

Pet Industry Deal Activity – Q3 2010

Mergers and acquisitions within the Pet Industry continued to show strong volume and healthy deal multiples for the third quarter of 2010. As medium and large strategic buyers in the sector look to employ cash reserves and financial buyers seek recession-resistant investments we expect to see continued, and growing, demand for manufacturers, distributors and retailers within the Pet Industry. SDR expects deal multiples to remain favorable for niche players and for strong financial performers as the supply of qualified pet companies for sale falls short of the demand. As fallout from the supply/demand inequity, buyers will look deeper into the candidate pool and we expect to see pet companies without a defensible niche and without strong financial performance will begin garnering attention from active buyers.

Pet Deal Activity Highlights

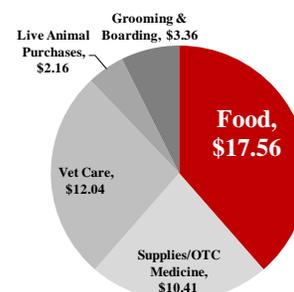
Strategic Acquisitions	Nestle Purina PetCare acquired Waggin' Train Dog Snacks for an estimated \$200 million in a deal designed to fill a gap in the company's dog treat portfolio segment. Waggin' Train has been the segment's fastest growing leading brand with annual sales growth of 30%.
	OurPets Co. acquired Cosmic Pet Products for approximately \$800,000 in cash, debt payments and stock. According to Steve Tsengas, OurPet's president and CEO, Cosmic's catnip toys will fill a gap in OurPets' product line and is anticipated to add \$2.25 million in revenue over the next 12 months.
Financial Acquisitions	Pet Supplies Plus , the 3rd largest pet supplies retailer in the U.S., sold a 54% interest to Irving Place Capital for \$80 million (valuing the Company at \$268 million). Irving Place was attracted to Pet Supplies Plus due to demonstrated and consistent growth throughout the recent economic downturn.
	Riverside Company acquired Tropikal , a manufacturer and marketer of pet foods under the Goody and Champion Brands, for an undisclosed amount. Riverside considers this investment to be a platform investment and is expected to seek add-on acquisitions in the pet food space.

Seller	Buyer	Description	Deal Date	Deal Type
Waggin' Train	Nestle	Distributor of natural pet treats	13-Sep-10	Leveraged Buyout
Pet Supplies Plus	Irving Place Capital	Retailer of various pet products	10-Aug-10	Leveraged Buyout
Menu Foods	Simmons Pet	Manufactures private label pet food products	9-Aug-10	Leveraged Buyout
Cosmic Pet Products	Our Pets	Manufacturer of catnip products	30-Jul-10	Asset Acquisition
Tropikal	The Riverside Company	Manufacturer of pet food and pet care products	15-Jul-10	Leveraged Buyout

Pet Transaction Takeaways

- Deals are getting done in the Pet Industry across all sizes
- Companies with a defensible niche, market leading products, and/or strong financial performance are in high demand
- Intellectual property is key
- Natural and organic pet products continue to be hot in 2010
- Companies addressing the natural and organic demands within the pet food space are on the top of financial and strategic buyers' radars
- Bid/Ask spreads are tightening
- Alternative deal structures are helping to align the Bid/Ask spread

2009 Expenditures by Product Type (Billions)



Spotlight

Pet Executive of the Quarter: Randy Boyd, President of PetSafe

An Interview with Carol Frank (Director at SDR Ventures)

CAROL: Where is the pet sector headed for the next 5 to 10 years?

RANDY: People will continue to add pets to their household. Non food pet spending has increased by 50% in the last 5 years and that trend will continue with the anthropomorphism of pets.



Pictured: Carol Frank, Randy Boyd and Murphy

Randy's father made electric fencing for cattle and horses, so when he graduated from the University of Tennessee at age 19, he started a distributing company that sold his father's products. Then in June, 1991 he started making his own invisible fence. Sales grew to \$1 million the first year, then \$5 million the second year.

PetSafe has made 17 acquisitions and has 490 employees including 70 engineers. They introduce 200 new products a year.

CAROL: What is the largest change the industry has undergone since you began?

RANDY: The increasing humanization of pets, treating them more and more as members of the family. The "barn to the bed" phenomenon has really super-charged the opportunity to create products for pets.

CAROL: What are some of the biggest lessons you have learned since starting your business?

RANDY: I learned a lot from watching my father early on, particularly the value of persistence. He always overcame his ups and downs! Quitting is something you choose to do, not something someone makes you do.

People that believe in luck or believe they are lucky tend to be more successful because when an event happens, they see it as an opportunity. That attitude will take an entrepreneur a long way.

CAROL: What advice would you give to the small or mid-sized pet company owner in terms of maximizing the value of their business?

RANDY: Intellectual property really helps! High growth equals high multiples. I'm seeing a lot more deals in the 4 to 6 range versus a few years ago they were in the 6 to 8 range, at least in the \$5 to \$25 million revenue space

CAROL: What's next for PetSafe?

RANDY: We just got into Pet Insurance – PetSafe Pet Insurance. We really want to get grounded in that industry and as a result brought in the CFO of another insurance company. A lot of our acquisitions will be in that space.

Other areas of interest to us are pet containment, sporting dog products, and dog training treats. Intellectual property is very important to us – without it, we probably won't be interested.

"Quitting is something you choose to do, not something someone makes you do."

