



INDUSTRY OVERVIEW

The Pet Industry finished 2015 strong after a busy year of M&A activity fueled by favorable trends. As consumers continue “humanizing” their pets and are more concerned with ingredients and brand reputation, strategic acquirers are targeting niche brands with dedicated customer bases. The increasing demand for organic and/or eco-friendly food and products reflects greater pet health consciousness. Treating pets as members of the family drives pet owners to spend more on their animals, creating higher margins across all industry subsectors, including premium food and treats, developmental toys and advanced veterinary care.

The persisting trend of pet humanization has led to the increased presence of basic pet products in popular channels such as supermarkets, discount department stores and online retailers. According to the 2015-2016 National Pet Owners Survey, approximately 65% of U.S. households own a pet. These trends could affect large retailers like PETCO and PetSmart as discount and mid-market pet brands become more widely available, potentially limiting demand for pet-only superstores. In addition, this trend has forced independent pet exclusive retailers to search for new ways to increase revenue and differentiate themselves, offering services such as grooming and pet boarding.

Throughout 2015, PETCO, the nation’s second largest pet retailer, considered going public again or merging with PetSmart. Instead, private equity group CVC Capital Partners and the Canada Pension Plan Investment Board agreed to acquire PETCO from TPG and Leonard Green & Partners. The \$4.6-billion purchase price was approximately half the dollar value for which PetSmart sold in December 2014. Although the two retail giants each has around 1,300 stores, in their 2014 fiscal years, PETCO only produced a 1.8% profit margin on \$4 billion in sales while PetSmart generated a 6.1% profit margin from \$6.9 billion of sales. Despite PETCO’s inferior profit margin, the company traded at a comparable EV/EBITDA multiple about one year later, demonstrating the strength of the industry. PETCO only operates retail locations in Mexico, Puerto Rico and the U.S., yet the company makes the list of top retailers to Canadian pet owners due to extensive cross-border shopping by Canadians.

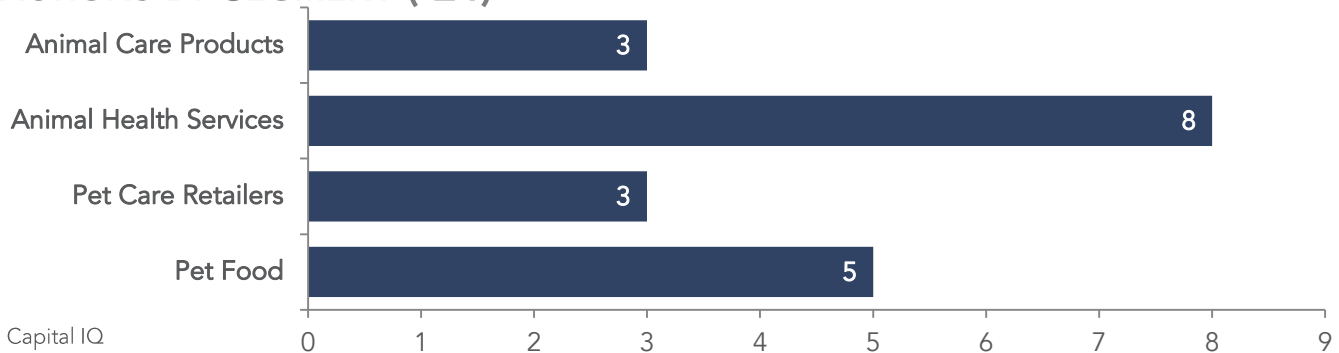
Accelerated by the economic recovery, pet ownership is growing, and demand is high for premium products and continued innovation in toys and veterinary services. Going forward, we expect to see continued M&A activity across the industry from giants including PETCO, Nestlé Purina and human-focused firms such as the J.M. Smucker Company, as well as from many middle-market pet players.

- Travis Conway, Managing Director - Jodi Burrows, Vice President - Spencer Tweed, Analyst

Sources: S&P Capital IQ, PETCO S-1 & Press Release, Package Fact’s Canadian Pet Food Market (May 2015), IBISWorld

TRANSACTION HIGHLIGHTS

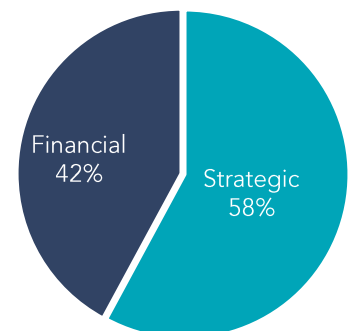
TRANSACTIONS BY SEGMENT (Q4)



Source: S&P Capital IQ

HIGHLIGHTED TRANSACTIONS

STRATEGIC TRANSACTIONS	11.19.15	Central Garden & Pet Company (CENT) entered into an asset purchase agreement to acquire Dallas Manufacturing Company, Inc. (nka National Consumer Outdoors Corporation), for \$61 million in cash. The company produces pet bedding and supplies.
FINANCIAL TRANSACTIONS	11.23.15	CVC Capital Partners Limited and Canada Pension Plan Investment Board announced an acquisition of PETCO Animal Supplies, Inc. for \$4.6 billion, or 10.0x EBITDA.



