



# PET & ANIMAL CARE

## Market Snapshot

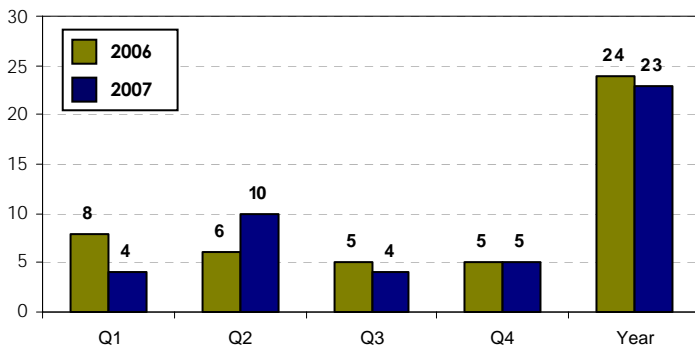
Market Intelligence for Industry Players

Q1 2008

### 2007 M&A Commentary

Merger and acquisition activity remained strong in the pet and animal care industry in 2007. There were 23 deals involving North American targets announced during the year, compared to 24 in 2006. We do not view this as a statistically significant decline and consider 2007 transaction volume to be strong given recent credit market concerns.

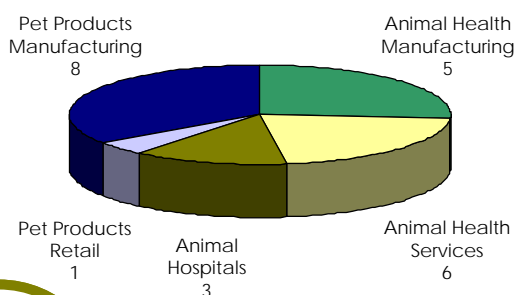
#### Pet and Animal Care Transactions



Source: Capital IQ

We expect continued M&A activity across all industry segments, with an emphasis on animal health-related companies and pet food manufacturers. In 2007, there were 14 transactions involving animal health companies, including six distributors and service providers, five manufacturers and three animal hospital chains. In addition, eight pet products manufacturers were acquired in 2007, including five pet food companies.

#### Transactions by Industry Segment



Source: Capital IQ

### Selected Deal Briefs

**Berwind Corporation acquires Eagle Pack Pet Foods.** The secondary buyout of Eagle Pack from its previous owner, Swander Pace Capital, demonstrates continued interest in the premium and natural pet food market. This segment has been driven by increasing pet spending as well as the trend towards humanization of pets. Additionally, the pet food recall of 2007 provided pet owners with more reason to seek out natural and holistic pet foods. Though there are a number of large players in the market, there remains a large, fast-growing group of middle-market premium pet food companies. In addition, there is a broad buyer universe that includes various consumer products-focused private equity firms and large consumer products companies such as Colgate-Palmolive, Mars, Nestle, Procter & Gamble and others.

**VMG Partners acquires Waggin' Train Worldwide.** In another pet food transaction, VMG is looking to capitalize on growth in the natural treat segment, which the firm believes is growing at 45% annually. This is supported by Waggin' Train's momentum. The company estimates that 2007 sales grew by 50% to \$90 million. VMG plans to expand Waggin' Train's distribution beyond the mass merchandiser segment into the grocery and retail channels.

**VCA Antech acquires Healthy Pet Corporation.** With the acquisition of Healthy Pet's 44 facilities, VCA Antech now operates more than 430 animal hospitals in 38 states. Healthy Pet was previously a portfolio company of Allied Capital Corporation, which acquired the company in September 2005 and helped it purchase 13 veterinary facilities prior to being acquired by VCA Antech. The transaction was valued at \$152.9 million, which represents a multiple of 1.9x sales. Though there has been significant consolidation in the industry to date, VCA Antech believes there is considerable opportunity to continue acquiring smaller regional animal hospitals.

Deal Briefs continued on page 3...



