



# THE DEAL HOUND

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## QUARTERLY PET INDUSTRY REPORT

Vol. 5 | Issue 3 | Q3 2014

### PET INDUSTRY DEAL ACTIVITY – Q3 2014

M&A activity in the pet industry remained high in Q3 of 2014, yielding 9 total transactions. As the pet industry continues to experience high revenue levels, companies seek to invest in the specialty pet product niche and online retail sector. Bark & Co, which provides specialty products for dogs, received \$10 million in its series B round of funding led by existing investor Resolute Ventures. PetSmart acquired Pet360 for \$130 million in a strategic move to expand its e-Commerce business. Brad's Raw Foods, a specialty dog snack producer, and Camp Bow Wow, a specialty pet service provider, entered into investment and acquisition deals, respectively. Pethealth, Inc, which provides medical insurance for pets, was acquired by Fairfax Financial Holdings for \$85 million. The pet industry can expect continued high levels of M&A activity in Q4 due to growing revenues and increasing demand for pet specialty products and services.

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#### Pet Deal Activity Highlights

#### STRATEGIC ACQUISITIONS

- July 18, 2014 **Agrolimen SA**, a Spain-based producer and supplier of pet food, has acquired an unknown stake in **Nature's Variety, Inc.**, a natural pet food company that offers its products through pet specialty stores and veterinarians in the United States, Canada, and online.
- August 4, 2014 **VCA Inc.** (NasdaqGS:WOOF) entered into an agreement to acquire **D.O.G. Development, LLC** from Heidi Ganahl. In 2013, Camp Bow Wow generated system-wide sales of over \$70 million.
- August 22, 2014 **PetSmart Inc. (NASDAQ: PETM)** has acquired online pet products retailer and integrated media company **Pet360** for \$130 million to ramp up its e-Commerce business. With the purchase, PetSmart will provide customers with seamless access to the Pet360 e-Commerce site, digital media programs and content sites.

#### FINANCIAL DEALS

- July 28, 2014 **Pet People Enterprises LLC**, manufacturer of natural dog treats, announced it has received an undisclosed amount of growth capital from new investor **Rosser Capital Partners**.
- August 6, 2014 **Brad's Raw Foods LLC**, a dog snack producer, received funding from existing investor **Ben Franklin Technology Partners** through the issuance of convertible debt and 10-year penny warrants.
- September 30, 2014 **Ainsworth Pet Nutrition, Inc.**, a pet food company, announced it has received a round of funding from new investor **Catterton Partners Corporation**.
- July 11, 2014 **Cloud Star Corporation**, a dog and cat product producer, announced that it had received recapitalization funding from new investors, **Frontenac Company** and **Avante Mezzanine, Inc.** SDR Ventures acted as financial advisor to the company.

Source: CapIQ

#### Q3 2014 Pet M&A Activities

9 Total Transactions

4 Acquisition Deals

5 Financial Announcements

#### Sniffing Out a Deal – Agrolimen

July 18, 2014

**Agrolimen**

Has invested in



**Acquisition Type:**  
*Strategic*

**Top 5 Value Drivers:**  
*Increasing Pet Portfolio  
Market Access  
Robust Growth Opportunities  
Marketing Resources  
Access to Key Geographies*

Agrolimen SA is a Spanish group specialized in consumer goods, with leading brands in food and pet food industries as well as quick service restaurants. The company is one of the main European groups in these business areas and has presence in more than 75 countries.

Nature's Variety is an independent company producing premium, natural pet foods. It is headquartered in St. Louis with manufacturing operations in Nebraska. Nature's Variety has 410 employees and had revenue of \$98.5 million in 2013.

This joint venture will help to fulfill Agrolimen's international growth strategy. The company continues to seek out foreign acquisitions and holds a massive fund of €800 Million for these transactions.



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### SPOTLIGHT

*Deal Perspective:* [Walter Florence, Managing Director—Frontenac Company](#)

An Interview with SDR's Carol Frank

**CAROL:** You just recently completed an investment in Cloud Star pet treat company. What was it about Cloud Star that drove your decision to make that investment?