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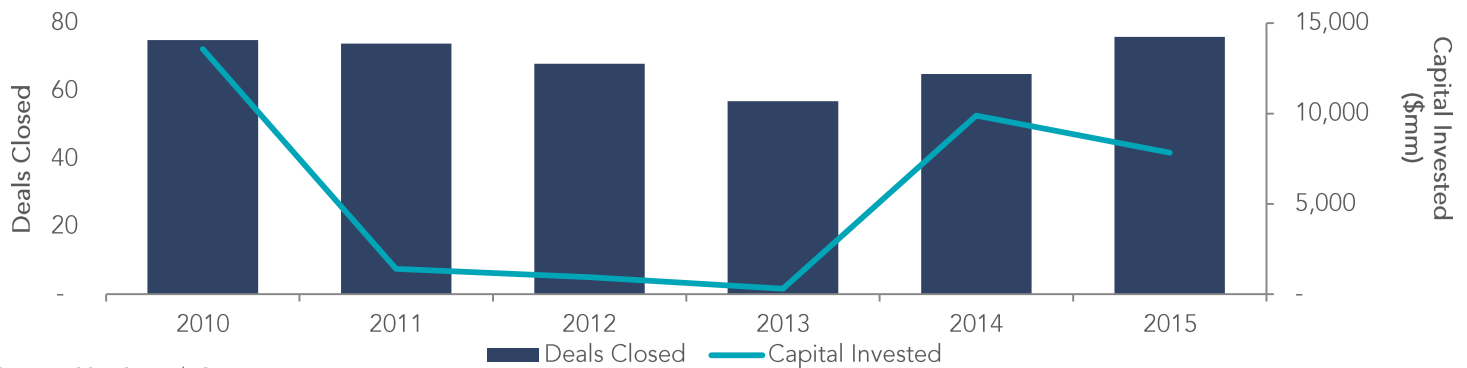


TRANSACTION ACTIVITY

Date	Target	Buyer(s)	Transaction Comments
12/22/2015	Medivet Biologics, LLC	Individual Investor	Individual Investor Jeremy Delk signed an agreement to acquire a 60.5% stake in Medivet Biologics, LLC from Medical Australia Limited for \$2.1 million. Under the terms, Delk will pay \$50,000 upon settlement and \$2 million at a later date, contingent on the future sales of select MediVet Biologics assets.
12/11/2015	Chicago Veterinary Emergency & Specialty Center	MedVet Associates, Inc.	MedVet Associates, Inc. continued its string of acquisitions by purchasing Chicago Veterinary Emergency and Specialty Center. This acquisition came one day after MedVet Associates raised more than \$35 million in an equity round of funding.
11/5/2015	Pure Ocean Botanicals, LLC	W.F. Young, Inc.	W.F. Young, Inc. acquired Pure Ocean Botanicals, LLC for an undisclosed amount. Pure Ocean Botanicals produces seaweed-based nutrition boosters for dogs and cats focusing on joint supplements, glucosamine, probiotics and more.
10/15/2015	Petstages, Inc.	Outward Hound	Outward Hound (owned by Riverside Capital Partners) acquired Petstages, Inc., which designs, manufactures and distributes developmental toys for cats and dogs. The acquisition opens up new strategic retail and specialty distribution channels and adds innovative products to Outward Hounds' portfolio.