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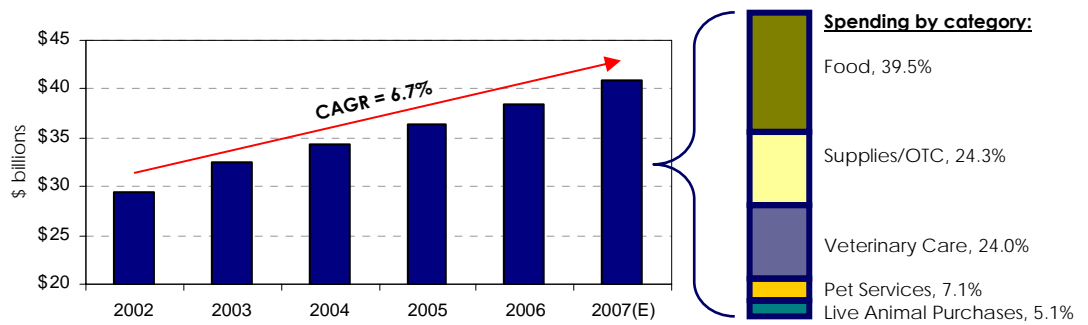
## Market Snapshot

### Industry Overview

Pet and animal care is among the fastest growing consumer products categories. Industry growth is being driven by a variety of macroeconomic factors such as an aging U.S. population, younger couples starting families later in life and increasing disposable incomes. Additionally, the industry has been positively impacted by numerous less tangible drivers, most notably the growing humanization of pets. This trend has can be seen across a variety of industry segments, as pet owners spend increasingly more money on food, health care and a host of other products and services to pamper their pets.

According to the American Pet Products Manufacturers Association, U.S. pet industry spending has grown at a 6.7% compound annual growth rate ("CAGR") since 2002, reaching an estimated \$40.8 billion in 2007.

### Pet Industry Spending



Source: APPMA

Capstone segments the pet and animal care industry into two primary segments, pet products and services – which includes products and services sold to consumers – and animal health, which includes products and services sold to or through veterinarians. Each segment contains a diverse array of sub-segments, as outlined below.

### Pet Products and Services

- ▶ Pet Products Manufacturing – *Food, accessories, toys, cages, cleaning, maintenance, supplies and other manufactured consumer products*
- ▶ Pet Products Retail & Distribution – *Pet stores, direct marketers and distributors*
- ▶ Pet Care Services – *Kennels, training, grooming and other pet care services*

### Animal Health

- ▶ Animal Health & Nutrition Manufacturing – *Pharmaceuticals, veterinary technology and equipment, animal feed and nutritional supplements*
- ▶ Animal Health Services – *Veterinary diagnostic services, animal health product supply and distribution*
- ▶ Animal Hospitals – *Animal hospitals, clinics and other veterinary services*

**Selected Deal Briefs (continued)**

**Nutreco Holding NV acquires Maple Leaf Animal Nutrition.** Valued at \$461.3 million, this transaction represents the largest pet and animal care deal of the year. Maple Leaf Animal Nutrition is the largest animal feed company in Canada and provides Nutreco a platform to expand into North America, a target geography for the Dutch animal nutrition company. Nutreco’s future acquisition strategy may include a push into the U.S. market, which accounted for less than 2.5% of the company’s sales in 2006.

**MWI Veterinary Supply acquires International Veterinary Distribution Network, Securos and Tri V Services.** MWI continues to be an active buyer of animal health distributors, though it has focused its efforts on small deals. In October 2007, the company acquired Tri V Services, a distributor with \$8 million in annual sales, for \$4.9 million. Earlier in the year, MWI acquired Securos and IVDN, separate companies with shared ownership, for approximately \$5.0 million. MWI’s previous two acquisitions, which occurred in 2005 and 2006, were valued at approximately \$5.0 million and \$4.1 million, respectively. Though MWI’s appetite for large deals is not clear, the company has the resources to make substantially larger acquisitions.