**WALTER:** Cloud star has a strong brand that is authentic – the founder Jen Melton started the business in her home kitchen baking allergen free treats for her dog Samantha, a shepherd mix. It is also well positioned in what we view as the higher growth segment of the market – natural pet treats and foods. We believe growth will endure in this segment as consumers become more and more aware of their pets' specific health and functional needs and more selective about the ingredients in their pets' diets. Beyond its brand and positioning, what set Cloud Star apart was the success they have had innovating and introducing successful new products to the market. For a company that is still relatively small, that was differentiating in our mind and something we felt provided a foundation that we could build upon.

**Why do you think there has been so much interest in the pet industry from private equity groups?**

The pet industry is profitable and growing. That is a recipe to attract capital – private, public, or otherwise. It really is that simple.

**What are the advantages of selling to a private equity firm versus a strategic acquirer?**

Not all pet companies are alike, not all strategic buyers are alike and not all private equity companies are alike. That said, culturally it is very challenging for closely held businesses, who have never had outside investors, to integrate well with strategic buyers. They simply are not ready to deal with the established processes, procedures and protocols that come with larger strategic buyers. They are less flexible. They have their people and their way of doing business. Our firm, Frontenac, has built our franchise working with

lower middle market, family held or owner operated businesses whose owners are trying to address complex transaction issues of liquidity, management enhancement, and growth planning. If you are successful in business, you will have to address these issues. It is a question of when, not if.

**Often owners will sell a portion of their business to a private equity group, known as “taking the first bite of the apple.” What should an operator expect to be different once they take that bite and sell to a PE group such as Frontenac?**

Bringing on a financial partner is like getting married. Both parties should do their homework. We invest a lot of time up front talking about values, day-to-day plans and longer terms goals. Get to know the people and check references. They will diligence you and you should diligence them. PE groups are all different, as I said above, but if I were to make a general observation I think operators can expect higher demands on their financial teams – budgets, forecasts, payback analysis, etc. We do not run businesses by the number, but it is important to have them to understand what they tell you about your business.

**What can a pet product manufacturer do to make themselves attractive to a private equity firm like Frontenac?**

The best way to attract an investor is to deliver sustained, profitable growth. Beyond that, I would have to say hire great people, and invest in differentiated products - there are too many “me too” products. Offer something different.

**What's next for Frontenac in terms of pet industry investments?**

We are committed to growing Cloud Star. You can expect new product innovation and select acquisitions. Beyond that, at Frontenac we are always looking for new opportunities in services, distribution, retail and manufacturing are would like to invest more money in the pet industry. Closer to home, I have three growing kids who want another pet ... so that might be next up!



**Walter Florence**  
Managing Director  
Frontenac Company

Walter Florence is a managing director with Frontenac Company, a Chicago-based private investment firm. Since 1995, Walter's investing experience has included private companies in the business services, food and consumer, as well as distribution markets.

Walter currently serves on the board of directors of Cloud Star, LLC, Mercer Foods, LLC, Salient Federal Solutions, Inc., Sigma International Group, Inc. and Wenner Bread, Inc.

Prior to joining Frontenac, Mr. Florence worked at Bear, Stearns & Co., Inc. and McKinsey & Company. He graduated cum laude from Dartmouth College in 1992, with a major in economics and mathematics and received a master's degree from the J.L. Kellogg Graduate School of Management in 1998, graduating with distinction.