Sniffing Out a Deal – An Insider's Look

SDR's Deal Hound tracks **the OurPets Co. Acquisition of Cosmic Pet Products**



Acquisition Type:
Strategic

Purchase Price:
\$800,000

Structure:
\$200,000 Cash
\$190,768 Stock
\$400,000 Debt Assumption
Warrants
Consulting Agreement

Publicly traded OurPets Co. purchased Cosmic Pet Products, Inc. for approximately \$800,000 in a strategic move to offer more product lines. Cosmic Cat supplies catnip and is expected to make a sizeable contribution to OurPets' revenue in the coming year. OurPets anticipates that the acquisition will contribute an estimated \$2.25 million to the company's current top line of approximately \$15 million.

Total consideration included \$600,000 in cash, of which \$400,000 paid a secured debt obligation of Cosmic. The balance of the purchase price included \$190,768 in shares of the Company's common stock (220,159 shares @ \$0.8665 per share); and 55,040 warrants to purchase shares of the Company's common stock with an exercise price of \$0.8665 per share.

M&A Market Overview – Q2 2010

Deal Activity

The first half of 2010 was the most active half-year for Private Equity since 2008, showing signs that financial buyers are emerging from a dormant 2009. The ramp in deal activity and dollars invested that began in Q4 2009 holds strong through Q2 2010. As Q3 and Q4 2010 bring us closer to inevitable tax increases, we expect deal activity to blossom in the second half of 2010.

Private Equity is sitting on nearly \$500 billion in capital overhang (funds raised yet to be invested) while the non-bank companies on the S&P 500 hold over \$900 billion in cash. Expect to see this capital leave the sidelines in late 2010 and throughout 2011.

Deal Funding

Perhaps one of the surest signs of investor confidence and appetite for deals is the increased liquidity in the marketplace.

Debt played its largest role in private equity transactions since 2008. While leverage is still a pedestrian 46.8% of deals, the combination of capital overhang and available liquidity for transactions indicate that Private Equity could be very active in the next 18 – 24 months.

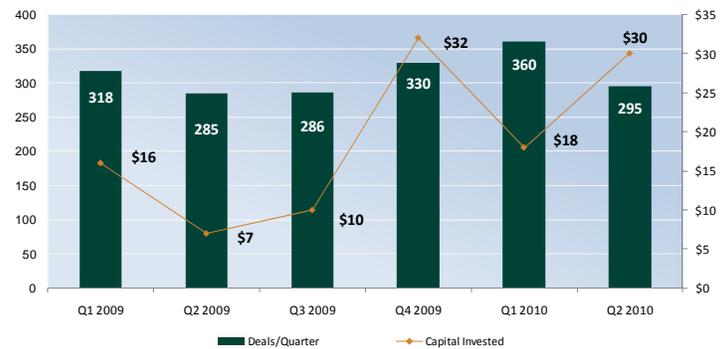
Pet industry business owners are in the midst of a window of opportunity to monetize the value created in their businesses. Despite increased activity and funding, deal structures continue to contain back-end features such as warrants, carried stock interest and seller-carried notes.

Deal Multiples

Deal multiples for completed in transactions in the \$25-50MM and \$100MM-250MM value ranges were the highest they have been since one of Private Equity's most active years: 2007. Recent deal activity, across all deal sizes indicates that buyers are paying 5.0x-7.0x EBITDA with limited exceptions on both ends of the spectrum.

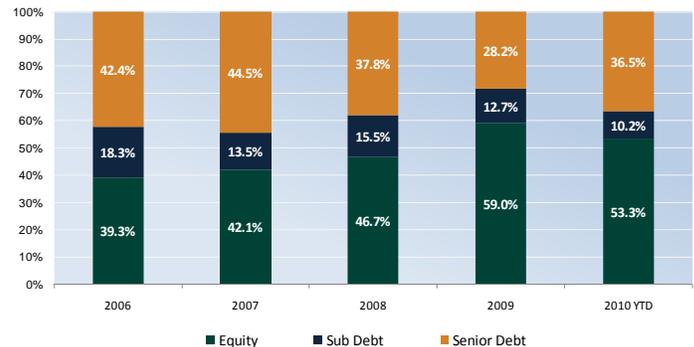
Deal multiples for smaller companies (\$10-25MM) are close to 5.0x. Regardless of deal size, we continue to see a valuation break-point for companies exhibiting above average performance. Competitive bidding for quality companies will be seen across the board in the next 6 quarters, driving multiples higher and shifting deal terms in favor of more cash at closing and/or less restrictive delayed compensation.

Private Equity Activity (\$Billions)



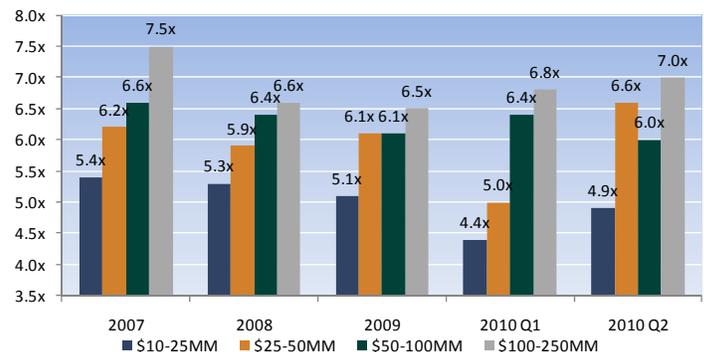
SOURCE: PITCHBOOK

Equity and Debt Contributions



Source: GF Data Resources, Inc.

EBITDA Multiples



Source: GF Data Resources, Inc.

SDR Ventures: The Investment Bank to the Pet Industry



Carol Frank (cfrank@sdrventures.com)

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.

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