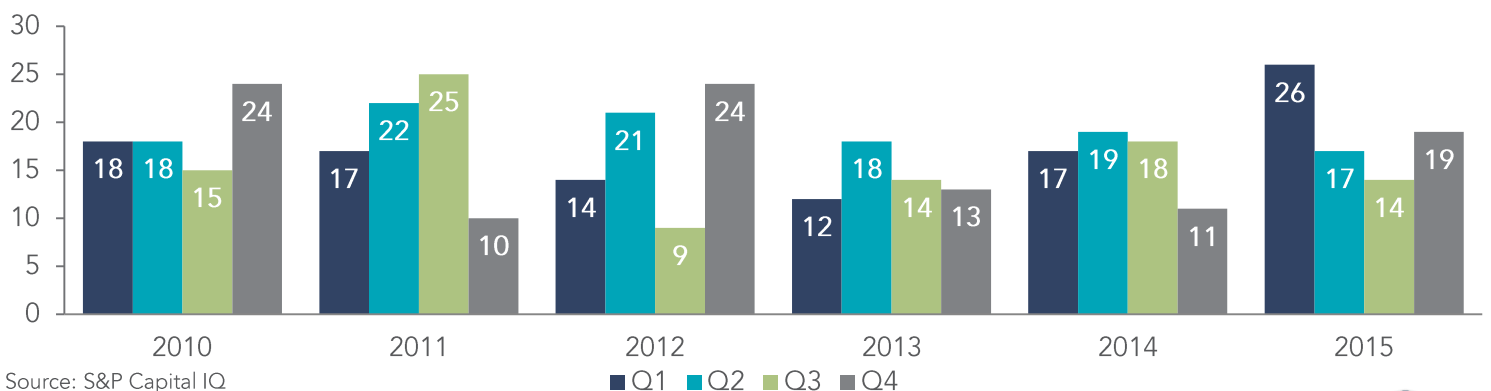
Source: S&P Capital IQ

U.S. PET M&A ACTIVITY



Source: S&P Capital IQ

PET TRANSACTIONS BY QUARTER



Source: S&P Capital IQ

*Note: These data represent recorded transactions only, and are not all-inclusive. Nevertheless, they are typically representative of the industry.



PUBLIC BASKET

Driven by both organic growth and acquisitions, our Pet Industry public basket outperformed the S&P 500 by 18.6% over the past twelve months. While all segments had positive results, the Pet Food segment soared by 73.2% over the S&P 500 for the year, primarily driven by Blue Buffalo's IPO.

On December 1, Central Garden & Pet (NASDAQ:CENT) completed its third major acquisition in the past two years. The company acquired pet bedding manufacturer National Consumer Outdoors Corporation (f/k/a Dallas Manufacturing Company) for \$61 million. The purchase was influenced by the target's strong Brinkmann pet bed brand. Management expects the transaction to be accretive within the first year of the acquisition. CENT's acquisition of Envincio was accretive in one year and CENT's 2015 acquisition of IMS, a dog treat company, is expected to be accretive in 2016. Despite the planned retirement of CENT's President and CEO, John Ranelli, in 2016, CENT announced that it is still pursuing an acquisition growth strategy focused on strong brands going forward.

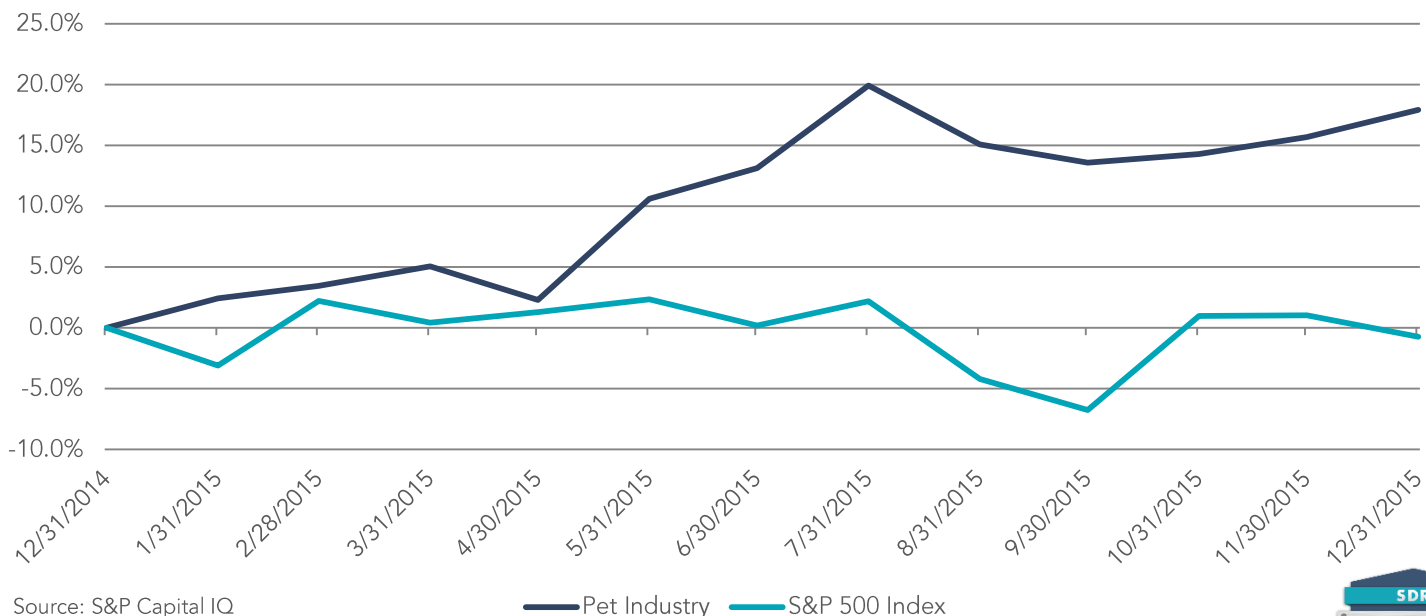
During Q3 2015 the Pet food Segment soared with the IPO of Blue Buffalo (NASDAQ:BUFF). However, since going public, the company's performance has underperformed analyst expectations. In December, BUFF settled a class-action lawsuit over dog food falsely labelled as containing no animal byproduct for \$32 million, the largest pet food class-action settlement ever. BUFF claims this was the misconduct of a former ingredient supplier. In addition, the pet superstores implemented new, tighter inventory policies, lowering BUFF's revenue growth despite strong retail sales to consumers in this channel. Even with the setback from the lawsuit and the highly competitive environment in the pet superstores, the company continues to gain market share, improve margins and expand into new markets.