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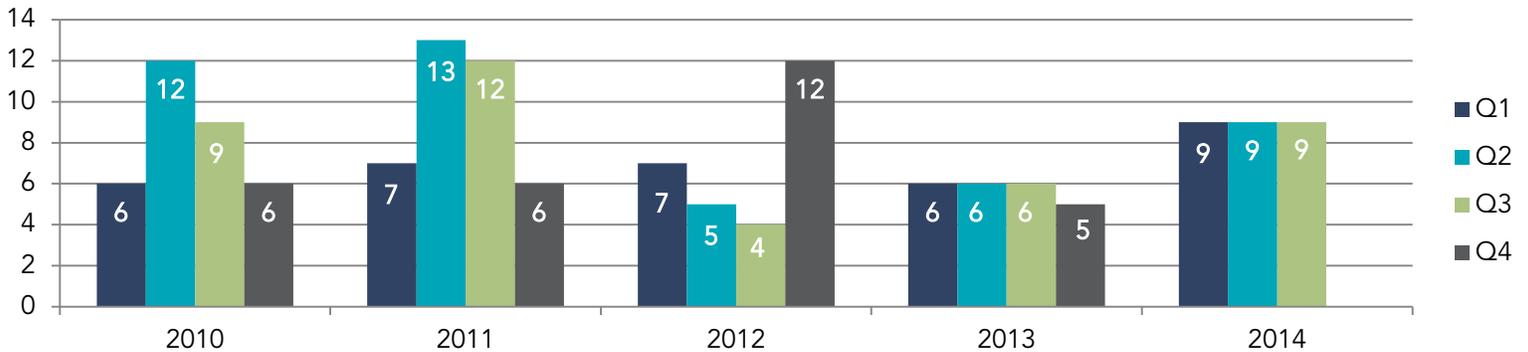
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### M&A MARKET OVERVIEW

#### Pet Transactions

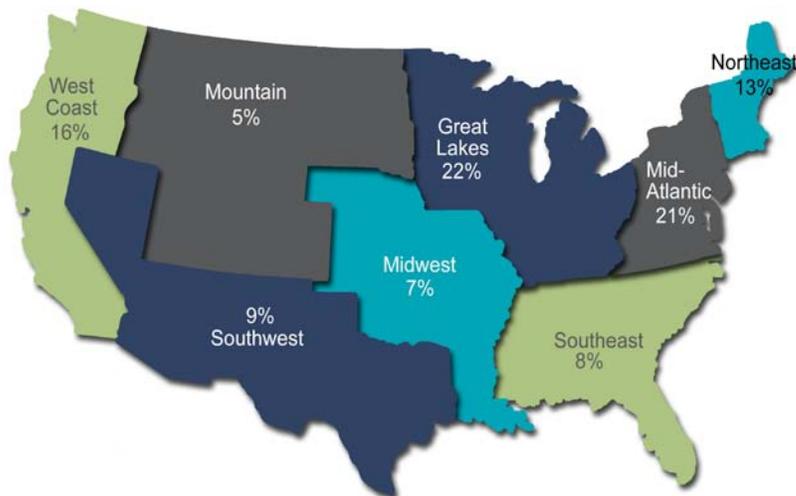
# of Transactions by Quarter



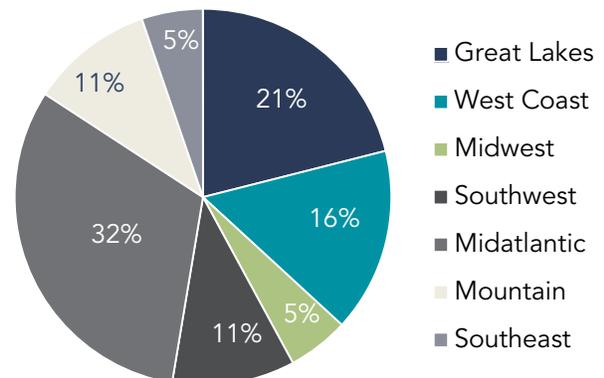
### Public Pet Segments

Market Segment	Market Cap	Stock Price Delta			Price/ LTM EPS	Price/ Book	Price/ Sales	Price/ EBITDA
		Month	YTD	LTM				
Pet Products	\$ 31,850	(0.8%)	2.4%	3.6%	41.40x	12.18x	1.71x	9.74x
Pet Retail	\$ 7,525	(2.5%)	(18.1%)	(14.1%)	20.91x	6.19x	1.27x	10.03x
Pet Health	\$ 24,657	(0.6%)	18.4%	27.6%	29.92x	12.28x	4.86x	13.76x
Consumer Products w/Pet Lines	\$ 61,225	(0.7%)	1.0%	2.0%	24.80x	24.52x	2.55x	12.24x
Industry Average	\$ 26,638	(0.7%)	9.8%	14.3%	34.38x	11.90x	3.33x	11.35x
S&P 500 Average	\$ 35,131	(1.3%)	5.3%	10.8%	27.56x	4.25x	3.03x	11.15x

### All Pet Companies by Region



### Pet Transactions by Region (YTD 2014)



Source: CapIQ

\*These data represent the recorded transactions, are not inclusive of completed transactions, and are meant to be representative of the industry.



