

# PET SECTOR M&A ACTIVITY—2020 REVIEW

## MAN'S BEST FRIEND THRIVES DURING THE PANDEMIC

COVID-19 restrictions confined many people to their homes and apartments during 2020, causing human social interactions—a fundamental pillar of human psychology—to suffer. As individuals sought new ways to satisfy their innate needs for Belongingness and Love (the third tier of Maslow's Hierarchy), pets came to the rescue.

**Pet Sector\* Market Value  
(2020E)**

**~\$100 Billion**

### ***The humanization of pets continues during COVID-19.***

Pet-ownership surged across generational lines during the year, as **20% of Nielsen survey respondents adopted at least one dog or cat between March and June of 2020**—up from < 5% during the equivalent 2019 period.

Further, the “humanization of pets” continues to drive trends across the pet food industry that align closely with human trends in food and beverage (i.e. shifts to healthier, trusted-brand, higher-quality products). Despite the pandemic's financial implications, customers' willingness to pay for premium offerings for their pets has persisted. According to APPA's (American Pet Products Association) pet ownership report, 43% of dog owners and 41% of cat owners purchase premium pet foods. Food, drug, mass and ecommerce retailers are the primary suppliers satisfying today's demand, with ecommerce emerging as the fastest growing channel.

Top Brands on Amazon by Sales

	Rank	Brand	Growth		Rank	Brand	Growth
Dog Dry	1	Purina	73%	Dog Wet	1	Purina	94%
	2	Blue Buffalo	18%		2	Cesar	74%
	3	Hill's Science Diet	61%		3	Blue Buffalo	58%
	4	Royal Canin	83%		4	Hill's Science Diet	110%
	5	Nutro	16%		5	Pedigree	179%
Cat Dry	1	Purina	57%	Cat Wet	1	Purina	79%
	2	Hill's Science Diet	57%		2	Sheba	101%
	3	Blue Buffalo	38%		3	Wellness	25%
	4	Iams	72%		4	Hill's Science Diet	56%
	5	Royal Canin	36%		5	Blue Buffalo	52%

\* Time Period: January 2020 - June 2020 vs. same period 2019

Source: Pet Food Processing

### ***Pet sector's recession-resistance proves attractive to investors.***

As the pandemic lingers and market uncertainties persist in 2021, investors will likely look to mitigate volatility across portfolio companies. Business models generating recurring revenue will remain increasingly attractive prospects and **both strategic and financial buyers will have their eyes set on recession-resistant businesses**. The pet sector has proven its market resilience during the COVID-19 pandemic, as well as during previous recessions. As a growth market for more than 10 years now, the pet sector is ripe for M&A activity as 1) strong online growth positions the segment for continued expansion, and 2) increasing pet ownership and humanization trends continue to drive industry growth.

\*Pet Sector includes Pet Food & Treats; Supplies, Live Animals & OTC Medicine; Vet Care & Product Sales; and Other Pet Services.

Source: Pet Food Processing, Packaged Facts, USA Today

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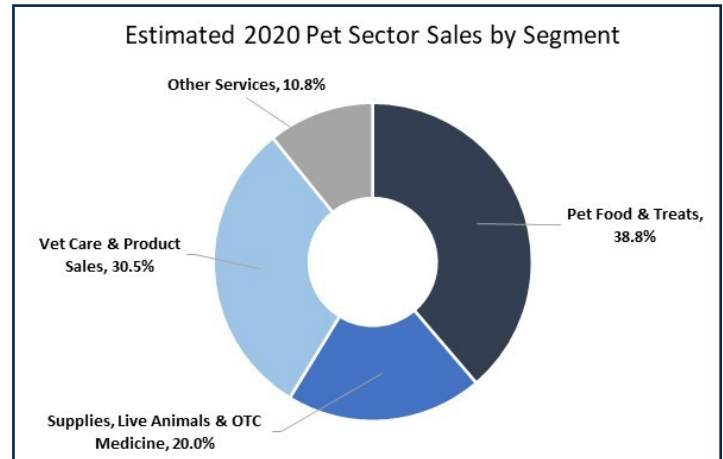
INVESTMENT BANKING SERVICES

**MAN’S BEST FRIEND THRIVES DURING THE PANDEMIC**

***Pet Food & Treats draws largest percentage of spending.***

In 2020, pet sector spending is expected to climb 3.5% YoY. The following segments gave shape to 2020 year-end pet sector sales:

