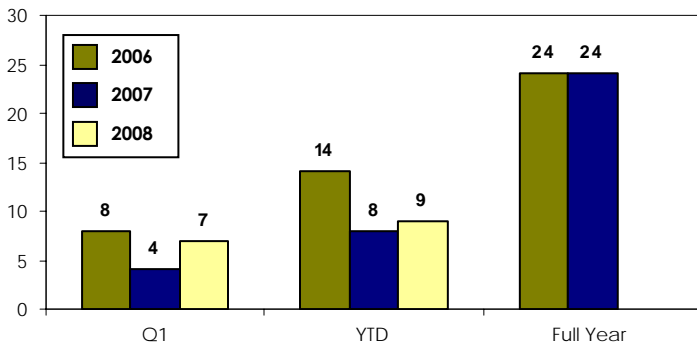




### Year-to-Date M&A Commentary

Merger and acquisition activity in the Pet & Animal Care industry has remained consistent with the pace observed last year. Through May 16, there were nine transactions announced, compared to eight during the same period last year. We expect transaction activity in the Pet & Animal Care segment to continue at a similar pace in the foreseeable future, despite a slowdown in the overall M&A market. There are several reasons to suggest continued activity in the segment. (see sidebar)

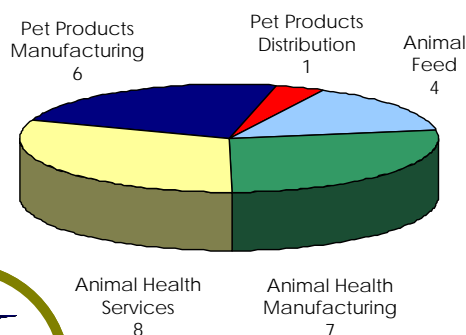
### Pet & Animal Care Transactions



Source: Capital IQ; YTD = Year-to-date as of May 16, 2008

Animal health continues to be the most active area within the Pet & Animal Care industry, accounting for 15 transactions in the past year (seven manufacturers and eight distributors). Over the same time period, there were seven acquisitions of pet products companies (six manufacturers and one distributor), and four animal feed manufacturers.

### Transactions by Industry Segment, Last 12 Months



Source: Capital IQ

### Pet & Animal Care M&A: Reason for Optimism

Transaction activity in the Pet & Animal Care industry has held steady while the overall M&A market has slowed. Here's why:

#### Positive industry growth trends

Pet ownership is growing; pets are living longer; and people are spending more money on a greater variety of products and services for their pets. These trends have contributed to strong growth in spending on consumer-oriented pet products as well veterinary care. Positive industry dynamics have attracted an increasing number of financial buyers and bolstered strategic buyers, resulting in a robust M&A environment.

#### Active strategic buyer universe

Since the start of 2007, strategic acquirers have accounted for 27 of the 33 announced transactions (79.4%). Strategic buyers both within the Pet & Animal Care industry and the broader consumer products and pharmaceutical segments recognize the attractive nature of the market and have made acquisition a key growth initiative.

#### Highly fragmented industry

Despite ongoing consolidation, the Pet & Animal Care industry remains highly fragmented. It is estimated that there are more than 2,000 companies serving the market today. This fragmentation lends itself to continued consolidation.

In the manufacturing sector, leading companies will continue to acquire smaller competitors, particularly those with innovative, differentiated products or exposure to high-growth market segments. Likewise, distributors will continue to use acquisition to broaden their product offering, as well as to expand geographically and strengthen customer relationships.