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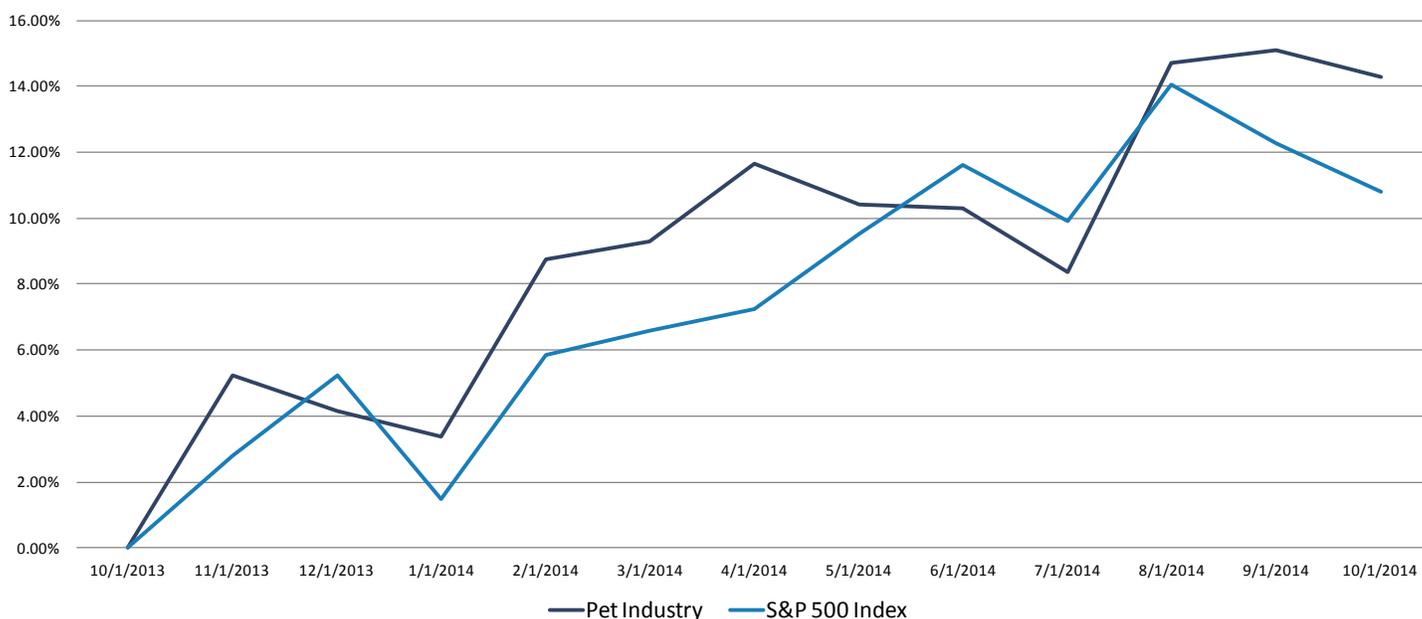
### PUBLIC BASKET

The pet industry public basket overtook the S&P 500 average in Q3 2014. Despite the slowdown of M&A activity this quarter, promising industry trends helped maintain stock price growth. Growing international demand, especially in China, Japan, India, and Brazil, are providing pet companies with new markets and opportunities for growth. Additionally, domestic consumers continue to spend more on specialty products and consumables and pet healthcare products and services. This trend continues to impact stock price in the United States as pet specialty and healthcare continue to outpace large retailers and mass products. Pet healthcare companies such as Zoetis and Eli Lilly witnessed 11.5% and 27.61% stock price increases, respectively, in 2014. Similarly, specialty pet product company Central Garden & Pet experienced a 12.08% stock price increase year-to-date.