Sources: S&P Capital IQ, Central Garden & Pet Q3 10-Q and Earnings Call, Blue Buffalo Q3 Earnings Call

Company	Symbol	State	Market Cap		Stock Price		Price/ LTM EPS	Price/ Book	TEV/ Rev	TEV/ EBITDA
			(\$ in Mil)	Last	Quarter Change	YTD Change				
Zoetis Inc.	NYSE:ZTS	NJ	\$ 23,860	\$ 47.92	16.4%	11.4%	34.0x	19.4x	5.6x	18.8x
IDEXX Laboratories, Inc.	NasdaqGS:IDXX	ME	\$ 6,633	\$ 72.92	(1.8%)	(1.6%)	44.9x	NM	4.8x	22.0x
Blue Buffalo Pet Products, Inc.	NasdaqGS:BUFF	CT	\$ 3,670	\$ 18.71	4.5%	N/A	35.0x	NM	3.9x	20.2x
VCA Inc.	NasdaqGS:WOOF	CA	\$ 4,435	\$ 55.00	4.5%	12.8%	26.2x	3.7x	2.5x	13.5x
Phibro Animal Health Corporation	NasdaqGM:PAHC	NJ	\$ 1,179	\$ 30.13	(4.7%)	(4.5%)	23.9x	52.2x	1.9x	13.9x
Freshpet, Inc.	NasdaqGM:FRPT	NJ	\$ 285	\$ 8.49	(19.1%)	(50.2%)	NM	2.8x	2.4x	159.7x
Central Garden & Pet Company	NasdaqGS:CENT	CA	\$ 681	\$ 13.52	(12.6%)	54.0%	18.8x	1.3x	0.6x	7.5x
PetMed Express, Inc.	NasdaqGS:PETS	FL	\$ 345	\$ 17.14	6.5%	19.3%	17.4x	4.4x	1.3x	8.9x
Heska Corporation	NasdaqCM:HSKA	CO	\$ 256	\$ 38.68	26.9%	113.3%	59.3x	4.3x	2.7x	22.3x
Industry Average			\$ 9,173		3.8%	17.9%	28.9x	17.1x	3.1x	18.9x

Source: S&P Capital IQ

PET INDUSTRY VS. S&P 500 RUNNING 12 MONTHS



Source: S&P Capital IQ



INDUSTRY SEGMENTS

Small format stores, rather than big-box retailers, are driving growth opportunities in the pet segment. With the young professional population's increased preference for city convenience and the "where everyone knows your name" local atmosphere, big box pet retailers are becoming less attractive to some consumers, and pet retailers are taking notice. PETCO, for instance, has successfully opened approximately 130 small-format specialty stores under the name "Unleashed by PETCO" through a combination of organic growth and acquisitions of existing stores. Small-format stores are seeking increased market share from pet aisles at supermarkets, discount stores and direct-to-consumer online retailers.

Developmental toys, which promote the mental and physical wellbeing of pets by encouraging problem solving, mental stimulation and engagement with humans, are gaining traction. Interactive and highly durable toys also promote pet dexterity. This trend has encouraged increased M&A activity within the industry in order to promote innovative solutions for cats and dogs. The Riverside Company is attempting to build a developmental toy powerhouse and has built up its portfolio to include Outward Hound, Bionic Pet Products, Zoo Active Products AB (formerly Nina Ottosson Puzzle Games & Toys) and Petstages, Inc.