**2007 Pet & Animal Care M&A Transactions**

Announced / Closed	Target / Acquirer	Target Description	Transaction Value (\$mm)	EV/LTM Revenue
12/11/2007 12/11/2007	<b>Waggin' Train Worldwide, LLC</b> VMG Partners	Manufactures all-natural, all-meat pet treats and chews	-	-
12/10/2007 12/10/2007	<b>Island Pharmacy Services, Inc.</b> Franck's Pharmacy, Inc.	Prepares customized compounded veterinary prescription medications for pets	-	-
10/31/2007 10/31/2007	<b>Eagle Pack Pet Foods, Inc.</b> Berwind Corporation	Manufactures functional food ingredients and supplements for dogs, cats and ferrets	-	-
10/16/2007 10/16/2007	<b>Kane Veterinary Supplies Ltd.</b> Animal Health International, Inc.	Distributes agricultural, veterinary and pet products including pharmaceuticals, veterinary instruments, food and toys	\$ 24.0	0.5x
10/5/2007 10/5/2007	<b>Tri V Services, Inc.</b> MWI Veterinary Supply, Inc.	Distributes animal health products to veterinary practices with a focus on emergency clinics and ophthalmology specialists	\$ 4.9	0.6x
8/24/2007 8/27/2007	<b>Kane Enterprises, Inc.</b> Neogen Corp.	Manufactures and imports animal health specialty products for the veterinary and animal health markets	\$ 5.9	1.0x
8/22/2007 8/22/2007	<b>Woodstream Corporation</b> Code Hennessy & Simmons, L.L.C	Manufactures wild birdfeeders, small animal cages and rodent, pest and animal caring control products	-	-
8/9/2007 10/10/2007	<b>Menu Foods Income Fund, Production Facility</b> Mars, Incorporated	Manufactures wet pet food products	\$ 26.3	-
7/16/2007 7/16/2007	<b>Butler Sales Associates, Inc.</b> Ceva Sante Animale S.A.	Sells animal health products including grooming products, healthcare products, pest solutions, food and kennels	-	-
6/14/2007 6/14/2007	<b>EZ-Med Technologies, Inc.</b> GeoPharma Inc.	Manufactures animal nutritional supplements based on soft-textured chew technology	-	-
6/8/2007 6/8/2007	<b>Securos, Inc. &amp; International Veterinary Distribution Network, Inc.</b> MWI Veterinary Supply, Inc.	Manufactures veterinary orthopedic products and sources private label veterinary surgical products	\$ 5.0	1.3x
5/29/2007 5/29/2007	<b>KTPS Holdings LLC</b> Benford Capital Partners; Coppermine Capital	Manufactures pet products including heated beds, kennels and canine training equipment	-	-
5/25/2007 6/1/2007	<b>Ivy Animal Health, Inc.</b> Eli Lilly & Co.	Develops and manufactures animal health products to improve meat production	-	-
5/21/2007 7/20/2007	<b>Maple Leaf Animal Nutrition</b> Nutreco Holding NV	Manufactures animal nutrition products for swine, cattle, poultry, aquaculture, equine and pet food	\$ 461.3	0.8x
5/17/2007 5/17/2007	<b>Pet Magic, Inc.</b> Happy Howie's, Inc.	Manufactures dog and other pet food treats including meat sausages and natural pet treats	-	-
5/8/2007 6/1/2007	<b>Healthy Pet Corporation</b> VCA Antech Inc.	Operates veterinary hospitals in the eastern United States	\$ 152.9	1.9x
5/1/2007 Pending	<b>Nutro Products, Inc.</b> Mars, Incorporated	Manufactures dog and cat food including dry, canned and pouched food, biscuits and treats	-	-
4/27/2007 4/27/2007	<b>Fat Cat, Inc.</b> Bamboo	Manufactures cat and dog products including toys, bowls and beds	-	-
4/19/2007 4/19/2007	<b>National Veterinary Associates, Inc.</b> Summit Partners	Operates veterinary hospitals in 29 states in the United States	\$ 128.0	-
3/6/2007 3/6/2007	<b>Vita-Tech Canada, Inc.</b> IDEXX Laboratories Inc.	Provides laboratory diagnostic services for the veterinary, agriculture and food industries	-	-
2/28/2007 3/1/2007	<b>Medical Management International, Inc.</b> Mars, Incorporated	Provides veterinary services and medicine in the United States and internationally	\$ 111.8	-
2/15/2007 Pending	<b>Super Pet, 19 Retail Stores</b> Petsmart Inc.	Sells pet care products through retail stores in Canada	-	-
1/10/2007 1/10/2007	<b>MedRx, Inc.</b> Revenue Management Solutions, LLC	Manufactures medical and diagnostic instrumentation for the hearing healthcare and veterinary industries	-	-