- Pet Food & Treats (\$36.9B);
- Vet Care & Product Sales (\$29.3B);
- Supplies, Live Animals & OTC (\$19.2B); and
- Other Services (\$10.3B)



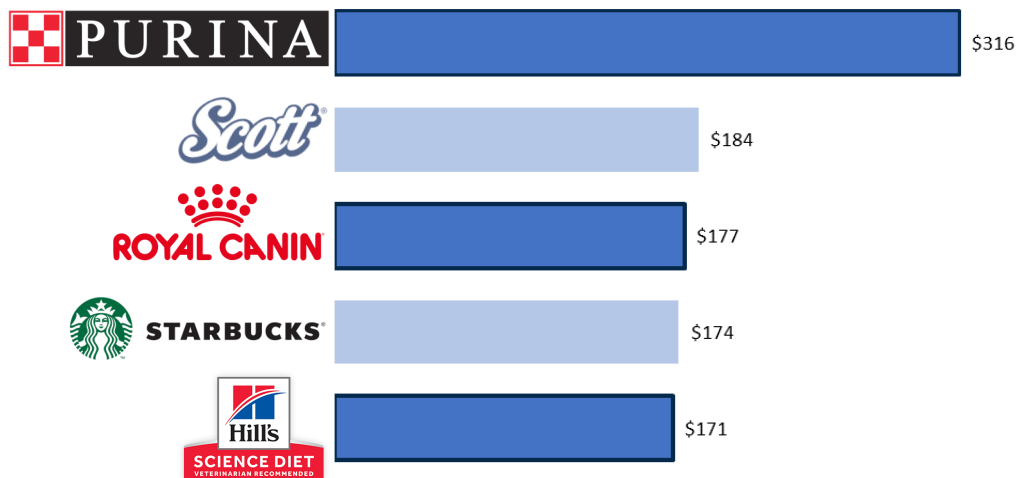
Although pandemic-driven pet ownership has trended upward across all generations, Gen Z and Millennials in particular have opted toward subscription-based boxed services for discretionary pet needs (i.e., treats and toys). According to a survey, **just 1% of baby boomers use box subscription services, compared to 17% of Gen Z, 13% of Millennials and 10% of Gen X.**

***Diversified revenue channels are becoming necessary.***

In attracting investors, a company’s ability to demonstrate diversified revenue channels has become increasingly important due to limited brick-and-mortar traffic. This pandemic-accelerated shift from brick-and-mortar to online shopping was particularly apparent during the holiday season. For instance, 58% of APPA survey respondents intended to purchase gifts for their pets online and 40% elected an online-only outlet such as Amazon or Chewy.

According to 2020 IRI data, three pet food companies (Purina, Royal Canin and Hill’s Science Diet) ranked in the top 5 brands for ecommerce sales growth when compared to the prior year period.

Top 5 Ecommerce Brands  
(YoY dollar sales growth in millions)



Companies ranked on Dollar Sales Absolute Change for 52 Weeks Ending Nov. 29, 2020 vs. YA. Data considers manufacturers with sales >\$100M in E-commerce.

Source: APPA, PNN, IRI Consulting, CM&Co. Research

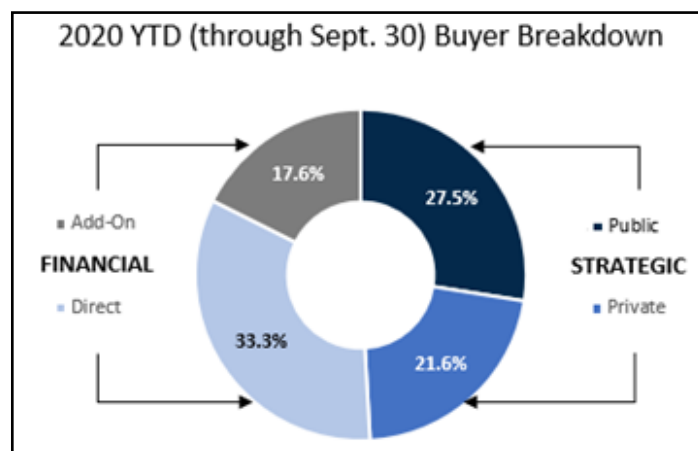
## PET SECTOR M&A ACTIVITY — 2020 OVERVIEW

### MAN'S BEST FRIEND THRIVES DURING THE PANDEMIC

#### Private Equity buyers account for over 50% of deal activity YTD.

Pet humanization has grabbed the interest of private equity investors, as pet owners consider new pets to be “family additions”. With stay-at-home recommendations causing humans to spend more time in places of residence, more opportunities exist for pet owners to recognize the needs and wants of furry family members. Attractive platform investments display strong omnichannels capabilities, health and safety-centric products, and brand recognition. Further, add-on opportunities in the market have taken shape as private equity investors look to:

- Expand product lines;
- Enter new pet markets; and
- Extend brand presence through new channels.