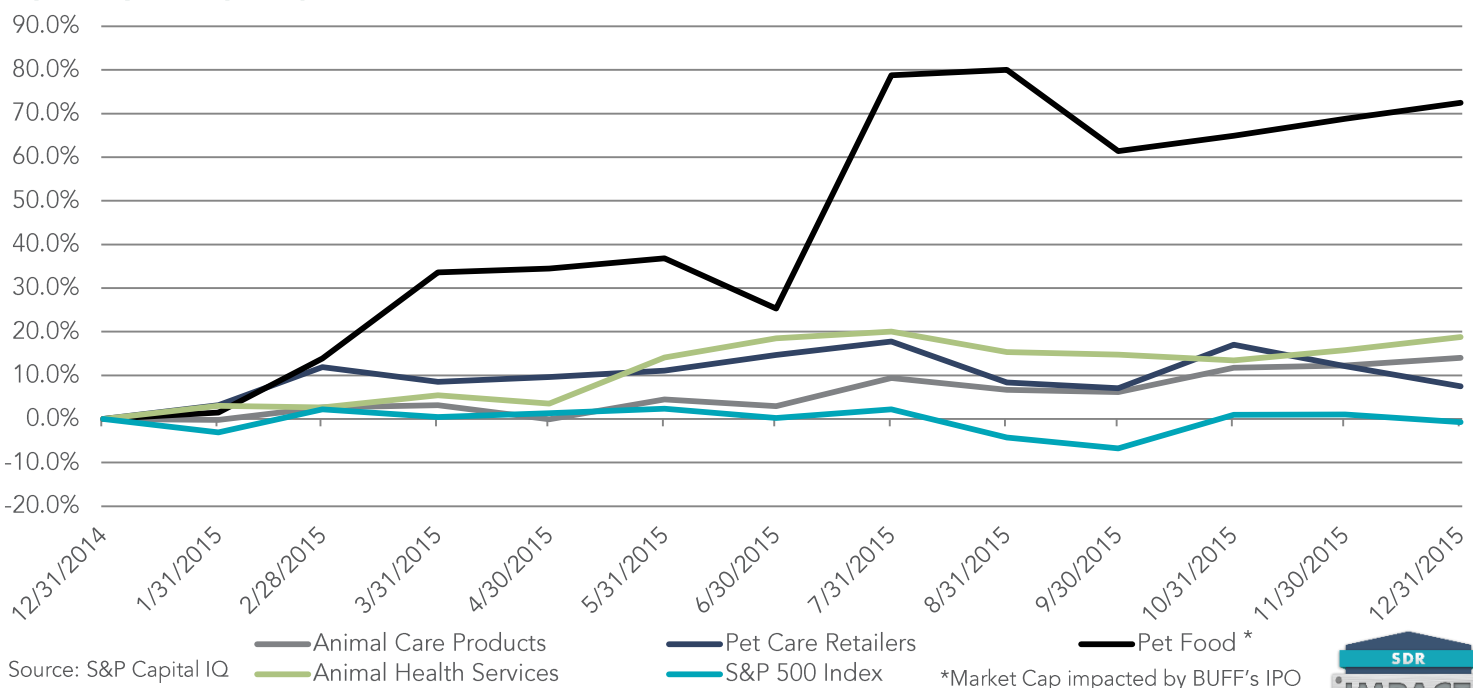
The Animal Health Services Sector saw 31 transactions during 2015 with eight transactions in Q4 alone, comprising nearly half of total pet transactions for the quarter. This is no surprise, as human trends are crossing over to veterinary care and many pet parents are becoming increasingly concerned about the health and fitness of their pets. One of the most active companies in this space is MedVet Associates, Inc. The Company expanded its main hospital practice, MedVet Medical and Cancer Center for Pets, by acquiring six different specialty pet hospitals or emergency centers in 2015.

Source: S&P Capital IQ

Market Segment	Average Market Cap	Market Cap Delta			Price/ LTM EPS	Price/ Book	TEV/ Sales	TEV/ EBITDA
		Quarter	YTD	LTM				
Pet Food	\$ 6,238	6.8%	72.5%	72.5%	24.7x	3.0x	2.4x	50.6x
Animal Health Services	\$ 19,114	3.5%	18.8%	18.8%	33.8x	17.2x	2.2x	11.5x
Animal Care Products	\$ 6,194	7.4%	14.0%	14.0%	24.1x	22.7x	1.8x	11.4x
Pet Care Retailers	\$ 2,964	0.4%	7.5%	7.5%	18.5x	4.4x	1.0x	9.2x
Industry Average	\$ 9,173	3.8%	17.9%	17.9%	28.9x	17.1x	3.1x	18.9x
S&P 500 Average	\$ 39,163	6.5%	(0.7%)	(0.7%)	27.0x	5.4x	3.3x	12.1x