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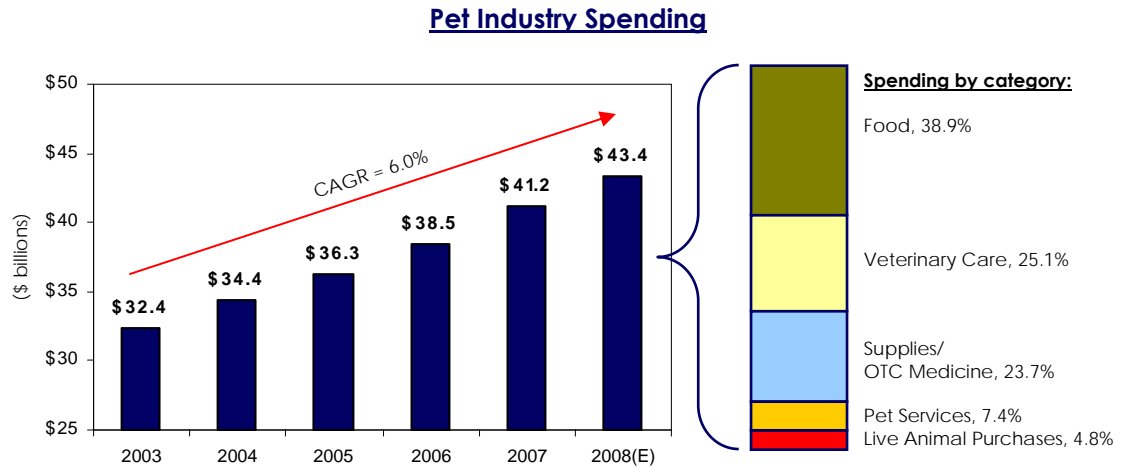
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# PET & ANIMAL CARE

## Market Snapshot

### Recent Industry Research – Fast Facts

▶ The American Pet Products Manufacturing Association (APPMA) expects 2008 U.S. pet spending to be \$43.4 billion, up 5.6% from 2007 despite mounting economic concerns. Veterinary care is expected to be the fastest growing segment and is projected to grow 8.5% to \$10.9 billion. According to APPMA, high end products and services are fueling industry growth while the trend towards humanization of pets continues.



Source: APPMA

- ▶ According to *The Freedonia Group*, U.S. pet health spending is expected to grow 7.0% per year to nearly \$30 billion in 2011, with nearly two-thirds of spending directed towards services. The industry is undergoing a shift towards preventative care, resulting in strong growth for vitamins, supplements, parasiticides and pharmaceuticals. Meanwhile, longer pet lives will result in an increased number of animals suffering from obesity, arthritis, diabetes, heart disease, renal failure and cancer, among other illnesses.
- ▶ Recent research from *Packaged Facts* suggests that pet owners are going green. Nestlé Purina, Mars, Del Monte, Hill’s, Iams, Central Garden & Pet, Spectrum Brands, Hartz Mountain and Sergeant’s, among others, are placing an increasing emphasis on natural products. *Packaged Facts* expects the U.S. sustainable pet product industry to grow to nearly \$1 billion in sales in 2009. Along the way, “natural” product claims will encompass “organic,” then “human grade,” and finally “ethical.”
- ▶ Another *Packaged Facts* report projects pet treats and supplements to grow 39% and reach \$1.7 billion in sales in the U.S. by 2012. The firm expects nutraceutical treats to grow at a faster rate than pet supplements, which currently account for 74% of market sales.
- ▶ *First Research* released a profile of the pet food manufacturing industry. According to the market research firm, there are 175 pet food manufacturers with combined annual revenue of \$11 billion. The industry is highly concentrated, with nearly 100% of industry sales split among the 50 largest market participants.

Year-to-Date Pet & Animal Care Transactions

Announced / Closed	Target / Acquirer	Target Description	Implied EV (\$mm)	EV/LTM Revenue
4/1/08	<b>Associated Medical Supply, Inc.</b> Patterson Companies, Inc.	Distributes veterinary products and equipment	-	-
4/1/08	<b>Professor Connor's Canada, Inc.</b> Freshpet	Imports fresh pet food across Canada	-	-
3/31/08	<b>TW Medical Veterinary Supply</b> Lextron Animal Health	Distributes animal health pharmaceuticals, surgical supplies and equipment	-	-
2/14/08	<b>Virbac Corp., Consumer Brands Division</b> Sergeant's Pet Care Products, Inc.	Manufactures and markets pet health care products, including parasiticides and dental care products	-	-
2/14/08	<b>Sunrise Feed, LLC</b> Unifeed Hi-Pro, Inc.	Manufactures animal feeds for ranchers, calf producers and pet owners	-	-
2/13/08	<b>Ellman International, Inc.</b> Baird Capital Partners	Manufactures medical, dental and veterinary surgical devices and equipment	-	-
1/18/08	<b>Nelson &amp; Sons, Inc.</b> Skretting (a Nutreco company)	Manufactures commercial fish feeds, including floating, slow sinking and nutrient dense diets	\$16.1	0.6x
1/16/08	<b>Blue Seal Richer Dairy Nutrition</b> Blue Seal Feeds, Inc.	Manufactures animal feed for cattle, poultry, horses, swine and other livestock	-	-
1/10/08	<b>Novartis Animal Health US, Vetsuite product</b> MediMedia USA, Inc.	Provides veterinarian health information through a collection of internet-based tools and resources for veterinary practices	-	-