YTD through September 2020, the Pet Health and Veterinary Services subsector captured the strongest transaction activity among the pet sector, particularly drawing interest from private equity buyers (PE accounted for 61% of deal volume YTD in this segment). Growth in Pet Health and Veterinary Services is being fueled by health-conscious consumer demand for protein-based pet and animal foods, as well as spikes in zoonotic and food-borne diseases.

#### Private Equity-backed average EBITDA multiples (2012-Present)

##### Pet and Pet Supplies

*\$ in millions* *TEV = Total Enterprise Value*

TEV Range	TEV \$	Revenues \$	TTM Rev Growth %	EBITDA Margin %	TEV/Revs	TEV / EBITDA	N
\$10 - \$25	\$19.7	\$20.3	17.3%	13.3%	1.0x	7.7x	3
\$25 - \$100	\$44.3	\$33.2	91.6%	19.3%	1.4x	7.1x	4
Total	\$33.7	\$27.7	59.7%	16.8%	1.2x	7.4x	7

##### Animal Food Manufacturing

*\$ in millions* *TEV = Total Enterprise Value*

TEV Range	TEV \$	Revenues \$	TTM Rev Growth %	EBITDA Margin %	TEV/Revs	TEV / EBITDA	N
\$10 - \$250	\$32.9	\$20.5	11.8%	23.7%	1.9x	8.1x	8
Total	\$32.9	\$20.5	11.8%	23.7%	1.9x	8.1x	8

Sources: Capstone, Grandview, GF Data, CM&Co. Research

## PET SECTOR M&A ACTIVITY — 2020 OVERVIEW

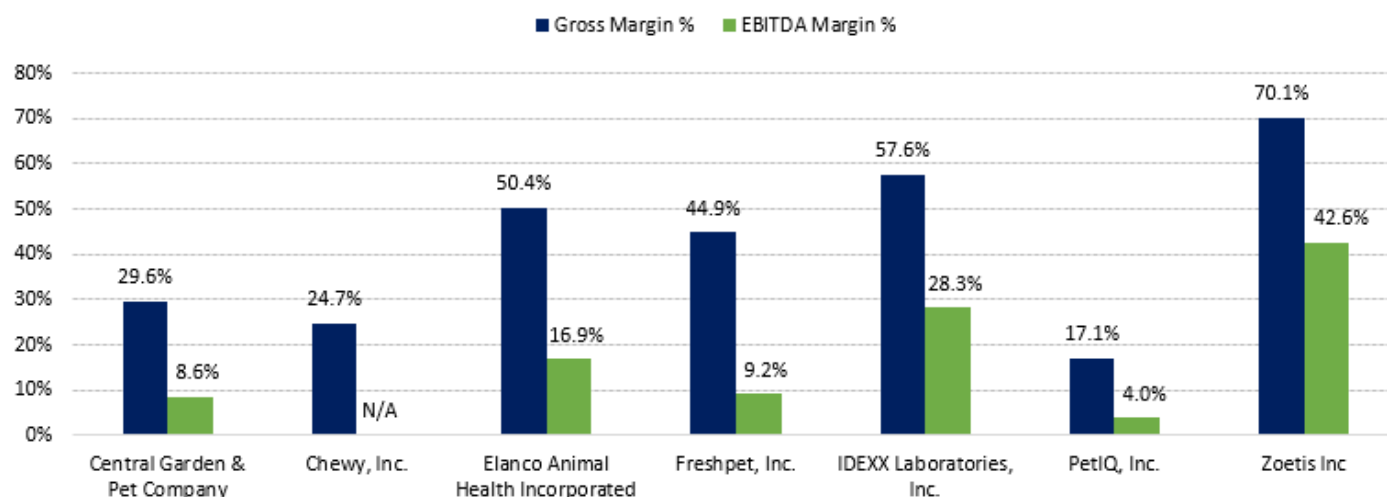
### MAN'S BEST FRIEND THRIVES DURING THE PANDEMIC

