

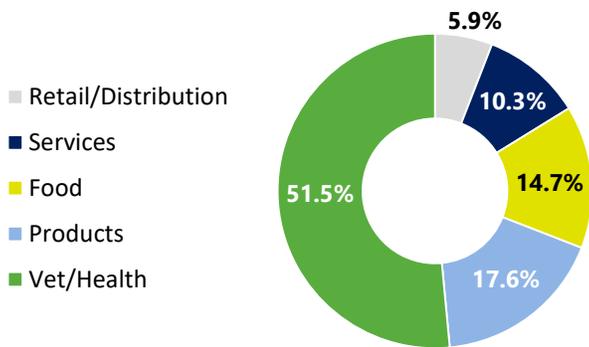


INDUSTRY OVERVIEW

- ▶ Following the Great Recession, real disposable income increased ~30%¹ to-date in September while real disposable spending increased 28.3%,² fostering a healthy backdrop for discretionary purchases of pet products and services, according to the Federal Reserve Bank of St. Louis. Steady wage growth and historically low unemployment have supported industry dynamics such as pet humanization, rising pet ownership, and expanding insurance coverage, garnering significant industry tailwinds and subsequent merger and acquisition (M&A) opportunities.
- ▶ With 68 transactions announced or closed in the U.S. and Canada, deal activity in the Pet & Animal Care industry has modestly outpaced the robust volume seen in 2018. Strategic and private equity (PE) buyers have targeted branded products that support health and wellness with strong e-commerce growth along with products in the Veterinary & Health segment which promote longer pet lifespans. Notably, public buyers, including consumer products conglomerates, have targeted and spun-off pet & animal care divisions to capitalize on the robust market growth.

M&A SEGMENT BREAKDOWN

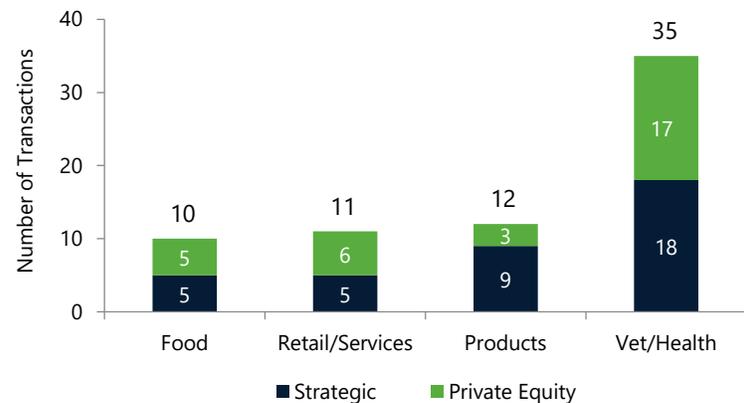
- ▶ The Veterinary & Health segment has attracted robust M&A interest among strategic and private equity buyers, accounting for over 50% of deal activity year-to-date (YTD). Veterinary hospitals as well as over-the-counter (OTC) nutritional products have witnessed heightened demand, supported by Supplies/OTC Medicine and Vet Care spending which was estimated in 2019 to account for ~47% of the total \$75.38 billion Pet & Animal Care industry, according to the American Pet Products Association.³



Year-to-date (YTD) ended November 11
Source: Capital IQ, PitchBook, FactSet, and Capstone Headwaters Research

FINANCIAL VS. STRATEGIC VOLUME

- ▶ Private equity groups have expanded their appetite in the space, accounting for ~46% of total transaction volume, compared to 36% in full year 2018. Pet humanization trends coupled with steady discretionary spending levels have contributed to strong performance in the industry. These significant tailwinds have attracted PE firms looking to capitalize by targeting scalable businesses that provide add-on acquisition opportunities.



PUBLIC COMPANY ACTIVITY

- ▶ Public operators in the Consumer Products industry have utilized M&A strategies to penetrate new sectors, strengthen existing divisions, and divest non-core business functions to drive greater shareholder value. Over the course of the 10 year U.S. bull market, near-zero interest rates have allowed public companies to expand leverage to generate organic and acquisition growth. As the bull market ages, public companies have begun to refocus their business models, including divesting of non-core businesses to deleverage their operations. Buyers have targeted conglomerate divisions, paying premium multiples to capture the greater value of these assets as standalone entities. Notably, over-the-counter health and wellness solutions provider Perrigo (NYSE:PRGO) divested its Animal Health division to PetIQ (NASDAQ:PETQ) for \$185 million or 9.0x adjusted EBITDA.⁴

In addition, consumer products conglomerate Edgewell Personal Care (NYSE:EPC) sold its Infant and Pet Care business to Le Holding Angelcare Inc. for \$122.5 million. "We are taking decisive actions to reshape our company and focus on our core Personal Care brands, while realizing cost savings, paying down debt, driving growth, and delivering superior returns to investors," commented Rod Little, Edgewell's President and CEO, in a press release.⁵