EV = enterprise value

LTM = last 12 months

Source: Capital IQ

Public Company Trading Multiples

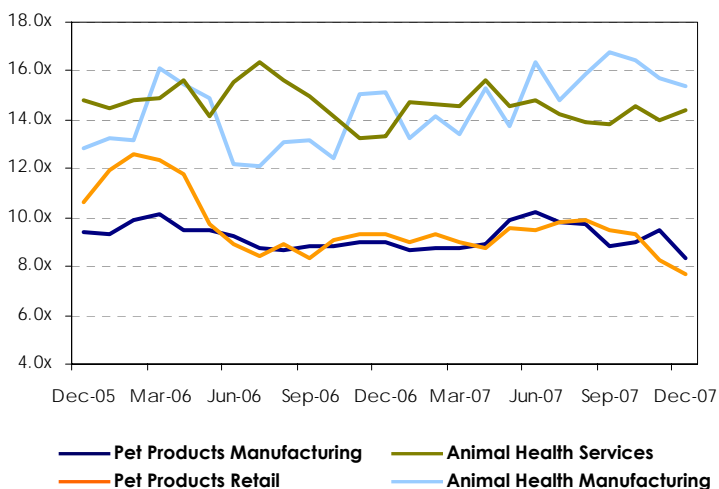
Company Name	Stock Price	% of 52-Week High	Market Cap	Total Ent. Value	LTM		EV/LTM		P/LTM Diluted EPS <sup>2</sup>
					Revenue	EBITDA	Revenue	EBITDA <sup>1</sup>	
<b>Pet Products Manufacturing</b>									
Central Garden & Pet Co.	\$ 5.76	35.2%	\$ 413.7	\$ 1,005.8	\$ 1,671.1	\$ 130.1	0.6x	7.6x	12.9x
International Absorbents Inc.	4.44	64.3%	28.5	34.0	31.8	5.9	1.1x	5.7x	28.9x
Oil-Dri Corp. of America	21.94	93.0%	152.7	156.1	215.3	19.1	0.7x	8.2x	19.1x
Spectrum Brands, Inc.	5.33	42.6%	282.1	2,672.6	1,994.5	224.2	1.3x	11.9x	NM
<b>Average</b>							<b>0.9x</b>	<b>8.4x</b>	<b>20.3x</b>
<b>Median</b>							<b>0.9x</b>	<b>7.9x</b>	<b>19.1x</b>
<b>Pet Products Retail</b>									
Pet Valu Inc.	\$ 13.17	90.7%	\$ 113.5	\$ 135.3	\$ 156.1	\$ 21.0	0.9x	6.5x	12.8x
PetMed Express Inc.	12.10	75.7%	296.2	244.0	178.3	24.6	1.4x	9.9x	18.8x
Petsmart Inc.	23.53	66.3%	3,027.3	3,572.1	4,511.1	535.2	0.8x	6.7x	13.9x
<b>Average</b>							<b>1.0x</b>	<b>7.7x</b>	<b>15.2x</b>
<b>Median</b>							<b>0.9x</b>	<b>6.7x</b>	<b>13.9x</b>
<b>Animal Health Manufacturing</b>									
Abaxis Inc.	\$ 35.86	89.7%	\$ 771.9	\$ 720.2	\$ 92.9	\$ 19.3	7.7x	NM	NM
Alpharma, Inc.	20.15	70.8%	879.5	853.1	693.6	115.0	1.2x	7.4x	15.5x
Heska Corp.	1.83	61.0%	94.0	98.7	82.7	7.9	1.2x	12.4x	20.7x
IDEXX Laboratories Inc.	58.63	90.7%	3,589.8	3,615.2	869.8	177.5	4.2x	20.4x	44.7x
Neogen Corp.	26.55	95.1%	377.4	370.6	88.8	17.4	4.2x	21.4x	39.2x
<b>Average</b>							<b>3.7x</b>	<b>15.4x</b>	<b>30.0x</b>
<b>Median</b>							<b>4.2x</b>	<b>16.4x</b>	<b>29.9x</b>
<b>Animal Health Services</b>									
Animal Health International, Inc.	\$ 12.30	78.1%	\$ 299.3	\$ 414.4	\$ 648.2	\$ 35.1	0.6x	11.8x	NM
Dechra Pharmaceuticals plc	7.29	90.1%	386.7	384.6	509.1	30.0	0.8x	12.9x	23.1x
MWI Veterinary Supply, Inc.	40.00	89.7%	482.0	473.7	710.1	29.1	0.7x	16.2x	28.5x
VCA Antech Inc.	44.23	95.7%	3,726.5	4,212.2	1,114.3	252.9	3.8x	16.7x	30.9x
<b>Average</b>							<b>1.5x</b>	<b>14.4x</b>	<b>27.5x</b>
<b>Median</b>							<b>0.7x</b>	<b>14.5x</b>	<b>28.5x</b>