#### Public Company Trading and Operating Data

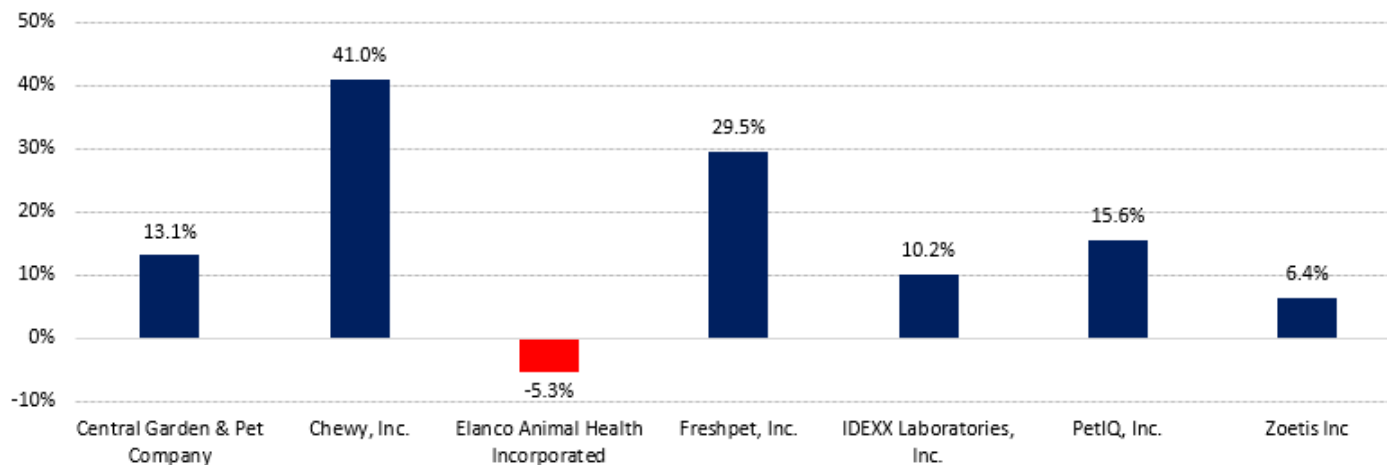
Company	Price 1/11/2021	% 52 Wk High	Market Cap	Enterprise Value	LTM			EV / LTM	
					Revenue	EBITDA	Margin	Revenue	EBITDA
Central Garden & Pet Company	\$40.99	91.4%	\$2,122.0	\$2,284.2	\$2,383.0	\$205.4	8.6%	1.0x	11.1x
Chewy, Inc.	\$97.15	98.4%	\$39,973.1	\$39,808.1	\$6,457.8	-\$146.2	N/A	6.2x	N/A
Elanco Animal Health Incorporated	\$31.54	92.5%	\$14,808.7	\$20,463.7	\$2,920.6	\$493.3	16.9%	7.0x	41.5x
Freshpet, Inc.	\$145.18	97.0%	\$6,008.2	\$5,922.8	\$300.0	\$27.6	9.2%	19.7x	214.6x
IDEXX Laboratories, Inc.	\$506.55	98.0%	\$43,775.9	\$44,591.5	\$2,591.2	\$732.5	28.3%	17.2x	60.9x
PetIQ, Inc.	\$35.96	98.4%	\$903.2	\$1,268.6	\$770.2	\$30.5	4.0%	1.6x	41.6x
Zoetis Inc	\$169.39	95.9%	\$79,897.3	\$84,142.3	\$6,542.0	\$2,784.0	42.6%	12.9x	30.2x

Mean	18.2%	9.4x	66.6x
Median	13.0%	7.0x	41.5x
Harmonic Mean	10.1%	3.3x	31.2x
High	42.6%	19.7x	214.6x
Low	4.0%	1.0x	11.1x

#### Last Twelve Month (LTM) Margin Performance



#### Last Twelve Month (LTM) 1-Year Revenue Growth



Source: CapitalIQ as of January 11, 2021

**MAN'S BEST FRIEND THRIVES DURING THE PANDEMIC**

**Case Study: Major Move in the Veterinary Care and Animal Health Landscape**



Acquired



Elanco Animal Health Incorporated is an animal health company engaged in innovating, developing, manufacturing and marketing products for both pets and farm animals. The company was spun out of Eli Lilly in August of 2018, raising \$1.5 billion during its IPO.

In August 2020, Elanco acquired Bayer Animal Health for \$6.9 billion. This acquisition served as a major milestone in Elanco's journey, as the combined company creates the No. 2 global animal-health company. The acquisition combines Elanco's strong veterinary relationships with Bayer's focus on retail and online sales to create an omni-channel provider fit to serve both veterinarians and pet owners. The new company will be able to capitalize on emerging trends accelerated by COVID-19, including increasing demand for online retail, telemedicine, and direct-to-doorstep care.