Source: S&P Capital IQ

PET SEGMENTS VS. S&P 500 RUNNING 12 MONTHS

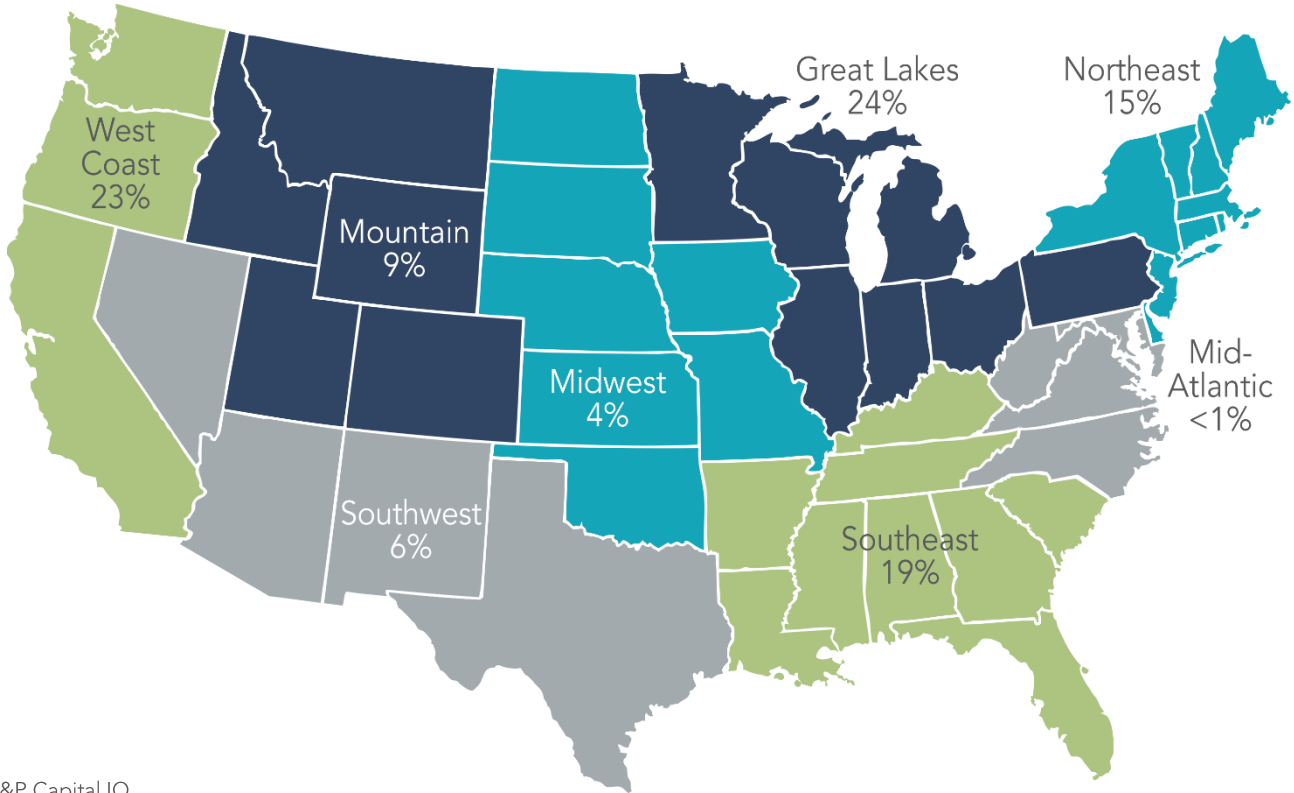


Source: S&P Capital IQ



INDUSTRY GEOGRAPHY

PET COMPANY HEADQUARTERS BY REGION AS OF DECEMBER 31, 2015



Source: S&P Capital IQ

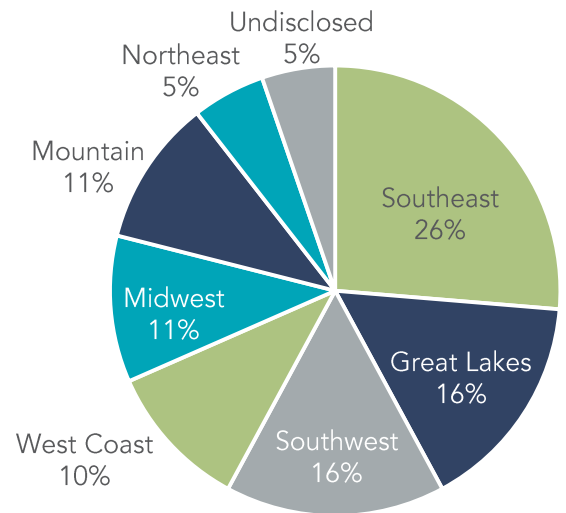
COMPANIES BY SIZE

State	\$ 0 - 5 Revenue	\$5 - 10 Revenue	\$10 - 25 Revenue	\$25 - 50 Revenue	\$50 - 100 Revenue	\$100+ Revenue	Undisclosed
AZ	2	0	1	1	1	2	9
CO	1	3	4	1	1	0	20
KS	1	1	4	1	0	1	9
ND	0	0	0	0	0	0	0
NE	0	0	1	1	1	1	3
NM	0	0	0	0	0	0	0
OK	0	1	1	0	1	0	4
SD	0	0	0	0	0	0	3
TX	0	0	6	2	2	1	37
UT	0	1	0	0	0	0	5
WY	0	0	0	0	0	0	2