1) Excludes EV/EBITDA multiples greater than 25.0x  
 2) Excludes P/E multiples greater than 50.0x

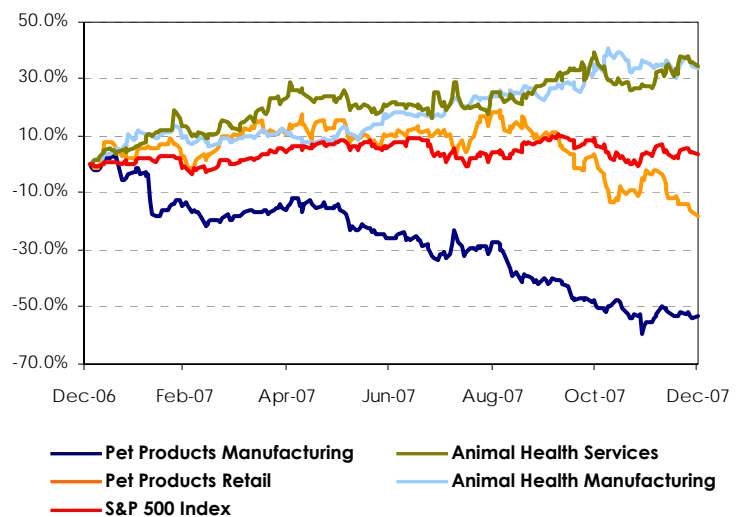
NM = not meaningful

Source: Capital IQ as of January 1, 2008

Historical EV/EBITDA Multiples



Public Stock Indices



Source: Capital IQ

### Public Company EBITDA Multiples

- ▶ Animal health companies have consistently traded at a premium to pet products companies. At the close of 2007, publicly traded animal health manufacturers traded at an average enterprise value of 15.4x LTM EBITDA, while animal health service providers traded at an average of 14.4x LTM EBITDA. Meanwhile, pet products manufacturers and retailers traded at 8.4x and 7.7x LTM EBITDA, respectively. Animal health companies are able to drive premium valuations due to higher growth rates. Additionally, animal health manufacturers tend to have strong intellectual property positions and much higher margins than pet products manufacturers.
- ▶ Average LTM EBITDA multiples for pet products manufacturers have traded in a relatively consistent range of 8.4x to 10.2x over the past 24 months. As of the end of 2007, the average multiple for the group was 8.4x, compared to 9.4x at the start of 2006. This consistency may be a function of the maturity of the industry. It should be noted, however, that none of the public pet products manufacturers focus exclusively on pet products, limiting their exposure to the positive trends in the market.
- ▶ Pet products retailers have traded between 7.7x and 12.6x over the past 24 months. The average multiple declined from 10.6x at the start of 2006 to 7.7x at the beginning of 2008. This decline is largely attributable to PetMed Express, which traded as high as 24.0x in February 2006 but finished 2007 trading at 9.9x LTM EBITDA. This valuation remains high relative to the other two companies in the retailers group due to PetMed's strong growth and greater exposure to the animal health market. Pet Valu and PetSmart, which closed 2007 trading at 6.5x and 6.7x LTM EBITDA, respectively, will likely continue to trade at a discount to other pet products and animal health companies due to intense competition from mass merchandisers such as Target and Wal-Mart.
- ▶ At the close of 2007, animal health manufacturers had an average valuation of 15.4x LTM EBITDA, the highest of the four industry segments. Recent multiple expansion in the group has been driven by Alpharma, IDEXX Laboratories and Neogen. We expect this group to continue to trade at a premium to other segments due to positive industry growth trends and strong margins that are driven by high barriers to entry and intellectual property.