**Case Study: M&A Transactions Targeting Accelerated and Emerging Trends**



Acquired



Paws Holdings is a UK-based holding company focused on acquiring quality and reputable brand names in the pet food and products industry.

In January 2021, Paws acquired Fetch, an online pet platform offering a range of specialist and everyday-essential pet products. The primary goal of the acquisition was to expand Paws' ecommerce positioning, taking advantage of an industry wide pivot resulting from COVID-19.

In November 2020, The Carlyle Group acquired majority stake in Manna Pro Products, a manufacturer and marketer of high-quality health and wellness products for pets and hobby animals.

Carlyle seeks to organically grow the Manna Pro business, focusing on the company's ability to serve pet owners looking to make health-conscious decisions and build healthier lifestyles for their pet companions.



Acquired



Source: CapitalIQ, Pitchbook, Morningstar, CM&Co. Research

**MAN'S BEST FRIEND THRIVES DURING THE PANDEMIC****Select M&A Transactions (LTM through January 2021)**

Date	Target	Target Description	Acquirer	Deal Value
1/21	Fetch	Online pet store selling food, collars and medicine	Paws Holdings	N/A
1/21	Growlies Pet Foods	Provider of frozen and dehydrated pet food	Dane Creek Capital	N/A
12/20	Victor Pet Food	Producer and distributor of pet food	TA Associates	N/A
12/20	Natural Balance Pet	Provider of organic and vegetarian pet food	Nexus Capital	\$50m
11/20	WellPet	Producer of pet food and treats	Clearlake Capital Group	N/A
11/20	Manna Pro Products	Manufacturer of pet nutrition and care products	The Carlyle Group	N/A
11/20	Solid Gold	Producer and supplier of pet nutrition solutions	H&H Group	\$163m
10/20	Armitage Pet Care	Manufacturer of pet treats and toys	Spectrum Brands	\$233m
9/20	True Leaf Pet	Operator of cannabis and hemp wellness products for pets	Hemp Technology	N/A
9/20	BrightPet Nutrition Group	Holding company of pet food brands	A&M Capital	N/A
8/20	Westminster Pet Home	Manufacturer of pet supplies	AUA Private Equity Partners	N/A
8/20	Pet Qwerks	Manufacturer of pet toys	Olympus Partners	N/A
8/20	Bayer Animal Health	Provider of animal health treatment	Elanco Animal Health	\$6.9b
7/20	Virtual Recall	Provider of automated software for veterinary practices	Zoetis	N/A
6/20	Wagz	Developer of smart collars, doors and related tech	Sigmatron International	\$44m
5/20	Radio Systems	Manufacturer of pet training, containment and lifestyle products	Clayton, Dubilier and Rice	N/A
4/20	Lily's Kitchen	Provider of natural and organic pet food	Nestle Purina PetCare	\$185m
3/20	American Nutrition	Manufacturer of canned and baked pet food	J.H. Whitney Capital Partners	N/A
2/20	Ethos Diagnostic Science	Provider of medical services	Zoetis	N/A
1/20	Cardinal Laboratories	Manufacturer of pet grooming & healthcare products	Whitebridge Pet Brands	N/A
1/20	Healthfood24	Producer of pet foods and supplements	Hundeland	\$91m

Source: Pitchbook, CapitalIQ

**MAN’S BEST FRIEND THRIVES DURING THE PANDEMIC**

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We work with middle market closely-held businesses, multi-generational family businesses, portfolio companies of financial sponsor firms and divisions or subsidiaries of public companies focusing in Manufacturing & Specialty Chemicals, Consumer Products, SaaS, Healthcare and B2B Services.

Our Team is made up of finance and accounting experts, operators, C-Suite and Board professionals, lawyers, consultants, and marketing professionals. These diverse experiences and skills drive extraordinary results for our clients.

***“The benefit of pet ownership in general and especially through this pandemic is hard to put a value on. The appreciation ‘pet parents’ are showing to their pets is evident in the growth of premium/ super premium and wet/frozen food as well as increased purchases of treats. Innovation will likely increase as more people want variety and better health for their pets.”***

— Paul Smucker Wagstaff  
 (Co-Founder, Embassy Park LLC, Former CEO, Eagle Foods, Former President, US Retail Consumer Foods at JM Smucker Company, Advisor, Carleton McKenna & Co.)