* Revenue in millions

Source: S&P Capital IQ

TRANSACTIONS BY REGION



Source: S&P Capital IQ

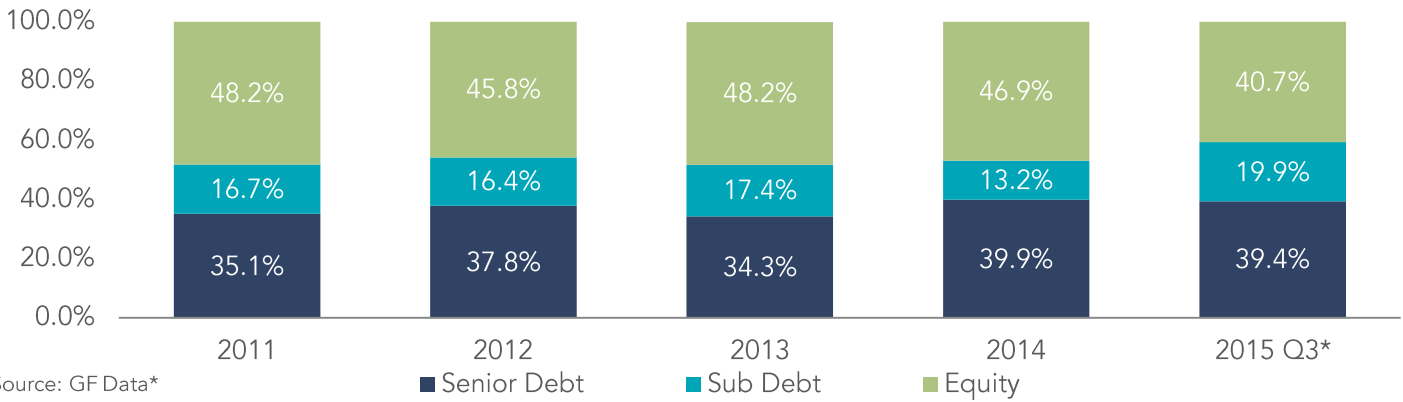
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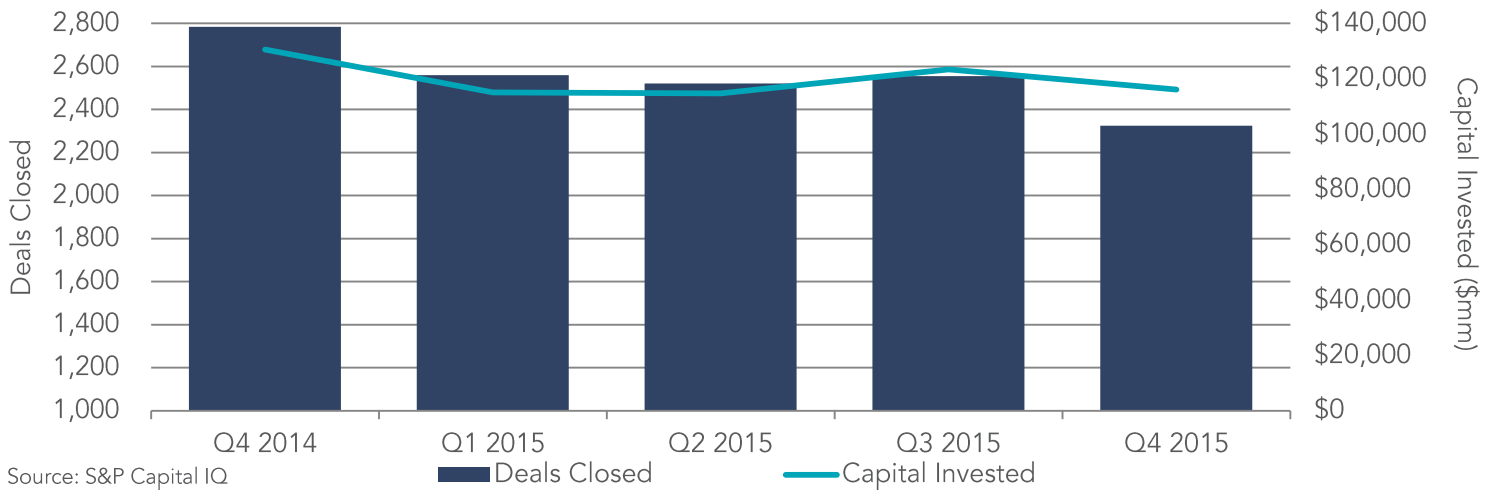
M&A MARKET ACTIVITY, OVERALL LOWER MIDDLE MARKET