- ▶ Over the past two years, animal health service providers have traded between 13.2x and 16.3x LTM EBITDA and closed 2007 trading at an average multiple of 14.4x. Companies in this group, which include both veterinary product distributors and animal hospitals, have benefited from strong growth in the animal health industry and are likely to continue to trade at a premium to pet products manufacturers and retailers.

### Indexed Stock Price Performance

- ▶ In 2007, publicly traded pet products manufacturers exhibited significant weakness, as demonstrated by the 53.4% decline in the Capstone Pet Products Manufacturing Index. Driven by a weakening consumer spending environment, Central Garden & Pet (-64.3%) and Spectrum Brands (-51.1%), the two largest components of the index, were particularly soft. However, this poor performance is not necessarily an indicator of weakness in the pet products industry. Central Garden & Pet's decline is influenced by weakness in its garden products segment, while pet products represent less than 30% of Spectrum Brands' sales.
- ▶ Retailers fared slightly better in than manufacturers in 2007, but also experienced declining stock prices. The Capstone Pet Products Retail Index declined 17.8% in 2007 due to share price declines in PetSmart (-18.5%) and PetMed Express (-9.4%). Despite a store renovation project, PetSmart has been impacted by the weakening consumer spending environment. The PetMed Express decline was a result of investor concerns over slowing growth and high advertising costs for the direct marketer.
- ▶ Publicly traded animal health companies performed extremely well in 2007. The Capstone Animal Health Manufacturing Index increased 33.7% and the Animal Health Services Index increased 34.8%. The manufacturing index has been driven by strong gains by Abaxis (+86.3%) and Neogen (+79.4%). Increasing stock prices for Dechra Pharmaceuticals (+41.2%), MWI Veterinary Supply (+23.8%) and VCA Antech (+37.4%) drove the services index. Both indices significantly outperformed the S&P 500 and both pet products indices. Nearly all companies in the animal health indices achieved double-digit sales growth in 2007 and are expected to continue to benefit from positive industry growth trends.

## About Capstone Partners LLC

Capstone Partners LLC is a leading national investment banking advisory firm dedicated to serving the transaction needs of middle-market companies. The firm provides corporate sale & divestiture, merger & acquisition and private placement advisory services across three major industry practices: Specialty Products, Business Services and Technology & Media. Our team possesses significant experience spanning hundreds of M&A and financing transactions. All of our transactions are supported through industry-specific research and relationship coverage capabilities.



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