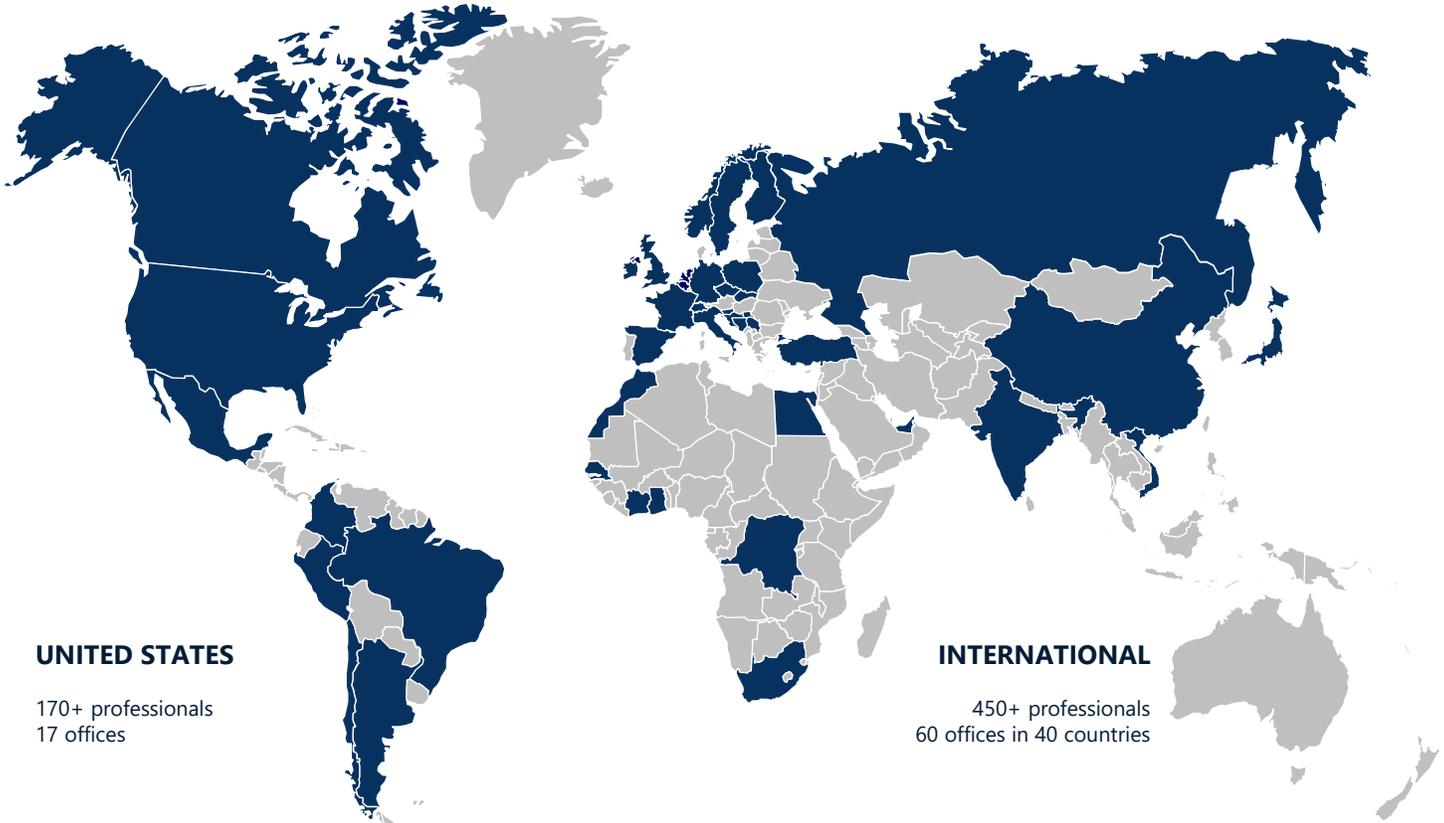
SEGMENT HIGHLIGHT: PHARMACEUTICALS

- ▶ The Pet Pharmaceutical and Nutritional Supplement industry has been driven by growing pet ownership and insurance adoption. In 2018, the U.S. and Canada spent a combined \$1.42 billion in total premiums, an increase of 23.5% year-over-year.⁶ Industry tailwinds are expected to continue to drive M&A for pharmaceutical and nutritional pet product providers. Notably, Zoetis Inc. (NYSE:ZTS), a leading developer of animal health vaccines and diagnostic products, acquired two companies this year. In October, Zoetis acquired Phoenix Central Laboratory for Veterinarians, Inc, a provider of veterinary diagnostic laboratory testing. In addition, Zoetis acquired a manufacturer of nutrient-based veterinary medicines, Platinum Performance, Inc.

Public healthcare and pharmaceutical companies have made divestitures in the broader Pet & Animal Care space. Operators have also spun-off Pet Health segments to foster heightened shareholder value. For example, leading pharmaceutical company Eli Lilly (NYSE:LLY) spun-off its animal healthcare business to form independent Elanco Animal Health (NYSE:ELAN) in March 2019. Following the spin-off, Elanco acquired Bayer's (XTRA:BAYN) Animal Health business in August, which it divested at a valuation of \$7.6 billion, equating to 19.4x EBITDA.



BUILT FOR THE MIDDLE MARKET



CITATIONS

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