factor.

Travel is another category we are very interested in because now pets are traveling much more with their owners. How do you safely travel with your pet and make it a more enjoyable and convenient experience? What is the safest way to have the pet in the car with me? A lot of pet owners are looking and trying to find solutions for that.



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M&A Reference Sheet

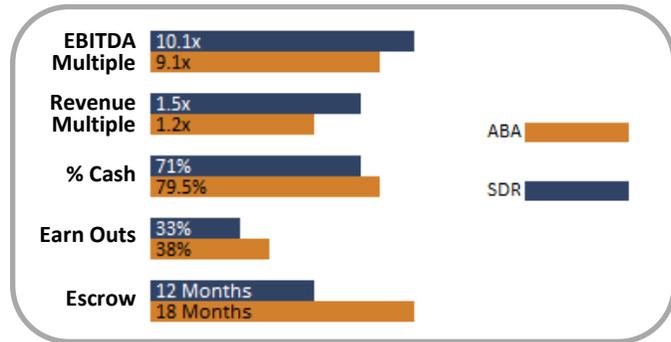
What to expect when buying or selling your pet company

There are many aspects to buying, selling or raising capital for your business. The more you know, the more successful the outcome is likely to be. This tool has been compiled to help provide a knowledge foundation for your next transaction.

WHAT CAN YOU EXPECT TO RECEIVE?

The ABA (American Bar Association) M&A Market Trends averages are based on 2011 data. SDR's statistics are based on 2011-2012 data. This information is derived from a blend of industries ranging from software to manufacturing. On average the pet product manufacturing and distribution multiples are between **5x** and **9x** EBITDA.

When compared to industry average using data from the ABA M&A Committee Market Trends 2011 Review, SDR Ventures generates higher EBITDA Multiples.



WHAT HAPPENS POST ACQUISITION?

Most non-compete clauses include 1-2 years of geographic and industry specific restrictions. The additional 5-10 years usually consists of a non-solicitation provision of company customers.

Average length of non-compete agreements

Sample size 9,720

Mean	1 st Quartile	SDR Average
53 Months	36 Months	32 Months
Median	4 th Quartile	
60 Months	60 Months	

Management's average length of stay post acquisition

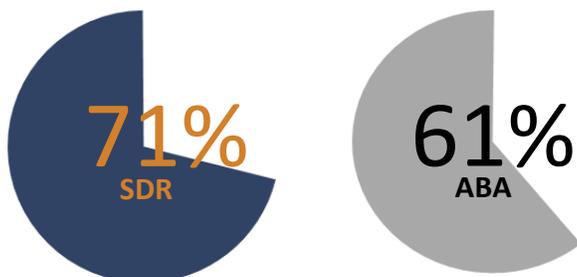
Sample size 1,174

Mean	1 st Quartile	SDR Average
12 Months	1 Month	10 Months
Median	4 th Quartile	
3 Months	120 Months	

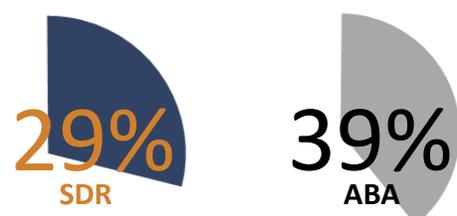
STRATEGIC VS. FINANCIAL TRANSACTIONS: WHAT IS THE BREAKDOWN?

According to an eight year ABA study, the majority of companies sold were to strategic buyers (corporate entities that operate in the same or similar industry as the target company). The charts below show the breakdown by type of transaction and SDR averages compared to ABA averages.

Strategic Transactions



Financial Transactions



Source: American Bar Association (ABA) M&A Committee – Market Trends 2011 Market Review, Pratt Stats® - Private Company Merger and Acquisition (M&A) Transaction Database.



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SDR Ventures: The Investment Bank to the Pet Industry

Carol Frank (cfrank@sdrventures.com), *Managing Director*



Prior to joining SDR Ventures in 2009, Carol 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 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 Mergers & Acquisitions 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>November 2012 Transaction Advisory Buy Side</p> <p>Western Paper Distributors Western Paper Industries, Inc.</p> <p>Has Acquired</p> <p>High Country Paper Supplies, Inc. The undersigned served as exclusive advisor for Western Paper Industries, Inc.</p> <p>SDR Ventures</p>	<p>August 2012 Capital Formation Principal</p> <p>Debt Financing Provided to</p> <p>Joice Homes, Inc.</p> <p>Financing Provided by</p> <p>SDR Ventures</p>	<p>June 2012 Transaction Advisory Sell Side</p> <p>All-Last Fulfillment</p> <p>Has been acquired by</p> <p>newestics</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</p> <p>Cohio Ventures LLC</p> <p>The undersigned served as exclusive advisor to Mountain Tech</p> <p>SDR Ventures</p>	<p>April 2012 Preferred Equity Financing</p> <p>Provided to</p> <p>SecureCare Self Storage</p> <p>SecureCare Oklahoma A+ Portfolio, LLC</p> <p>Equity provided by Private Investors</p> <p>The undersigned served as exclusive advisor to SecureCare Self Storage, Inc.</p> <p>SDR Ventures</p>
<p>March 2012 \$5,000,000 Senior Debt Financing</p> <p>Provided to</p> <p>Denny's</p> <p>Financed by</p> <p>Mutual/Omaha Bank</p> <p>Member of Omaha Bank</p> <p>SDR Ventures</p>	<p>February 2012</p> <p>Sticky Pet</p> <p>FinTech, Inc. d/b/a Sticky Pet</p> <p>Has been acquired in a stock sale by</p> <p>PetPartner LLC</p> <p>Member Pet Products, LLC</p> <p>The undersigned served as exclusive advisor to Sticky Pet</p> <p>SDR Ventures</p>	<p>January 2012</p> <p>HEALTHTRANS</p> <p>Has been acquired by</p> <p>SXC Health</p> <p>SXC Health Solutions Corp</p> <p>The undersigned served as exclusive advisor to HEALTHTRANS</p> <p>SDR Ventures</p>	<p>January 2012</p> <p>SOUTHWESTERN</p> <p>Southwestern Investment Services, LLC and Midwest Holdings, LLC</p> <p>Has Acquired</p> <p>Flower Apartments, which has apartments in</p> <p>William Lane Company</p> <p>SDC</p> <p>The undersigned served as exclusive advisor to Southwestern Investment Services, LLC</p> <p>SDR Ventures</p>	<p>The undersigned acted as a member of an investment committee</p> <p>December 2012</p> <p>Best Pet</p> <p>Best Pet, Inc.</p> <p>The undersigned acted as financial advisor to Best Pet, Inc.</p> <p>SDR Ventures</p>