CAPITAL STACK - \$10-25 MILLION TEV



Source: GF Data*

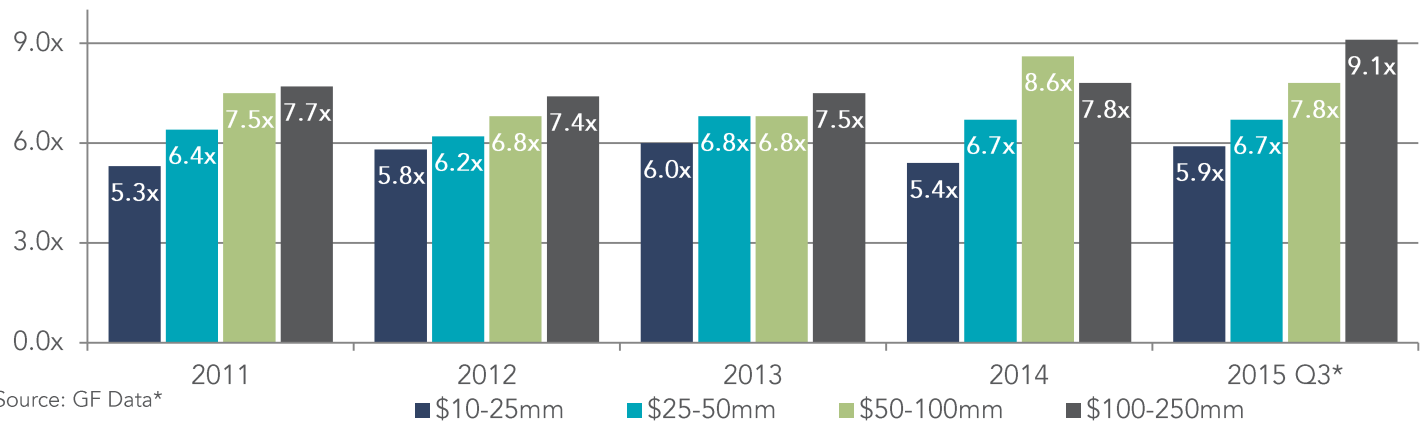
U.S. MIDDLE-MARKET M&A ACTIVITY



Source: S&P Capital IQ

TRANSACTION MULTIPLES

EBITDA MULTIPLES BY TRANSACTION SIZE



Source: GF Data*

*The most current source of GF Data is as of September 30, 2015 and lags one quarter behind the current quarter.

The information contained herein is based on sources we believe reliable but is not guaranteed by us and is not to be considered all-inclusive. It is not to be construed as an offer or consultation of an offer to sell or buy any securities.





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ABOUT SDR VENTURES

Established in 2002, SDR Ventures has developed deep M&A and capital transaction knowledge and expertise. SDR offers transaction advisory, private capital formation and business consulting services across a wide range of industries. We serve business owners and operators of privately held companies and provide them with a professional-class experience.



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SERVICES

TRANSACTION ADVISORY

Buy Side

Running a proven process effective at generating responses, identifying “off-the-radar” opportunities, negotiating and closing accretive acquisitions.

Sell Side

SDR specializes in middle-market M&A transactions and sell-side advisory. Our process is designed to identify the right buyer for your business.

PRIVATE CAPITAL FORMATION

Our expert advisors will help you create, evaluate and implement a private capital strategy that is optimal for your business and facilitates growth.

STRATEGIC CONSULTING

SDR’s consulting services provide you with the same dedication and expertise that we bring to our M&A and capital-raising engagements. We provide a broad range of consulting services tailored to meet your company’s needs.

RECENT TRANSACTIONS

<p>DECEMBER 2015</p> <p>Has entered into an agreement to implement an Employee Stock Ownership Plan, with funding solely by</p> <p>and</p> <p>SDR Ventures SELL-SIDE TRANSACTION</p>	<p>DECEMBER 2015</p> <p>Abacus Partners LLC</p> <p>Has acquired:</p> <p>Denver</p> <p>SDR Ventures BUY-SIDE TRANSACTION</p>	<p>DECEMBER 2015</p> <p>Has been acquired by</p> <p>A portfolio company of</p> <p>SDR Ventures SELL-SIDE TRANSACTION</p>	<p>JULY 2015</p> <p>Has been acquired by</p> <p>SDR Ventures SELL-SIDE TRANSACTION</p>	<p>MAY 2015</p> <p>Has been acquired by</p> <p>A portfolio company of</p> <p>SDR Ventures SELL-SIDE TRANSACTION</p>	<p>APRIL 2015</p> <p>Has been acquired in a management buyout, with financing provided by</p> <p>SDR Ventures SELL-SIDE TRANSACTION</p>
<p>MARCH 2015</p> <p>and</p> <p>Has been acquired by</p> <p>SDR Ventures SELL-SIDE TRANSACTION</p>	<p>MARCH 2015</p> <p>Carrier</p> <p>Has been acquired by</p> <p>Utility Trailer Sales of Idaho, Inc.</p> <p>SDR Ventures SELL-SIDE TRANSACTION</p>	<p>DECEMBER 2014</p> <p>Deal financing provided by</p> <p>SDR Ventures CAPITAL FORMATION</p>	<p>OCTOBER 2014</p> <p>Has been acquired by</p> <p>SDR Ventures SELL-SIDE TRANSACTION</p>	<p>AUGUST 2014</p> <p>Has been acquired by</p> <p>SDR Ventures SELL-SIDE TRANSACTION</p>	<p>JULY 2014</p> <p>Has completed a majority recapitalization with</p> <p>SDR Ventures CAPITAL FORMATION</p>

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