EV = enterprise value; LTM = last 12 months  
Source: Capital IQ

Public Company Trading Multiples

(\$ in millions, except per share data)

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.	\$ 6.70	44.9%	\$ 483.5	\$ 1,173.7	\$ 1,666.6	\$ 133.8	0.7x	8.6x	NM
International Absorbents Inc.	4.57	66.2%	29.3	34.0	33.1	5.3	1.0x	6.5x	14.6x
Oil-Dri Corp. of America	16.35	69.3%	114.3	116.7	220.4	19.4	0.5x	6.0x	NM
Spectrum Brands, Inc.	4.48	51.9%	236.4	2,798.3	2,000.8	242.1	1.4x	12.6x	NM
					<b>Average</b>		<b>0.9x</b>	<b>8.4x</b>	<b>NA</b>
					<b>Median</b>		<b>0.9x</b>	<b>7.5x</b>	<b>NA</b>
<b>Pet Products Retail</b>									
Pet Valu Inc.	\$ 12.44	86.5%	\$ 115.8	\$ 134.3	\$ 169.9	\$ 23.6	0.8x	5.6x	11.9x
PetMed Express Inc.	13.43	84.0%	324.8	277.8	184.3	27.1	1.5x	10.3x	14.7x
Petsmart Inc.	24.34	69.5%	3,099.0	3,651.9	4,672.7	547.5	0.8x	6.6x	10.5x
					<b>Average</b>		<b>1.0x</b>	<b>7.5x</b>	<b>12.3x</b>
					<b>Median</b>		<b>0.8x</b>	<b>6.6x</b>	<b>11.9x</b>
<b>Animal Health Manufacturing</b>									
Abaxis Inc.	\$ 29.38	73.5%	\$ 636.8	\$ 612.6	\$ 96.6	\$ 20.3	6.3x	NM	45.5x
Alpharma, Inc.	25.55	89.1%	1,128.4	1,158.9	761.6	3.4	1.5x	NM	NM
Heska Corp.	1.46	48.7%	75.3	84.4	82.3	7.7	1.0x	11.0x	2.4x
IDEXX Laboratories Inc.	52.57	81.3%	3,170.0	3,256.0	960.5	188.2	3.4x	17.3x	34.9x
Neogen Corp.	25.07	88.0%	361.2	350.1	98.0	19.9	3.6x	17.6x	35.8x
					<b>Average</b>		<b>3.2x</b>	<b>15.3x</b>	<b>29.6x</b>
					<b>Median</b>		<b>3.4x</b>	<b>17.3x</b>	<b>35.3x</b>
<b>Animal Health Services</b>									
Animal Health International, Inc.	\$ 7.50	47.6%	\$ 182.5	\$ 329.3	\$ 697.9	\$ 33.8	0.5x	9.8x	NM
Dechra Pharmaceuticals plc	7.71	91.6%	499.2	505.5	534.6	33.2	1.0x	15.4x	20.7x
MWI Veterinary Supply, Inc.	36.94	82.8%	445.2	444.0	772.3	30.8	0.6x	14.3x	25.5x
VCA Antech Inc.	32.70	70.7%	2,758.3	3,242.3	1,198.8	269.9	2.7x	12.0x	21.4x
					<b>Average</b>		<b>1.2x</b>	<b>12.9x</b>	<b>22.5x</b>
					<b>Median</b>		<b>0.8x</b>	<b>13.2x</b>	<b>21.4x</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 May 16, 2008

## 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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