

PET INDUSTRY PRIMER

PETS & MONEY SUMMIT 2018



Many pet business owners set out with a passion for pets and an exciting product or service, but building and scaling a business can present numerous challenges and difficult decisions. This industry primer will help you consider where to focus your efforts over the coming months and years.

KEY BUSINESS OWNER DECISIONS

- Should we invest to grow revenue at any cost or improve our operating margins?
- Should we bring in outside capital or retain all of the equity and increase our borrowing?
- When should we sell and what should the business look like when we do?
- Who is going to buy our business?

FOUR FACTORS THAT DRIVE BUSINESS VALUE

1

FINANCIAL

Consistent revenue growth and above-average profit margins

2

OPERATIONS AND SALES

Measuring and utilizing KPIs

3

PRODUCTS AND SERVICES

Differentiated and relevant products and services

4

CULTURE

Engaged employees throughout the company

TYPES OF PET INDUSTRY INVESTORS



INSTITUTIONAL CAPITAL

- Private Equity, Venture Capital, Family Offices
- May provide strategic guidance, operating insights and additional capital to develop business
- Typically have limited investment horizons and will look to exit in 3-7 years (Family Offices typically will hold investments longer)



STRATEGIC COMPANIES

- Corporations that operate in the pet industry
- May have operating synergies such as existing distribution channels
- May include corporate Venture Capital funds, which are increasingly active investors
- Potential eventual buyer for the business

RAISING CAPITAL AND SELLING A BUSINESS – TRANSACTION TYPES

MINORITY RECAPITALIZATION

Definition: Sell <50% of the equity

- ✓ Retain control of the business
- ✓ Reduce risk of capital tied up in the company
- ✗ Lowest cash distribution

MAJORITY RECAPITALIZATION

Definition: Sell >50% of the company but retain some ownership

- ✓ Partner could help drive growth through additional investment and/or strategic input
- ✓ Significant liquidity event with the possibility of greater returns at future sale
- ✗ Give up control of the business to partner

100% SALE

Definition: Sell the entire company

- ✓ Greatest liquidity event at time of sale
- No further ties to the business if desired (after a transition period)
- ✗ No future cash flows

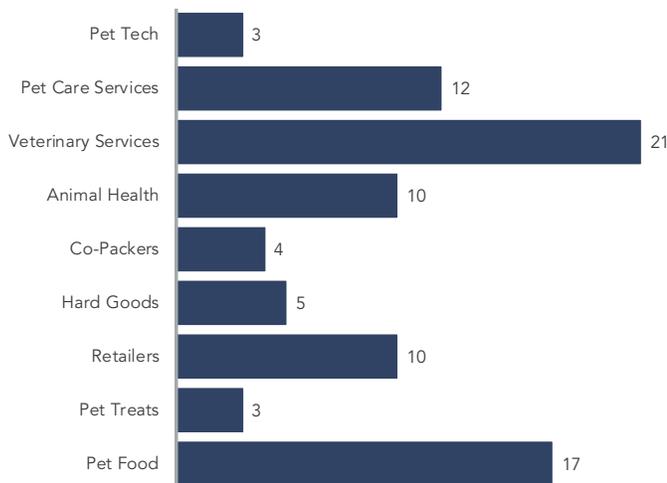
MANAGEMENT BUYOUT OR ESOP

Definition: Sell to employees

- ✓ Rewards the team and no transition of operations
- ✗ May not realize full value of the business
- ✗ Structuring an ESOP can be expensive

RECENT PET M&A AND INVESTMENT SNAPSHOT

TRANSACTIONS BY INDUSTRY SEGMENT (2H 2017–1H 2018)



SELECT TRANSACTIONS

2.18 **General Mills** acquired **Blue Buffalo**, one of the fastest growing premium pet food companies

12.17 **JW Childs** (PE) acquired **Outward Hound**, a manufacturer of dog and cat toys and gear, from another PE firm, **The Riverside Company**

11.17 **Azalea Capital** (PE) and an investor group of family offices acquired **Ark Naturals**, an early pioneer in the natural pet products category, from Ark's founders

3.16 **Mars** acquired **Whistle**, maker of GPS pet collars and activity trackers, after Whistle raised over \$20MM in venture funding

Source: FactSet financial data and analytics



Pets & Money brings together growing pet brands and start-ups looking for investment or acquisition interest and those looking to partner with them – strategic and financial buyers, private equity, VC and angel investors. Schedule private meetings to connect with new partners while talks from industry leaders help you navigate key trends and strategies for growth.

Register at petsandmoneysummit.com



For the past decade, **SDR Ventures** has been a valuable resource and advisor for pet industry business owners. SDR's experience has placed it at the leading edge of the market, giving you a distinct advantage when you choose to seek investments to grow your business or exit. SDR's Pet Team is led by Jodi Burrows, who will be available for meetings at the Pets & Money Summit.

Learn more at sdrventures.com