Company	Symbol	State	Market Cap (\$ in Mil)	Price	Stock Price Change		Price/ LTM EPS	Price/ Book	Price/ Rev	Price/ EBITDA
					Month	YTD				
PetSmart, Inc.	NasdaqGS:PETM	AZ	\$ 6,741	\$ 67.9	(3.18%)	(6.72%)	16.5x	5.8x	1.0x	7.3x
Tractor Supply Company	NASDAQ:TSCO	TN	\$ 8,309	\$ 60.4	(1.89%)	(22.21%)	25.4x	6.6x	1.5x	12.8x
Central Garden & Pet Company	NasdaqGS:CENT	CA	\$ 403	\$ 7.7	(0.65%)	12.08%	NM	0.8x	0.5x	10.4x
Phibro Animal Health Corporation	NasdaqGM:PAH	NJ	\$ 869	\$ 22.3	(0.49%)	NA	33.4x	57.1x	1.7x	13.0x
Eli Lilly and Company	NYSE:LLY	IN	\$ 69,427	\$ 65.1	0.35%	27.61%	26.7x	3.9x	3.3x	12.2x
VCA Inc.	NasdaqGS:WOC	CA	\$ 3,327	\$ 38.6	(1.89%)	23.04%	23.1x	2.5x	2.1x	11.2x
Zoetis Inc.	NYSE:ZTS	NJ	\$ 18,268	\$ 36.5	(1.35%)	11.50%	30.0x	14.5x	4.6x	16.4x
Omega Protein Corporation	NYSE:OME	TX	\$ 258	\$ 12.3	(2.00%)	(0.33%)	5.9x	1.0x	0.8x	2.6x
Harbinger Group Inc.	NYSE:HRG	NY	\$ 2,608	\$ 13.0	(1.14%)	9.45%	151.3x	1.7x	1.2x	6.5x
Oil-Dri Corp. of America	NYSE:ODC	IL	\$ 174	\$ 24.6	(5.64%)	(34.99%)	19.1x	1.6x	0.7x	6.9x
<b>Average</b>			<b>\$ 11,038</b>	<b>\$ 34.8</b>	<b>(1.79%)</b>	<b>2.16%</b>	<b>36.8x</b>	<b>9.5x</b>	<b>1.7x</b>	<b>9.9x</b>

Source: CapIQ

### PET INDUSTRY VS. S&P 500 RUNNING 12 MONTHS



Source: CapIQ



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### SDR VENTURES: THE INVESTMENT BANK TO THE PET INDUSTRY

Carol Frank ([cfrank@sdrventures.com](mailto: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, transactional and operational 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. As a registered investment banker, she also holds Series 79 and 63 licenses.

#### 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.

###### *Pet Industry Buy-Side*

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.

##### Capital Formation

###### *Placement Agent*

In the event that our debt solutions are not a fit for your strategic goals, SDR will act as a finder for private debt and equity capital. Our goal is to identify the right capital and the right capital provider based on your needs.

“SDR can be your outsourced Mergers & Acquisitions team.”

##### Strategic Advisory

Unlike many 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

#### RECENT TRANSACTIONS

 JULY 2014 SDR Ventures SELL SIDE TRANSACTION	 JULY 2014 SDR Ventures SELL SIDE TRANSACTION	 APRIL 2014 SDR Ventures SELL SIDE TRANSACTION	 AUGUST 2014 SDR Ventures CAPITAL FORMATION	 NOVEMBER 2013 SDR Ventures BUY SIDE TRANSACTION	 NOVEMBER 2013 SDR Ventures CAPITAL FORMATION
 SEPTEMBER 2013 SDR Ventures CAPITAL FORMATION	 SEPTEMBER 2013 SDR Ventures BUY SIDE TRANSACTION	 OCTOBER 2013 SDR Ventures BUY SIDE TRANSACTION	 JUNE 2013 SDR Ventures SELL SIDE TRANSACTION	 APRIL 2013 SDR Ventures BUY SIDE TRANSACTION	 AUGUST 2013 SDR Ventures CAPITAL FORMATION